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summaries

SIGMA INVESTMENT COUNSELORS

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Market Commentary

We have anticipated for quite some time that the market would eventually step back and take a breath; unfortunately we do not possess a crystal ball and it is impossible to predict. August proved a very rough month for equity investors, the returns on major indexes tell the story: the S&P 500 Index is down -6.03% for the month of August, -2.88% year-to-date, and is only positive 0.48% for the 12 months ended August 31, 2015. The S&P MidCap Index -5.58%, -1.48%, and 0.01%; the S&P SmallCap Index -5.18%, -2.07%, 1.80%; the MSCI EAFE Index -7.36, -0.21% and -7.47%; MSCI Emerging Markets -9.04%, -12.85%, and -22.95%; Barclays US Aggregate Bond Index -0.14%, 0.45%, and 1.56% for the same time period. *Data: FactSet Research Systems (8/31/15)*

The question on many investors' minds is whether the current weakness is a correction or the beginning of a crash. Sigma's position is that this is a healthy correction, not a crash, and well within historical norms. A little history: since 1950 there have been 22 market corrections (defined as a 10% or greater decline in the index) not including August 2015; the average correction lasted 4.4 months; the average time between corrections was 14.5 months and -14.2% is the average decline.

The S&P 500 almost doubled in value from March 2009 through March 2013 and offered an average annual return of more than 20%. It would be unrealistic to believe that this kind of high double digit return could continue indefinitely without some break. The market has not experienced a correction since 2011 and was well overdue.

Nothing has changed fundamentally in the past month. Corporate profits are still strong (not stellar, but strong), unemployment and consumer spending continues to improve, auto and home sales remain strong, corporate balance sheets are healthier carrying less debt and increasing margins, interest rates remain low, and the world will continue to grow. It is normal for markets to go up and down, and sometimes the pendulum swings are big, such as we are experiencing now. But over time, markets bounce back and we continue to maintain a diversified portfolio so your investments will grow and you can reach your long-term goals.

We are under no illusion that the market will be able to quickly shake off the negative sentiment that currently exists. If we indeed felt that the market was vulnerable to a correction, you might wonder why we were not proactive. Why did we not take a meaningful amount of money off the table prior to this pullback? As mentioned earlier, we were long overdue for this correction. If we had taken action last year our clients would have missed the double digit returns provided by the S&P 500 in 2014. As we have written extensively in our newsletters and blogs, it is nearly impossible to time these events with any accuracy. You have to be correct on two decisions – when to get out and when to get back in; this exercise nearly guarantees poor performance relative to a buy and hold and reallocation strategy. Thus, we strongly recommend staying the course, selling small amounts of stocks when the market is advancing and buying small amounts of stocks during times of weakness. We believe this is the best strategy to maximize returns.

It appears there will be continued declines in the market, but there are good values for long term investors. Patience, diversification, and a strong constitution are the most efficient way to build wealth in the long-term.

Saving for Health Care Expenses in Retirement

One of the most common misconceptions pre-retirees have is that Medicare will cover most healthcare expenses in retirement. A report released by HealthView Services earlier this year: 2015 Retirement Health Care Cost Data Report drew from 50 million health care cases and supplementary data sources to determine the out-of-pocket costs of medical care that current and future retirees may expect in retirement. "The average lifetime retirement health care premium costs for a 65-year-old healthy couple retiring this year and covered by Medicare Parts B, D, and a supplemental insurance policy will be $266,589. (It is assumed in this report that Medicare subscribers paid Medicare taxes while employed, and therefore will not be responsible for Medicare Part A premiums.) If we were to include the couple's total health care (dental, vision, co-pays, and all out-of-pockets), their costs would rise to $394,954. For a 55-year-old couple retiring in 10 years, total lifetime health care costs would be $463,849."

When creating a financial plan for clients we factor in medical expenses and other potential expenses (long-term care, premature death, etc.) that could derail a well laid plan. There are several ways to save for healthcare expenses in retirement: IRAs, 401(k)s/403(b)s and other qualified employer plans, after-tax savings, and an often over looked option, the Health Care Savings Account.

Since the Affordable Care Act was signed into law in March of 2010 health care deductibles have been on the rise; employers and individuals in an attempt to control their rising premium expenses have become much more likely to opt for a High Deductible Plan (HDHP). For 2015, a HDHP is defined as a health plan with an annual deductible that is $1,300 or more for an individual's coverage or $2,600 for family coverage, and the annual out-of-pocket expenses do not exceed $6,450 for self-only coverage, or $12,900 for family coverage.

Because more people are covered under an HDHP, more people qualify for a Health Savings Account (HSA). An HSA is like an IRA for your retirement medical expenses with a few exceptions. There are no income limits on deductibility, you can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you do not itemize deductions. Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) are also excluded from gross income.

The major benefits of an HSA are: contributions are generally deductible (unless made by your employer); contributions remain in your account until you use them; interest or capital gains are tax free; distributions are tax free if used to pay qualified medical expenses; an HSA is fully vested if you change employers or leave the work force you retain ownership.

Use your HSA account as your Healthcare IRA account and fully fund an HSA every year; and, if you have the disposable income now to pay for current medical expenses leave the HSA account untouched and let it grow for future retirement medical care.

For 2015, the annual limitation on deductions for an individual with self-only coverage under a HDHP is $3,350. For family coverage it is $6,650. Even if your employer does not offer an HSA you can still open and contribute to an account on your own. At this time there are very few custodians that offer individual HSA accounts, but they are indeed available. If you are interested please contact your advisor for further information.

All questions and comments are welcome.

Suzanne M. Antonelli, CFP®

27777 Franklin Road • Suite 1100 • Southfield, MI 48034 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com