Demming
Financial Services Corp.

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

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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!

Beware the bogus IRS

Most people have seen bogus emails purported to be from the executors of the estate of Nigerian princes or other obscure foreign notables who want to give them millions of dollars, and sometimes they get bogus calls telling them they can win a lottery sweepstakes or receive debt relief.

But apparently one of the most effective and dangerous telephone scams these days involves what appears to be a call from the Internal Revenue Service. The phone rings, and a very aggressive person on the other end of the line tells you that you owe money to the IRS. This debt, you are told, must be paid promptly through a pre-loaded debit card or wire transfer. If you refuse to cooperate (as, of course, you should), you're threatened with arrest, suspension of a driver's license or revocation of a business license. In the case of recent immigrants, the caller may also threaten deportation.

In the most sophisticated calls, the scammer may know (and recite) the last four digits of your Social Security number, and may even use electronic spoofing to make it appear on your phone's caller ID that the calling number comes from IRS headquarters. A bogus follow-up email may be sent to support the bogus call, or sometimes a follow-up call from an individual who is pretending to be from the local police or the Department of Motor Vehicles.

The goal, of course, is to scare you out of your wits—enough so that you'll make a payment so the federal authorities will go away and leave you alone. In all, the IRS says that 5,000 victims have collectively paid over $26.5 million to bogus IRS scammers.

A more recent version of the scam involves a less aggressive phone call from somebody pretending to be an IRS agent, who says he or she wants to verify your tax information so your forms can be processed. The scam artists say they're looking at your tax return, and need a few additional. The goal is to get you to give up personal information such as your Social Security number, bank numbers or credit card information that can then be used for identity theft scams.

The IRS has assured the public that it never, ever asks for credit card information over the phone, and it never requests prepaid debit card or wire transfer payments. It never asks for you to divulge personal information by phone or email, or demands payments without giving you an opportunity to appeal the amount they say you owe.

If you receive a call that threatens police action and demands immediate payment, that is a certain indication that the caller does not represent the IRS. Generally taxpayers who have a legitimate tax issue are contacted by mail.

If you receive one of these bogus calls, you can report the incident to the Treasury Inspector General at **800-366-4484**. And if you get an email that purports to be from the IRS, make sure you don't click on any attachments. Instead, forward the email, in its entirety, to **phishing@IRS.gov**.

Article courtesy of Bob Veres

What's Riskier Than the Riskiest Stocks?

Any seasoned investor will tell you that buying one stock is riskier than buying a basket of stocks. The underlying concept is diversification—the idea that the movement of the shares of many different companies, taken together, will be smoother than the trajectory of any one of them.

But the ETF market has managed to create composite securities that are even more volatile than individual stocks.

A recent article in Investment News looks at the most volatile individual stock in the S&P 500—First Solar—which has a standard deviation of 66.02. That means its jumps up or down tend to be almost exactly 6 times higher than the S&P 500.

That's pretty wild, but not as wild as the ProShares Ultra VIX Short-term Futures Fund, an ETF with a 3-year standard deviation that is twice as high as First Solar's: 132.9. Imagine that the markets go up or down 2% in one day, and you're looking at 24% price movements.

Those wild swings are not serving you. If the markets go down 24% (gloom!) and then rise 24% the next day (euphoria!), you're looking at a 5.76% loss for the two day period. Why? It takes a 31.6% return to recover from a 24% loss.

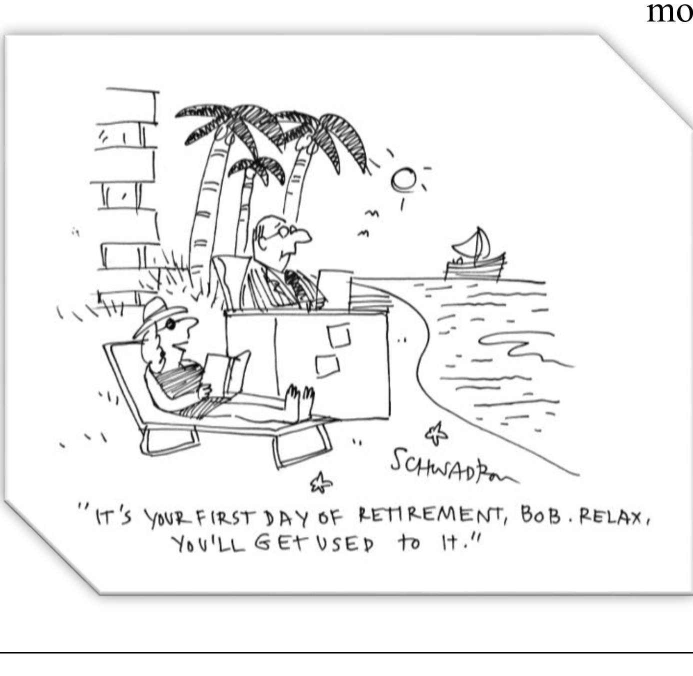
The ProShares fund is not the only leveraged ETF that threatens to multiply your portfolio volatility. The Direxion Daily Gold Miners Bear 3x ETF sports a 3-year standard deviation of 125.45. A more popular investment, which Bloomberg recently listed as one of the top 10 traded funds by Millennials in 2015, is the triply-leveraged VelocityShares Daily 3x Long Crude ETN. It has a three year standard deviation of "just" 85.89, still higher than the most volatile S&P 500 stock, still nearly eight times higher than the index itself. The crude oil fund has lost an average of 82.67% a year in the last three years, turning a $10,000 investment into $52.01.

The lesson? ETFs were created originally as less expensive, more easily traded alternatives to index mutual funds, providing diversification with low drag on returns. But the concept has been used—some would say misused—to create exotic instruments that are even more dangerous to your financial health than betting all your money on a single, volatile stock. The SEC is mulling whether to shut down the most highly-leveraged ETFs, which would have prevented Millennials from experiencing losses by betting on energy prices. Most of us can just regulate ourselves, and steer clear of the most volatile investments ever dreamed up by creative marketers.

Article courtesy of Bob Veres

Requiem for a Claiming Strategy

On the surface, it seems too good to be true. You have a married couple, where (let's say) the husband has earned higher yearly income than his wife. That means he has contributed more to Social Security over his working life. The husband files for Social Security benefits at full retirement age (currently age 66) and then immediately files to suspend those benefits.



As a result of this simple maneuver, the wife is now entitled to immediately receive Social Security spousal benefits equal to half of the husband's full retirement benefits that were just suspended. She would do this if 50% of the husband's benefit is higher than she would have received if she had simply claimed her own Social Security payments.

Because he suspended his benefits, the husband can continue working, and wait until age 70 to start receiving Social Security checks in his own name. Why would he do that? Because each year of deferral allows him to accumulate more credits—effectively raising his monthly benefits 8% a year, which is considerably higher than the inflation rate. At that time, the wife would stop claiming the husband's benefits and start receiving her own Social Security checks. If she was working at the time, she might have raised the amount she could claim under her own name. Or she might have been able to wait to claim her own account until she's 70, raising the amount she collects just as her husband did.

Presto! More money now, more money later.

This popular Social Security claiming strategy is called "file and suspend," and by this May, it may no longer be an option for retirees. The Bipartisan Budget Act of 2015 that was recently signed into law will close what lawmakers are calling the "file and suspend" loophole on April 30th 2016. You can expect that eligible seniors will be knocking on the doors of their Social Security offices before that deadline. Meanwhile, those who have already filed and suspended will be allowed to continue as before.

The original rationale behind the file and suspend strategy was to encourage more seniors to continue working. The rationale behind ending it is that it was becoming a drain on the Social Security system. Moreover, Congress was looking for money to offset a huge increase in Medicare Part B premiums for individuals not yet receiving Social Security payments. This could be the opening gambit of a broader discussion about how to "fix" Social Security's messy finances.

Article courtesy of Bob Veres

2016 First Quarter Report: The Bear That Wasn't

The first quarter of the new year has brought us small positive returns in many of the U.S. market indices, which means that investors survived—for now, at least—the worst start to a calendar year ever for the U.S. stock market.

The Wilshire 5000 Total Market Index--the broadest measure of U.S. stocks and bonds—was up 1.17% for the first three months of 2016, which is remarkable considering that the index was down more than 10% by the second week of February.

The Wilshire U.S. Large Cap index gained 1.25% in the first three months of 2016. The widely-quoted S&P 500 index of large company stocks posted a gain of 0.77% in the first quarter of the year. The Wilshire U.S. Mid-Cap index gained 2.24% for the quarter.
Small company stocks, as measured by the Wilshire U.S. Small-Cap index, gave investors a 0.85% return during the first three months of the year. The technology-heavy Nasdaq Composite Index lost 2.75% for the quarter.

Meanwhile, global markets are not off to a good start. The broad-based EAFE index of companies in developed foreign economies lost 3.74% in dollar terms in the first quarter of the year, in part because Far Eastern stocks were down 6.06%. In aggregate, European stocks lost 3.18%, and are now down more than 10% over the past 12 months. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, fared better, gaining 5.37% for the quarter.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, was up 5.20% for the first quarter. Commodities, as measured by the S&P GSCI index, gained 3.78% of their value in the first quarter, largely because of a modest 3.5% rise in oil prices since the end of last year.

Meanwhile, interest rates have continued their downward drift, leading to gains in bond portfolios. The Wilshire TUCS Fixed Income index returned 3.97% for the first quarter. The Bloomberg U.S. Corporate Bond Index returned 2.87% for the quarter, while the Bloomberg U.S. Treasury Bond Index rose 0.15%. Treasuries continue their long trend of paltry returns to investors; 3-month notes yielded 0.21% at the end of the quarter, while 12-month bonds were yielding just 0.60%. Go out to ten years, and you can get a 1.78% annual coupon yield.

The easy call at the beginning of the year would have been to bail out when the markets were declining and sit out the widely-predicted start of a painful, protracted bear market. Some analysts were talking openly about another 2008-9 drop in share prices. But 10% market declines are simply a part of the market's normal turbulence, and anyone who spooks as soon as they see a month of bearish sentiment is likely to miss out on the subsequent gains. Since hitting their 2016 lows on February 11, both the S&P 500 index and the Nasdaq Composite have gained roughly 13% in value.

That doesn't guarantee that there will be gains going forward, however. The Market Watch website reports that half of the S&P 500 sectors are reporting declines in earnings per share this quarter over the same period last year, and a poll by the FactSet analysts suggests that seven out of the ten sectors will end the earnings season reporting declining earnings.

Part of the wind at the backs of stocks this past six weeks has come, yet again, from the U.S. Federal Reserve Board, which had originally signaled that it planned to raise interest rates four times this year. After its most recent meeting, the Fed is projecting just two interest rate hikes this year, and Fed Chairwoman Janet Yellen has clearly indicated that the Fed will remain cautious about disrupting the markets or the economy as it unwinds its various QE initiatives.

Another tailwind was provided by the falling dollar. In the first three months of the year, the dollar's value against a basket of six major currencies fell 4.2%. A weaker dollar makes U.S. exports more price-competitive against goods and services sold in other currencies, potentially leading to higher top-line revenues for companies that do business overseas. Investors also seemed to take comfort that the Chinese stock market has stabilized—for now, at least.

Recently, Chinese officials reported the first rise in an important manufacturing statistic—the purchasing managers index—in eight months.

But arguably the biggest stabilizer of U.S. and global stock markets was the rise in oil—or, more precisely, the end of a long unnerving drop in the price of crude that caused anxiety to ripple through the investor community. Analysts are not sure how the price of a barrel of crude oil is connected with the value of stocks; indeed, for most companies, lower energy costs are a net plus to the bottom line. But investors seemed to take comfort in the fact that the price of the world's most important commodity had stabilized. It's worth noting that the day the stock market hit its low for the year—February 11—was also the day when oil futures hit their low of $26.21 a barrel.

You can easily compare the movements of oil and stock prices with the two accompanying charts, one showing the movements of the S&P 500 and the Dow Jones Industrial Averages, the other showing the price of a barrel of oil on the international markets. The two look identical in this market cycle. Eventually, that inexplicable link will be broken, but who knows when?

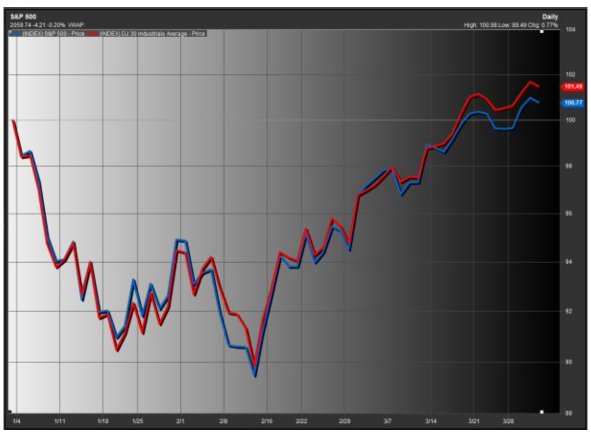


Figure 1(Left): Price movements in the S&P 500 (blue) and the DJIA (red).

Figure 2 (Right): Price movements in crude oil on the global markets.

When that link does break, the market will turn back to reflecting the health of the U.S. and global economy. In the U.S., employment growth has remained strong, with 215,000 new jobs added in March, above predictions of 199,000. Overall, the economy has added millions of jobs in the last two years. Wage growth continues to be low—up 2.3% today over a year earlier—but while that's discouraging for workers, companies (and their bottom lines, and eventually their stock values) are benefiting from relatively cheap labor. It's worth noting that the Institute for Supply Management's manufacturing index reflected growth for the first time since last August, suggesting that manufacturing activity is picking up in the U.S. economy.

Does that mean the market will go up? We can't predict the future; indeed, even the present is hard to understand. Our mission as investors is to hang on and allow the millions of workers who get up every morning and go to work to do what they do best: incrementally, hour by hour, day by day, week by week, grow the value of the companies we own with their efforts. Investors will spook and sometimes flee stocks, driving their prices down, but for the long-term, the returns on your investments are invisibly, inexorably driven by the underlying value that is created in the offices, cubicles and factory floors all over the world.

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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As a friendly reminder, please be sure to forward us your 2015 tax returns.