Demming Financial Services Corp.

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Special Additions…

Johnathon Opet has recently joined the DFSC team as a Financial Planning Analyst. John is a graduate of Allegheny College where he completed his studies in Math and Economics. Welcome John!

Dominic Crook is a summer Intern from the Kansas State University Financial Planning Program. Dom will be returning to Kansas in August to complete his degree and pursue the CFP® Designation.

Please don't forget to send in a copy of your 2015 tax returns!

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

Ten Reasons to be Cheerful

Do you ever listen to the news and find yourself thinking that the world has gone to the dogs? The roll call of depressing headlines seems endless. But look beyond what the media calls news, and there also are a lot of things going right.

It's true the world faces challenges in many areas, and the headlines reflect that. Europe has been grappling with a flood of refugees; as of May, the Chinese local A-share market declined by almost 20 percent[1]; and the US is in the middle of a sometimes rancorous election campaign.

"I'D RECOMMEND A PORTFOLIO OF 35% STOCKS, 40% BONDS AND 25% DOG BISCUITS."

More recently, citizens of the United Kingdom voted to leave the European Union, creating significant uncertainty in markets over the long-term implications.

But it's also easy to overlook the significant advances made in raising the living standards of millions, increasing global cooperation on various issues, and improving access to healthcare and other services across the world.

Many of the 10 developments cited below don't tend to make the front pages of daily newspapers or the lead items in the TV news, but they're worth keeping in mind on those occasions when you feel overwhelmed by all the grim headlines.

So here's an alternative news bulletin:

1. Over the last 25 years ending May 2016, one dollar invested in a global portfolio of stocks would have grown to more than five and a half dollars.[2]

2. Over the last 25 years, 2 billion people globally have moved out of extreme poverty, according to the latest United Nations Human Development Report.[3]

3. Over the same period, mortality rates among children under the age of 5 have fallen by 53%, from 91 deaths per 1000 to 43 deaths per 1000.

4. Globally, life expectancy has been improving. From 2000 to 2015, according to the World Health Organization, the global increase was 5.0 years, with an even larger increase of 9.4 years in parts of Africa.[4]

5. Global trade has expanded as a proportion of GDP from 20% in 1995 to 30% by 2014, signaling greater global integration.[5]

6. Access to financial services has greatly expanded in developing countries. According to the World Bank, among adults in the poorest 40% of households within developing economies, the share without a bank account fell by 17 percentage points on average between 2011 and 2014.[6]

7. The world's biggest economy, the US, has been recovering. Unemployment has halved in six years from nearly 10% to 5%.[7]

8. The world is exploring new sources of renewable energy. According to the International Energy Agency, in 2014, renewable energy such as wind and solar expanded at its fastest rate to date and accounted for more than 45% of net additions to world capacity in the power sector.[8]

9. We live in an era of innovation. One report estimates the digital economy now accounts for 22.5% of global economic output.[9]

10. The growing speed and scale of data is increasing global connectedness. According to a report by McKinsey & Company, cross-border bandwidth has grown by a factor of 45 in the past decade, boosting productivity and GDP.[10]

No doubt many of these advances will lead to new business and investment opportunities. Of course, not all will succeed. But the important point is that science and innovation are evolving in ways that may help mankind.

The world is far from perfect. The human race faces challenges. But just as it is important to be realistic and aware of the downside of our condition, we must also recognize the major advances that we are making.

Just as there is reason for caution, there is always room for hope. And keeping those good things in mind can help when you feel overwhelmed by all the bad news.

Who Pays for College? Are They Getting Their Monies Worth?

According to the Student Loan Marketing Association (more commonly known as Sallie Mae Bank), the average tuition, room and board at a private college comes to $43,921. Public tuition for in-state students at state colleges amounted to $19,548, with out-of-state students paying an average of $34,031.

How are parents and students finding the cash to afford this expense?

Sallie Mae breaks it down as follows: 34% from scholarships and grants that don't have to be paid back, coming from the college itself or the state or federal government, often based on need and academic performance.

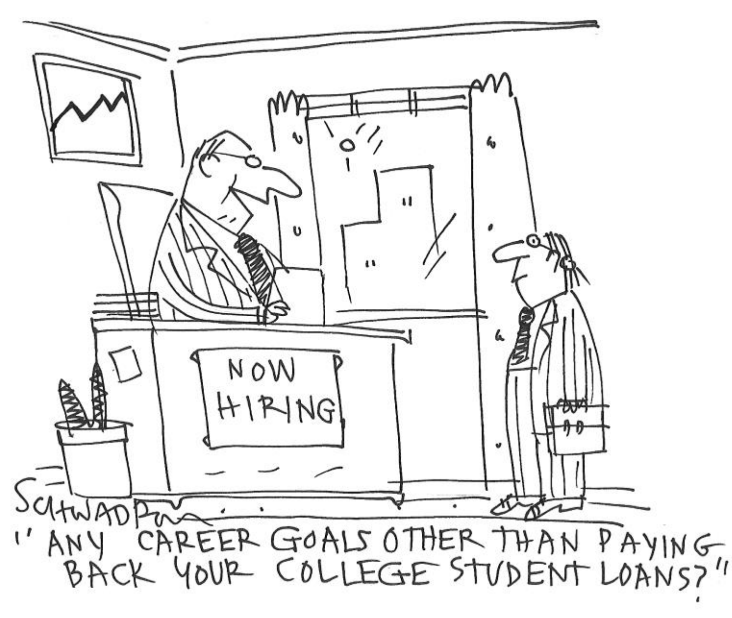
Parents typically pay 29% of the total bill (an average of $7,000) out of savings or income, and other family members (think: grandparents) are paying another 5%.

The students themselves are paying for 12% of the cost, on average.

The rest, roughly 20% of the total, is made up of loans. The federal government's low-interest loan program offers up to $5,500 a year for freshmen, $6.500 during the sophomore year, and $7,500 for the junior and senior years. If that doesn't cover the remaining cost, then students and parents will borrow from private lenders. The average breakdown is students borrowing 13% of their total tuition costs and parents borrowing the other 7%.

Is the cost worth it? The Federal Reserve Bank of New York recently published a report on the labor market for college graduates. The conclusion, in graphical format, is that younger workers have experienced much higher unemployment rates than their college graduate peers—the figures currently are 9.5% unemployment for all young workers, vs. just 4.2% for recent college graduates. Overall, the unemployment rate for people who have graduated with a 4-year degree is 2.6%, and even during the height of the Great Recession, it never went over 5%.

And income is higher as well. The average worker with a bachelor's degree earns $43,000, vs. $25,000 for people with a high school diploma only. The highest average incomes are reported for people with pharmacy degrees ($110,000 mid-career average), computer engineering ($100,000), electrical engineering ($95,000), chemical engineering ($94,000), mechanical engineering ($91,000) and aerospace engineering ($90,000).



Lowest average mid-career incomes: social services ($40,000), early childhood education ($40,000), elementary education ($42,000), special education ($43,000) and general education ($44,000).

Among the lowest unemployment rates: miscellaneous education (1.0%), agriculture (1.8%), construction services (1.8%) and nursing (2.0%).

Yes, there are some themes here, and of course people in every career can fall above or below these averages. Nor does everybody who graduates with a particular degree end up in a career that tracks that degree. (Of particular note: the list does not include a financial planning or investment advisory degree.) The point is that despite the cost, a college degree does seem to provide significantly better odds of getting a job, and getting paid more for the job you do get.

Are Brexit Fears Overblown?

In the wake of the so-called "Brexit" vote in the United Kingdom, and the possibility (though not the certainty) that the U.K. will leave the European Union, you're likely reading a lot of alarmist stories about the vote's impact on the U.S. and your portfolio. Don't believe half of what you read.

Here are some of the most alarming headlines, and the reality behind them.

1) The Brexit vote has already caused a stronger dollar, which will hurt U.S. exports.

True, the dollar gained dramatically against the British pound, which means exporters to the U.K. might be more than a little bit less competitive than they were a couple of weeks ago. But the U.K. only accounts for 0.5% of total U.S. exports. And there is no reason why the dollar should appreciate in strength against the euro, yen or other global currencies simply because the U.K is less likely to remain in the European Union.

2) The confusion around Brexit will cause turmoil in the stock market because, well, investors hate uncertainty.

When was the stock market NOT in turmoil over one thing or another? When have investors NOT hated uncertainty? We've been uncertain about the Fed raising interest rates for the better part of two years, and also about how long interest rates will continue falling, credit and stock market problems in China and Japan's economic woes for two and a half decades. Let's just add Brexit to the list and move on to the next so-called "crisis."

3) Brexit signals the imminent collapse of the European Union.

Remember this prediction a year or two down the road, and realize that sometimes 'journalists' should be renamed 'alarmists.' The reality is that the U.K. vote has forced the bureaucrats in Brussels to come face-to-face with the unrest caused by their costs and their stifling policies. There are already indications that the EU members will come together and make decisions that would head off other "leave" movements in France, Spain, Italy and Greece. In fact, in the next few weeks, we will almost certainly see the EU relax one of its rules and allow the Italian government to recapitalize its ailing banking system with public funds. Would that have happened pre-Brexit? It's doubtful.

4) Brexit will force the Fed to rethink raising interest rates in the U.S. economy, for fear it would trigger additional market volatility, and a concern that the U.S. might slip into a recession.

Lower interest rates for a few months longer is a BAD thing? And it's not unexpected; after all, the Fed entered the year with a firm plan to raise rates four times, and then, pre-Brexit, scaled the plan back to one rate rise.We may have to live with low interest rates for another year. Somehow we'll survive.

5) U.S. investment in the U.K. will decline.

It's true that if the U.K. does apply for exit under Article 50 of the Lisbon Treaty, U.S. companies that have significant operations on British soil, primarily to take advantage of tariff-free exporting to the EU nations, might start checking out office space in Frankfurt or Dublin. But there's plenty of time to make that transition. After the U.K. sorts out its government, it may notify the EU that it's leaving, and after that, even the most optimist estimate suggests that the full details of leaving, and any new tariff regime, are at least two years down the road. Nor is it a sure thing that there WILL be higher taxes on exports from the U.K. to the continent.

The main point here is that there is a lot of alarmist speculation and short-term thinking about a long-term phenomenon that will require years to play out. People who sold in a panic (including a lot of Wall Street traders) right after the Brexit news hit the Internet have egg on their face and real losses in their portfolios. The news media seems to want more of the same.

The Shadow of 2016 Second Quarter Report: Brexit

The Wilshire 5000 Total Market Index--the broadest measure of U.S. stocks and bonds—was up 2.84% for the quarter, and is now up 3.69% for the first half of the year.

It certainly feels like we're in a bear market, what with the surprising "Brexit" vote in the UK, the dismal first few days of the year and increased volatility across the board. So it may come as a surprise that the second quarter of 2016 eked out small positive returns for many of the U.S. market indices, and most of them are showing positive (though hardly exciting) gains over the first half of the year.

The Wilshire U.S. Large Cap index gained 2.65% in the second quarter of 2016, putting it at a positive 3.94% since the beginning of January. The widely-quoted S&P 500 index of large company stocks posted a gain of 1.90% in the second quarter, and is up 2.69% for the first half of 2016.

The Wilshire U.S. Mid-Cap index gained 4.33% for the quarter, and is sitting on a positive gain of 6.67% for the year. Small company stocks, as measured by the Wilshire U.S. Small-Cap index, gave investors a 4.09% return during the second quarter, up 4.98% so far this year. The comparable Russell 2000 Small-Cap Index gained 1.96%, erasing gains in the first quarter and posting a 0.41% gain so far this year, while the technology-heavy Nasdaq Composite Index lost 0.56% for the quarter and is down 3.29% for the first half of 2016.

"YOUR GERMAN SPARK PLUGS WON'T WORK IN YOUR MINI COOPER BECAUSE OF BREXIT."

When you look at the global markets, you realize that the U.S. has been a haven of stability in a very messy world. The broad-based EAFE index of companies in developed foreign economies lost 2.64% in dollar terms in the first quarter of the year, and is now down 6.28% for the first half of the year. In aggregate, European Union stocks lost 7.60% in the first half of 2016. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, lost 0.32% for the quarter, but are sitting on gains of 5.03% for the year so far.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, was up 5.60% for the second quarter, with a gain of 11.09% for the year. Commodities, as measured by the S&P GSCI index, gained 12.67% of their value in the second quarter, giving the index a 9.86% gain for the year so far. The biggest mover, unsurprisingly, is Brent Crude Oil, which has risen more than 15% in price over the quarter.

Meanwhile, interest rates have stayed low, once again confounding prognosticators who have been expecting significant rate rises for more than half a decade now. The Bloomberg U.S. Corporate Bond Index is yielding 2.88%, while the Bloomberg U.S. Treasury Bond Index is yielding 1.11%%. Treasury yields are stuck near the bottom of historical rates; 3-month notes yielded 0.26% at the end of the quarter, while 12-month bonds were yielding just 0.43%. Go out to ten years, and you can get a 1.47% annual coupon yield. Low? Compared with rates abroad, these yields are positively generous. If you're buying the German Bund 10-year government securities, you're receiving a guaranteed -0.13% yield. The 5-year yield is actually worse: -0.57%. Japanese government bonds are also yielding -0.3% (2-year) to -0.23% (10-year).

On the first day of July, the Dow, S&P 500 and Nasdaq indices were all higher than they were before the Brexit vote took investors by surprise, which suggests that, yet again, the people who let panic make their decisions lost money while those who kept their heads sailed through. There will be plenty of other opportunities for panic in a future where terrorism, a continuing mess in the Middle East, a refugee crisis in Europe and premature announcements of the demise of the European Union will deflect attention away from what is actually a decent economic story in the U.S.

How decent? The American economy is on track to grow at a 2.0% rate this year, which is hardly dramatic, but it is sustainable and not likely to overheat different sectors and lead to a recession. Manufacturing activity is expected to grow 2.6% for the year based on the numbers so far, and the unemployment rate has fallen to 4.7%, which is actually below the Federal Reserve target. Inflation is also low: running around 1.4% this year. The unemployment statistics are almost certainly misleading in the sense that many people are underemployed, and a sizable number of working-age men are no longer participating in the labor force, but for many Americans, there's work if you want it. Historically low oil prices and high domestic production have lowered the cost of doing business and the cost of living across the American economic landscape.

Despite all this good news, the market is struggling to keep its head above water this year, and is not threatening the record highs set in May of last year.

Questions remain. The biggest one in many peoples' minds is: WILL the European Union break up now that its second-largest economy has voted to exit? There is already renewed talk of a Grexit, along with clever names like the dePartugal, the Czechout, the Big Finnish and even discussion about Texas leaving the U.S. With active political movements in at least a dozen Eurozone countries agitating for an exit, it's possible that someday we'll view the UK as the first domino?

A recent report by Thomas Friedman of Geopolitical Futures suggests that the EU, at the very least, is going to have to reform itself, and the vote in Britain could be the wake-up call it needs to make structural changes. The Eurozone has been struggling economically since the common currency was adopted. It is still dealing with the Greek sovereign debt crisis, a potential banking crisis in Italy, economic troubles in Finland, political issues in Poland and, in general, a huge wealth disparity between its northern and southern members. Is it possible that a flood of regulations coming out of Brussels is imposing an added burden on European economies? Should different nations be allowed to manage their policies and economies with greater independence and focus?

Friedman thinks the UK will be just fine, because Europe needs it to be a strong trading partner. Britain is Germany's third-largest export market and France's fifth largest. Would it be wise for those countries to stop selling to Britain or impose tariffs on British exports? And more broadly, with the political turmoil in the UK, is it possible that there will be a re-vote, particularly if the European Union decides to make reforms that result in a less-stifling regulatory regime?

You'll continue to see dire headlines, if not about Brexit or the Middle East, then about China's debt situation and the Fed either deciding or not deciding to raise rates in the U.S. economy. Oil prices are going to bounce around unpredictably. The remarkable thing to notice is that with all the wild headlines we've experienced so far, plus the worst start to the year in U.S. market history, the markets are up slightly here in the U.S., and the economy is still growing. Yes, your international investments are down right now, but eventually, you can expect them to come to the rescue when the American bull market finally turns.

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Sources:

Ten Reasons to be cheerful

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We at Demming Financial Services Corp. hope that you and yours have an adventurous, safe, and happy summer!