Demming Financial Services Corp.

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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 also be confirmed by phone**.

Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

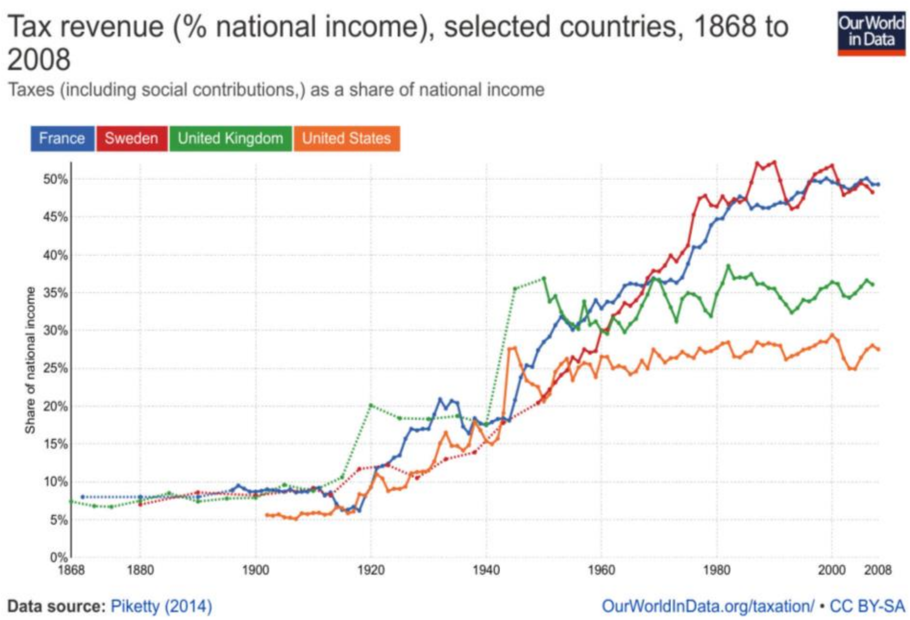
Don't forget to send us a copy of your 2015 tax returns!

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

Taxes Up

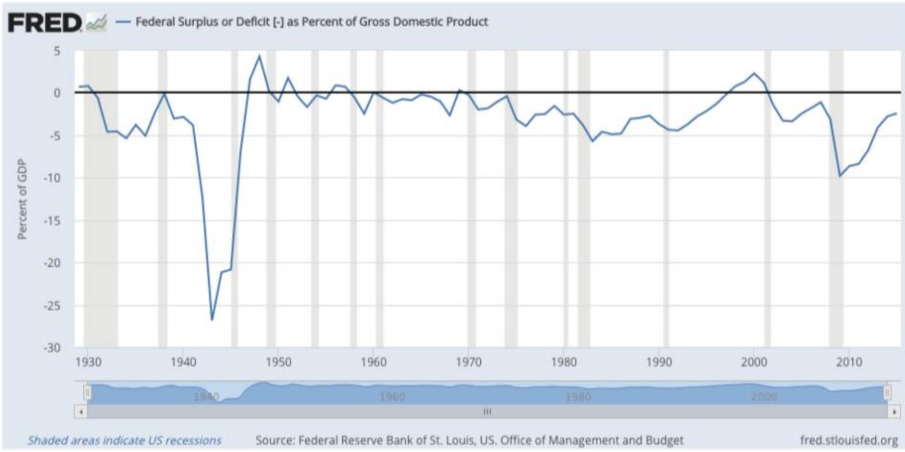
(but not so much as you might think…)

If you think taxes are higher than their historical rates, well, it depends on how far back in history you're comparing them to. Take a look at the accompanying chart, which shows tax revenue as a percent of total national income for four countries—France, Sweden, the United Kingdom and the U.S.—since 1868. The chart ends in 2008, and is taken from research by tax policy analyst Thomas Piketty.



People who think taxes are too high will note that today's total tax haul is much higher today than it had been during the period from 1868 through 1940, and the spike due to World War II's considerable expenses was never compensated for by a fall back to previous levels.

However, notice that the total for America has largely leveled off in the past 30 years, and most especially notice that the U.S. share of total income, at 27.5%, is considerably lower than the other countries. Both France and Sweden are flirting with 50% levels, while the U.K. is just above 35%. In the case of the U.S. and Britain, total tax levels are largely unchanged since around 1960—which is not something you hear in Presidential or Congressional debates about our tax rates.



You also aren't hearing much about the growing national debt these days, in part because the rate of growth has slowed dramatically and is now at or below historic averages. The accompanying chart shows an encouraging trend of federal deficit as a percentage of U.S. GDP; the black line represents a zero budget deficit, which was breached briefly during the Bill Clinton presidency. The dip starting in 2008 represents the historic government bailout which was designed to address the Great Recession and global banking crisis that began in 2008.

Article Courtesy of Bob Veres

What Can a Dollar Buy? Depends on Where You Live

You know that $25,000 car you've had your eye on? In just 10 years, it could cost almost $34,000, assuming prices rise by a mere 3% per year. That's the reality of inflation, which is commonly understood as the increase in the price of any product or service.
While the consumer price index (CPI), which is based on a monthly survey by the U.S. Bureau of Labor Statistics, serves as the standard measure of inflation nationwide, prices on all sorts of goods and services -- from a gallon of gasoline to a house -- can vary widely by region, state, and even within states.

Such variations are captured by Regional Price Parities (RPPs), which measure the differences in the price levels of goods and services across states and metropolitan areas for a given year.1 RPPs are expressed as a percentage of the overall national price level (gleaned from the CPI) equal to 100.
For instance, if an area's RPP is greater than 100, it means that goods and services are more expensive than the national average; if an area's RPP is less than 100, goods and services are less expensive than the national average.

In July the Bureau of Economic Analysis published RPPs for 2014. The data showed that the District of Columbia's RPP at 118.1 was greater than that of any state. States with the highest RPPs -- and lowest "real value" of a dollar -- were Hawaii (116.8), New York (115.7), New Jersey (114.5), and California (112.4).1 States with the lowest RPPs -- hence, the biggest bang for your buck -- were Mississippi (86.7), Arkansas (87.5), Alabama (87.8), South Dakota (88.0), and Kentucky (88.7).

How do these price differences play out in real dollars and cents? The same gallon of regular gas that costs $2.74 in Hawaii might run you $1.82 in South Carolina.3 Or, viewed another way, if you had $100 to spend at a store offering a range of goods at national-average prices, in Hawaii, that $100 would feel more like $85.60, while in Mississippi the national-average $100 would be more like $115.30.
The Bureau of Labor Statistics asserts that in areas where goods and services are more expensive, wages tend to follow suit -- but that is not always the case.
Be a Savvy Shopper -- Wherever You Live

Regardless of where you live, consider some simple dollar-stretching tips:

- Cut back on nickel-and-dime items. You might be surprised at how much you can save by reducing out-of-pocket expenses. Instead of indulging on a "designer" cup of coffee, purchase a regular coffee. The amount saved can add up fast.
- Save on books, music, and movies. Visit your neighborhood library to check out books and music instead of purchasing your own.
- Brown bag meals. Work days can be hectic, but instead of buying breakfast or lunch out, carry it in. If you spend $8 per day on lunch, you could free up $160 per month for your long-term financial goals.
- Seek travel values. By traveling off-season or during the shoulder season -- the periods just before or after the peak tourist season -- you can receive discounted rates on lodging and airfares, which can cut your vacation expenses.
- Practice energy efficiency. By turning the thermostat back in winter while you're at work or sleeping, you can save on your heating bills. Same for the air conditioner in hot summer months.
- Be creative. Can't imagine skipping your daily trip to the vending machine? Don't fret. The main point is to look for effective ways to stretch a dollar -- and then do it. Over time, you might find that a little savings can make a big difference when it comes to funding your bigger ticket financial goals.

Article Courtesy of Bob Veres

Identity Theft and Taxes

Identity theft is one of the fastest growing crimes in America affecting millions of unsuspecting individuals each year. A dishonest person who has your Social Security number can use it to obtain tax and other financial and personal information about you.

Identity thieves can get your Social Security number by:

- Stealing wallets, purses, and your mail.
- Stealing personal information you provide to an unsecured website, from business or personnel records at work, and from your home.
- Rummaging through your trash, the trash of businesses, and public trash dumps for personal data.
- Posing by phone or email as someone who legitimately needs information about you, such as employers or landlords.

Tax-related identity theft occurs when a thief uses your Social Security number to file a tax return and claim a fraudulent tax refund. In 2015 alone, the IRS stopped 1.4 million confirmed identity theft tax returns, protecting $8.7 billion in taxpayer refunds. The IRS has become increasingly diligent in its efforts to thwart identity theft with a program of prevention, detection, and victim assistance. The "Taxes. Security. Together." program is aimed at building awareness among taxpayers about the need to protect personal data when conducting business online and in the real world.

"THAT'S YOUR EXPLANATION-- RUSSIAN HACKERS?"

Stay Vigilant

By remaining vigilant and following a few commonsense guidelines, you can support the IRS in keeping your personal information safe. Here are a few tips to consider:

- Protect your information. Keep your Social Security card and any other documents that show your Social Security number in a safe place.
- DO NOT routinely carry your Social Security card or other documents that display your number.
- Monitor your email. Be on the lookout for phishing scams, particularly those that appear to come from a trusted source such as a credit card company, bank, retailer, or even the IRS. Many of these emails will direct you to a phony website that will ask you to input sensitive data, such as your account numbers, passwords, and Social Security number.
- Safeguard your computer. Make sure your computer is equipped with firewalls and up-to-date anti-virus protections. Security software should always be turned on and set to update automatically. Encrypt sensitive files such as tax records you store on your computer. Use strong passwords and change them routinely.
- Be alert to suspicious phone calls. The IRS will never call you threatening a lawsuit or demanding an immediate payment for past due taxes. The normal mode of communication from the IRS is a letter sent via the U.S. postal service.
- Be careful when banking or shopping online. Be sure to use websites that protect your financial information with encryption, particularly if you are using a public wireless network via a smartphone. Sites that are encrypted start with "https." The "s" stands for secure.
- Google yourself. See what information is available about you online. Be sure to check other search engines, such as Yahoo and Bing. This will help you identify potential theft sources and will also help you maintain your reputation.

Fear You Have Been Scammed?

If you feel you are the victim of tax-related identity theft - e.g., you cannot file your tax return because one was already filed using your Social Security number - there are several steps you should take.

- File your taxes the old-fashioned way -- on paper via the U.S. postal service.
- Print an IRS Form 14039 Identity Theft Affidavit from the IRS website and include it with your tax return.
- File a consumer complaint with the Federal Trade Commission (FTC).
- Contact one of the three national credit reporting agencies -- Experian, Transunion, or Equifax and request that a fraud alert be placed on your account.

If you have been confirmed as a tax-related identity theft victim, the IRS may issue you a special PIN that you will use when e-filing your taxes. You will receive a new PIN each year.

For more information on tax-related identity theft visit the IRS website, which has a special section devoted to the topic.

2016 Third Quarter Report: The Bull Continues

100 days after the Brexit scare, three quarters of a year after the most recent Fed rate hike, the markets once again confounded the instincts of nervous investors and went up instead of down. Last week, Fed Chairperson Janet Yellen told the world that the U.S. economy is healthy enough to weather a rise in interest rates, but the Fed governors met in September and declined to serve up the first rate hike since last December 15. That was reassuring news to the Wall Street traders, and investors generally, helping to provide yet another quarter of positive gains in U.S. stocks.

The Wilshire 5000 Total Market Index--the broadest measure of U.S. equities—gained 4.53% for the third quarter, and is now up 8.39% for the first three quarters of the year.

Larger companies posted the lowest gains. The Wilshire U.S. Large Cap index was up 3.92% in the third quarter of 2016, putting it at a positive 8.01% since the beginning of January. The widely-quoted S&P 500 index of large company stocks posted a gain of 3.31% in the third quarter, and is up 6.08% for the year so far.

Meanwhile, the Wilshire U.S. Mid-Cap index was up 4.35% for the quarter, and is sitting on a positive gain of 11.31% for the year.

Small company stocks, as measured by the Wilshire U.S. Small-Cap index, gave investors a 7.67% return during the third quarter, up 13.03% so far this year. The comparable Russell 2000 Small-Cap Index gained 9.05%, posting an 11.46% gain so far this year, while the technology-heavy Nasdaq Composite Index gained 9.67% for the quarter and is up 6.06% heading into the final quarter of 2016.

Looking abroad, the U.S. remains a haven of stability in a very messy global investment scene. The broad-based EAFE index of companies in developed foreign economies gained 5.80% in dollar terms in the third quarter of the year, but is still down 0.85% for the first three-quarters of the year. In aggregate, European stocks have lost 2.67% so far in 2016. Far Eastern stocks are up just 1.73% year-to-date. In contrast, a basket of emerging markets stocks domiciled less developed countries, as represented by the EAFE EM index, gained 8.32% for the quarter, and are sitting on gains of 13.77% for the year so far.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, were down 1.21% for the third quarter, but still enjoy a gain of 9.75% for the year. Commodities, as measured by the S&P GSCI index, lost 4.15% of their value in the third quarter, but are sitting on gains of 5.30% for the year so far.

On the bond side, the interest rate story is essentially unchanged: rates are still low, once again confounding all the experts who have been expecting significant rate rises for more than half a decade now. 10-year U.S. government bonds are currently yielding 1.59%. Three-month notes were yielding 0.27% at the end of the quarter, while 12-month bonds were paying just 0.58%. Go out to 30 years, and you can get a 2.32% annual coupon yield.

What's keeping stock prices high while sentiment appears to be—let's call it "restrained?" Nobody knows the answer, but a deeper look at the U.S. economy suggests that the economic picture isn't nearly as gloomy as it is sometimes reported in the press. Economic growth for the second quarter has been revised upwards from 1.1% to 1.4%, due to higher corporate spending in general and especially as a result of increasing corporate investments in research and development. America's trade deficit shrank in August. Consumer spending—which makes up more than two-thirds of U.S. economic activity, rose a robust 4.3% for the quarter, perhaps partly due to higher take-home wages this year.

Meanwhile, if someone had told you five years ago that today's unemployment rate would be 4.9%, you would have thought they were highly optimistic. But after the economy gained 151,000 more jobs in August, unemployment remained below 5% for the third consecutive month, and the trend is downward. At the same time, average hourly earnings for American workers have risen 2.4% so far this year.

Based on their reading of the Treasury yield curve, economists at the Federal Reserve Bank of Cleveland have pegged the chances of a recession this time next year at a low 11.25%. They predict GDP growth of 1.5% for this election year—which, while below targets, is comfortably ahead of the negative numbers that would signal an economic downturn. (In general, a steep yield curve has been a predictor of strong economic growth, while an inverted one, where short-term rates are higher than longer-term yields, are associated with a looming recession.)

On top of everything else, as you can see from the accompanying chart, corporate profits have been on a long-term upswing, even if the rise has been choppy since 2008. Will this long-term trend continue? Who knows?

The U.S. returns have been so good for so long that many investors are wondering: why are we bothering with foreign stocks? A recent Forbes column suggested the answer: historically, since 1970, foreign stocks have outperformed domestic stocks almost exactly 50% of the time, meaning the long trend we've become accustomed to could reverse itself at any time.

Nobody would dispute that the economic statistics are weak tea leaves for trying to predict the market's next move, and it is certainly possible that the U.S. and global economy are weaker than they appear. But the slow, steady growth we've experienced since 2008 is showing no visible signs of ending, and it's hard to find the usual euphoria and reckless investing that normally accompanies a market top and subsequent collapse of share prices. At the current pace, we might look back on 2016 as another pretty good year to be invested, which is really all we ask for.

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Wishing you and yours a safe and Happy Holiday Season!

From all of us at Demming Financial Services Corp.