Demming Financial Services Corp.

David W. Demming CFP®
David W. Demming Jr. CFP®
Karen Bordonaro CFP®
Patrick Justice CFP®

4th Quarter Newsletter

Autumn 2015

Special Notes…

As a friendly reminder for your protection, it is now our policy that any requests for funds sent to us via email will be confirmed by phone.

Our scheduler, Jenna Horne, has recently relocated to a different state. We wish her the best in her new endeavors and we certainly know that she will be enjoying the warm weather and sunshine!

Also, please be sure to check out our website at www.demmingfinancial.com!

Major Changes Ahead

When you look at recent history, the changes in our daily lives have been breathtaking. Nine years ago, the iPhone hadn't been invented yet and so there were no mobile devices to keep people staring at their screens as they walk around in public. Facebook was a college phenomenon, there was no Twitter, and the cloud was that fluffy white thing passing by overhead. No apps, nobody was talking about self-driving cars, solar panels were rare, and light bulbs were incandescent rather than LED. America was heavily dependent on foreign oil, and you had to ride in a cab rather than in the passenger seat of a stranger's car if you wanted to get home from the airport.

What will be the next breakthrough technologies that will rock our world? An article in SingularityHUB, published by Singularity University, offers a handful of predictions that are already in the early stages of changing our world today.

The first is clean energy, whose widespread adoption would dramatically disrupt the traditional oil and gas and coal industries, and make electricity dramatically cheaper for all of us. The article says that every two years, solar installation rates have been doubling, and the cost of photovoltaic modules are falling by about 20%. These panels are expected to halve in price by 2022, and they will be far more efficient in the amount of energy they capture. By 2030, the article estimates that solar power will be able to provide 100% of today's energy needs, and by 2035 energy will be almost free—kind of like cell phone calls are today.

The second big change is the fall of China as the world's manufacturer, led by a return to locally-sourced manufacturing. This will be driven by advances in robotics that are already finding their way to the factory floor. The Chinese government is aware of the trend, and currently has an experimental facility that is being labeled as the world's first "zero-labor factor" factory, where robots replace humans doing the hard rote work of assembling cars and appliances.

Unfortunately for China, the robots in Guangdong Province are no more productive than the robots here in the U.S. or anywhere else in the world. They work 24 hours a day, and are unlikely to join labor unions. Their cost is going down yearly. So why would a company in the U.S. outsource manufacturing to China and incur the long shipping times and high transportation costs when they can assemble the finished goods right next to the customer base? Manufacturing will once again become a local activity.

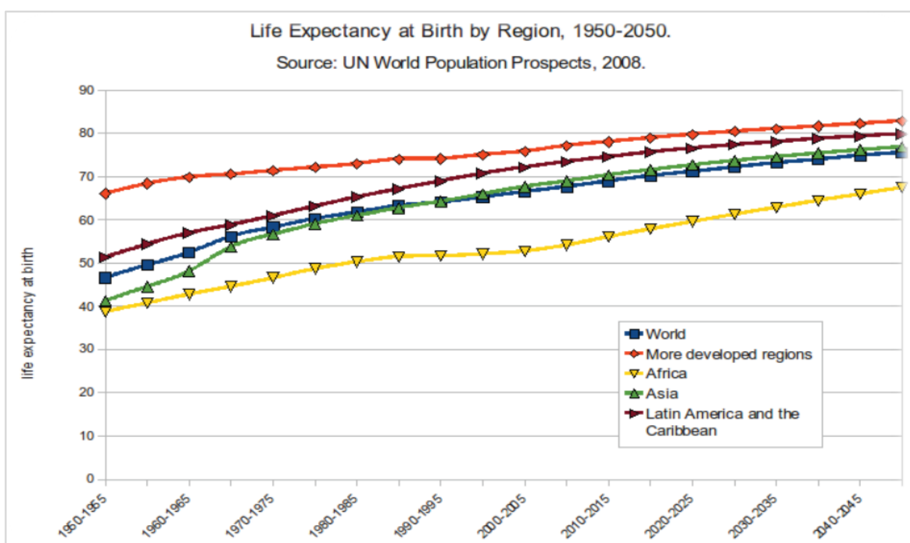
A third change will be what the industry is calling digital manufacturing—which you know as 3D printers. The parts that the robots will be assembling have traditionally been made with lathes, saws, milling machines and drill presses, which physically remove material to obtain the desired shape. Digital manufacturing produces those same components using the opposite approach, with powdered metal, droplets of plastic and other materials brought in to add materials to a frame.

The article says that in the early 2020s—less than a decade from now—households will buy low-priced 3D printers, and order things online. The online services will send instructions to the 3D printers to manufacture the item right there in the spare bedroom. Eventually, these printers may take jobs from the robots, who by then might be intelligent enough to organize their own protest rallies.

Article courtesy of Bob Veres

Why you may be 15 years younger than you think you are…

How long are you and I going to live? None of us knows, of course, but this number is important for a variety of planning issues—including, of course, how long your money will have to last in retirement. Actuarial tables tell us how long people will live on average, but that isn't much help for planning a specific person's life, and the averages conceal a lot of variation.



Living today is a huge advantage over living in the past, and living in a developed nation is a benefit as well. As you can see from the chart, most children born in the late 1700s had a life expectancy below age 35; today, the global average is 70, and people who make it to age 65 have a good chance of living to 85 or longer.

If you're above the national average in wealth and income, and especially if you have certain lifestyle characteristics like regular exercise and no tobacco usage, then there's a good chance you'll live longer than these averages.

There's a website that can help you get a better feel for your expected lifespan; it's called Living to 100 (www.livingto100.com). The site asks you a series of questions including your birthday, gender and marital status, and some interesting questions related to the number of new relationships you've developed over the last 12 months, the way you cope with stress and some of the sources of stress you're currently experiencing, your normal sleep habits and your education level.

There are questions on nutrition, your height and weight, how often you eat red meat and sweets, and at the end, you are told how well your answers match up with the tendency to live a long life. At the end of a tutorial on your answers and suggestions for improvement, you get a calculated life expectancy, and a list of things that could add as many as ten years to that life expectancy.

Chances are, you'll be surprised at how long you're expected to live, and astonished at the possibilities suggested in the list of potential changes to your lifestyle. That means that you've managed your life and your health intelligently, and the extra years could be an unexpected bonus. Of course, it also means that you should take a second look at how much you've saved and the possibilities of using your skills and experience to earn income during retirement.

Bottom line: You may discover that you have 15 more years to live than you expected based on your experience with your parents, which means you can start thinking of yourself as 15 years younger when you look at your options and personal timeline.

Article courtesy of Bob Veres

What's a better gift for a young person than a savings bond or a gift card?

When you talk with people who have made a lifelong habit of saving and investing, often you'll hear them say that somebody—often a grandparent—gave them a few shares of stock at a young age. Following the stock, learning about the company and seeing the dividends reinvested got them interested in a whole new mysterious economic realm that many people never learn about.

The problem, of course, is that it's not always easy, in this day and age, to give a few shares of stock. Instead of printed shares, we have electronic ownership, which is why websites like givashare.com and uniquestockgift.com can charge twice as much for a stock and a printed certificate as you would pay for the same share if you went online through a discount brokerage firm. Buying a share directly means creating a new custodial account for the young child, and then executing a brokerage transfer or creating a UGMA account.

Recently, the idea of giving a share or two of stock has gotten a lot easier, with a website called SparkGift (www.spartkgift.com/#). You click on the site, and over the next two minutes, you select a recipient, provide an email address and Social Security number, select an investment—it could be Disney, Tesla, a Vanguard index fund or any ETF, anything that is publicly traded—and a dollar amount. The person on the other end of the email opens the message and creates the account. At that point, your payment executes the trade, and the securities end up in an account in the child's name. You can use a credit card to make the purchase.

According to the site, the average gift size is $75 to $100, and the giver will be charged $2.95 plus 3% of the gift size, equivalent to the transaction costs at a discount brokerage firm. Some children have gone so far as to establish their own gift registry, specifying the stocks they're interested in—like Disney, Mattel, Apple or Electronic Arts—which encourages them to research the companies behind the brands they like.

Rather than a gift card that will be spent immediately, the stocks will demonstrate investment appreciation over time—and might even help your kids or grandkids with retirement planning someday.

Article courtesy of Bob Veres

2015 Third Quarter Report: That Whooshing Sound

Many investors will be glad to finally see the end of the third quarter of 2015, and most of them will feel like their portfolios are worse off than they actually are. That whooshing sound you hear is not just air being let out of the markets; it's also an end to that optimistic feeling that many people had been cautiously building during the long 6-year bull market that followed the Great Recession.

The past three months turned yearly gains into yearly losses almost completely across the board of the investment opportunity set. The Wilshire 5000--the broadest measure of U.S. stocks—fell 6.91% in the third quarter of 2015, posting a total return of -5.79% in the first 9 months of the year.

The Wilshire U.S. Large Cap index dropped 6.44% of its value for the quarter, and is now down 5.15% for 2015. The widely-quoted S&P 500 index of large company stocks posted a loss of 6.94% in the third quarter, and is now down 6.75% for the year.

The Wilshire U.S. Mid-Cap index lost 8.96% for the quarter, and is now off 4.86% as we head into the fourth quarter.

Small company stocks, as measured by the Wilshire U.S. Small-Cap index, gave investors a 10.88% loss during the latest three months, which takes the index down 7.29% so far in 2015. The technology-heavy Nasdaq Composite Index lost 7.35% for the quarter, and stands at a 2.45% loss for the first three quarters of the year.

Meanwhile, in the global markets, the broad-based EAFE index of companies in developed foreign economies lost 10.75% in dollar terms in the third quarter of the year, for a negative 7.35% return so far this year. In aggregate, European stocks lost 9.07%, and are down 7.33% for the year. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, were down a whopping 18.53% for the quarter, and are down 17.18% for the year.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, gained 2.88% for the third quarter, but is still standing at a 3.01% loss for the year. Commodities, as measured by the S&P GSCI index, lost 19.3% in the third quarter, largely due to a fall in oil prices that may be nearing its end. They are down 19.46% this year.

There were many contributors to the loss of confidence in the stock market, and they appear to have been mainly psychological. Analysts blame the Federal Reserve Board for not having raised rates as the so-called "smart money" seems to have expected in September. Why are low rates a bad thing? Because Fed economists seem to believe that the economy has not recovered sufficiently to warrant stopping the central bank's long-running stimulus program. Who are we investors to argue with the Fed economists?

"I SEE SUSTAINED ECONOMIC GROWTH. YOU SEE A PROLONGED DOWNTURN. SAME OLD, SAME OLD."

Except… The explanation for not raising rates had little to do with actual economic activity, which is finally moving ahead, as of the second quarter, at an annualized 3.9% growth rate for U.S. GDP. This is higher than the 3.7% estimate from the Bureau of Economic Analysis, and much higher than the 2% rate that the U.S. economy has experienced since 2009. At the same time, consumer income, wages and salaries, and spending are all increasing modestly, existing home sales are growing at a 6.2% rate over last year, and the unemployment rate, once higher than 10%, has finally dropped down to the 5% range.

The Fed explained that it was delaying its rate rise because the core inflation rate—currently 1.83%, is below the 2% target rate the Fed set back in June 2012. Some people believe low inflation is a GOOD thing, and speculate that the real reason —and another reason why many investors are nervous about the markets—could be the slower growth of the Chinese economy, coupled with the recent unnerving drop in its stock market. Unfortunately, the Chinese government controls the economic statistics that come out of the world's second largest economy, which makes it hard to know exactly how fast China is or isn't growing. But it's worth noting that stock prices in China, even after the drop, are still up 31.6% from where they were a year ago.

For the time being, investors will have to continue to accept interest rates at historically low levels. The Bloomberg U.S. Corporate Bond Index now has an effective yield of 3.42%. 30-year Treasuries are yielding 2.87%, down from 3.13% a quarter ago, and 10-year Treasuries currently yield 2.06%, down from 2.36% in June.

At the low end, the yield on 3-month U.S. T-bills remains at 0.01%. 6-month bills are only slightly more generous, at 0.08%. Long-term (30-year) municipal bonds are yielding 3.16%, more than comparable Treasuries, and you get the federal tax-exemption thrown in for good measure.

When you look at the decline year-to-date, you see relatively small losses. But many investors are remembering that they were 10-15% wealthier just a couple of months ago, measuring their pain from the high point of the various indices. It's tough to watch your portfolio go down, but it's also worth remembering that people have been predicting a significant downturn—erroneously—for the better part of six years. Now that a downturn has finally arrived, it hasn't been terribly painful, mostly giving back gains that were posted in the first two quarters.

The third quarter could be a temporary drawdown that sets the market up for a push back into positive territory by the end of the year, which would give us a record seven years of positive market performance. Or we could see the year end in negative territory, perhaps even giving us the first true bear market (defined as a drop of 20% from the peak) since the Great Recession. We don't know how the psychology of millions of investors will turn in the next few months, and neither do the smart money analysts who thought that interest rates would be nudged upward by our central bank last month.

We do, however, have confidence that the next bear market will be followed by yet another bullish period that will eventually take us back into record territory, and we're pretty sure that the markets will punish anyone who tries to outguess their unpredictable behavior in the short term. Meanwhile, perhaps we should celebrate the fact that we can buy many kinds of investments at cheaper prices than we could just three short months ago. It's not much, but it's something to feel good about!

Contact Us

Demming Financial Services Corp.

David W. Demming CFP®
David W. Demming Jr. CFP®
Karen Bordonaro CFP®
Patrick Justice CFP®

13 New Hudson Road
Aurora, OH 44202

Phone: (330)562-2122
Toll Free: (877) 841-2122
Fax: (330) 562-6086
Email: info@demmingfinancial.com
Web: www.demmingfinancial.com

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We at Demming Financial Services Corp. hope that you have a safe and happy holiday season!

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Demming Financial Services Corp.
13 New Hudson Road
Aurora, OH 44202

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