The COMPASS Chronicle

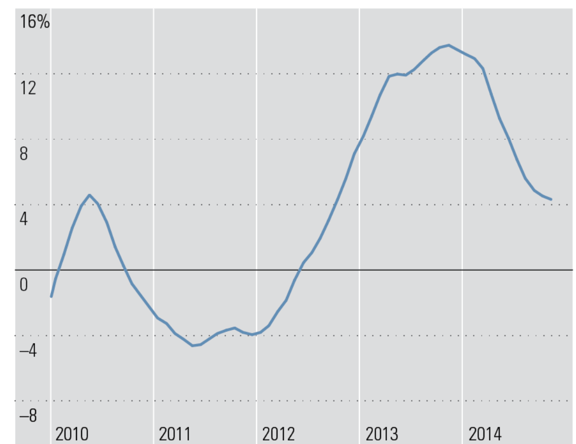
February 2015 | Vol. 5 No. 2 | "Morningstar's Best Client Newsletter"

Home Price Growth Returning to a More Sustainable Rate

- As we predicted in "Is the Housing Recovery Stalling?" which appeared in The COMPASS Chronicle in October 2013, housing price appreciation did moderate in 2014 after jumping in 2013.
- The current low interest rate environment and strengthening employment picture support a healthy housing market, though price appreciation is not expected to return to 2013 levels.

It is certain that, after a series of fast-paced increases that peaked in late 2013, the rate of home price increases is moderating. As of November, the Case-Shiller Index is showing that home prices are growing at 4.3% year-over-year, which is a much slower rate compared to nearly a 14% pace reported in 2013. The prices recovered about 82% of the previous high, and 14 states are currently either above or close to the previous 2006 peak. Nonetheless, Nevada, Florida, Arizona, and a few other states still remain 20% or more below the peak, and it will certainly take many years for those prices to return to their pre-recession level. On the positive side, slower-growing prices are good news for prospective buyers and for the health of the housing market in general, as they should improve housing affordability, providing an essential boost to this so far anemic housing recovery.

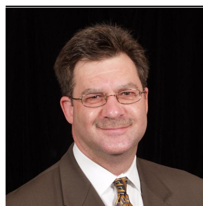
Case-Shiller Home Price Index Annual Change, 3-Month Average



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Source: S&P/Case Shiller. Data through November 2014.

MORNINGSTAR



Louis E. Conrad II, CFA
President

lconrad@compassinvest.com
(978) 254-7040
www.compassinvest.com

More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site.

If you would prefer NOT to receive future editions of The COMPASS Chronicle, please send an e-mail with "UNSUBSCRIBE" in the subject line and you will be removed from the distribution list.

Concerned About Longevity? Three Mistakes to Avoid

- Longevity risk is the risk of living longer than you expected and potentially outliving your retirement resources.
- This article reviews three mistakes to avoid so as to extend the duration of your financial resources.

Longevity is often cheered as an achievement, but the downside of living well beyond one's average life expectancy is that it can strain (or worse, completely deplete) an individual's financial resources. The first step in addressing longevity risk is to evaluate just how great the odds are that either you or your spouse will have a much longer-than-average life span. Health considerations, family longevity history, employment choices, and income level may all be factors. If you've assessed these considerations and are concerned about longevity risk--or if you've determined that you'd simply rather be safe than sorry--here are three key mistakes to avoid.

Mistake 1: Holding a Too-Conservative Portfolio. When investors think about reducing risk in their portfolios, they often set their sights on curtailing short-term volatility—the risk that their portfolios will lose 10% or even 20% in a given year. But a too-conservative portfolio (one that emphasizes cash and bonds at the expense of stocks) can actually enhance shortfall risk while keeping a lid on short-term volatility. But, right now, interest rates have much more room to move up than they do down, which may reduce the opportunity for bond-price appreciation during the next decade. With such low returns, retirees with too-safe portfolios may not even outearn the inflation rate over time.

Mistake 2: Not Delaying Social Security Filing.* Because it provides an inflation-adjusted income stream for the rest of your life, Social Security is designed to provide you with at least some money coming in the door even if your investment portfolio runs low (or out) during your later years. If you file early (you're eligible to do so as early as age 62), you permanently reduce your annual benefit from the program.

Delayed filing, on the other hand, has the opposite effect, amping up the value of your hedge. Not only will your benefits last as long as you do, but they'll be higher, perhaps even substantially so, as well. Those who delay filing until age 70 may receive an annual benefit that's more than 30% higher than what they would have received had they filed at full retirement age (currently 66) and more than 50% higher than their benefit had they filed at age 62.

Mistake 3: Not Adjusting Withdrawal-Rate Assumptions. Just as savings rates are the main determinant of success during the accumulation years (much more than investment selection, in fact), spending rate is one of the central determinants of retirement plans' viability.

The 4% rule, which indicates that you can withdraw 4% of your total portfolio balance in year 1 of retirement, then annually inflation-adjust that dollar amount to determine each subsequent year's portfolio payout, is a decent starting point in the sustainable withdrawal-rate discussion. But it's important to tweak your withdrawal rate based on your own situation. If you have a sparkling health record and it looks likely that you'll be retired longer than the 30-year withdrawal period that underpins the 4% rule, you may be better off starting a bit lower.

In a similar vein, it's important to not set and forget your retirement-plan variables, such as your spending rate and your asset allocation, because retirement progresses and new information becomes available about your health and potential longevity, market valuations, and so forth.

This is for informational purposes only and should not be construed as legal, tax, or financial planning advice. Please consult a legal, tax, and/or financial professional for advice specific to your individual circumstances. Asset allocation and diversification are methods used to help manage risk. They do not ensure a profit or protect against a loss. Returns and principal invested in securities are not guaranteed, and stocks have been more volatile than bonds.

*Source: Social Security Administration.

Monthly Market Commentary

Even though it's always a guessing game, investor fears appear to have changed recently. They've shifted from the timing of a Fed interest rate hike and an overheated U.S. economy to slumping economic growth rates.

GDP: The halving of the GDP growth rate from 5% in the third quarter to 2.6% in the fourth quarter was a real dose of cold water. In many circumstances, a 2.6% rate would be something to celebrate. However, following growth of 4.6% and 5.0% in the previous two quarters, there is some worry on the Street that the economy is slowing. Morningstar economists still believe that the U.S. remains well within its trend line growth rate of 2.0%–2.5%, which is virtually unchanged over the past four years.

Employment: The most recent employment report probably surprised even the more bullish forecasters. The U.S. economy added 257,000 new jobs in January, showing that the fourth-quarter jobs momentum has continued into 2015. Upward revisions were applied to the data, particularly to the November and December numbers—revised up by 70,000 and 77,000 more jobs, respectively. The data now show that there were 752,000 jobs created in those two months alone, and 423,000 new jobs created in November, which is the best single-month result since March 2000. At the same time, looking at 2014 overall, the revisions amounted to only 164,000 more jobs, which by historical standards is not a drastic annual revision.

Year-over-year, three-month average employment growth continues to accelerate. Total nonfarm employment growth now stands at 2.2%–2.3%, while much better performing private-sector employment growth increased to 2.6%. It's not clear yet whether January's bullish employment data is a spillover from the high growth in the second and third quarters or actual proof of a further accelerating U.S. economy.

Consumption and Income: Given consumption is 70% of U.S. GDP, it is one of the more critical factors for detecting the direction of the economy. The income data helps determine if changing spending levels happened because of changing attitudes or lack of ability to spend more.

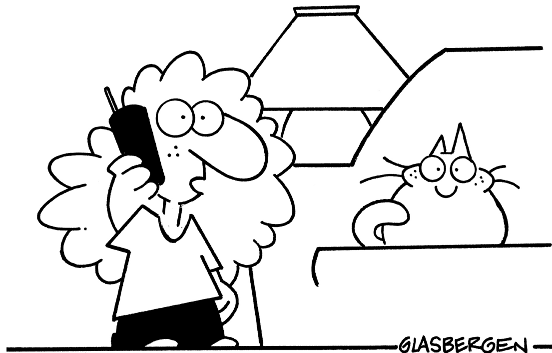
Month to month, consumption numbers have been on a yo-yo, up 0.7% in November then down 0.1% in December. An unusually cold November followed by a warm December (shifting the timing of seasonal purchases and utility usage) may be responsible for the most recent bout of volatility. In addition, it is very hard to get the seasonal factors exactly right this time of year, further enhancing the already volatile sector data.

The more reliable year-over-year, averaged data shows a consistent pattern of modest acceleration in consumption growth and nicely accelerating growth in both wages and real disposable income. The data, at least at this moment, suggest that consumers are not spending all of their income gains yet again. Currently, wages are growing at a 3.5% annual rate, real disposable income at 3.1%, and consumption slightly lower at 2.8%. The high level of wage growth suggests that there is at least some potential for consumption to improve further in the months ahead.

Trade: The November to December data showed the trade deficit increased from $39.8 billion to $46.5 billion. Exports were down 0.8% and imports jumped 2.2%. That's not a totally shocking state of affairs, given that the U.S. economy is relatively strong and the rest of the world is slowing.

Pessimists are characterizing the trade report as the worst monthly deficit since 2012. And they will go on to say that the strong dollar can only make things worse and the U.S. competitive position has eroded badly. However, both the month-to-month category data and the year-over-year data suggest that things aren't so bad, and that changing oil markets are behind a lot of the apparent deterioration.

The Back Page



"Hello, is this the Shady Acres Retirement Home? My mom turned 40 today!"

©2013 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc. Morningstar Market Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.

Louis E. Conrad II, CFA
President

COMPASS Wealth Management
290 Baker Avenue, Suite N101
Concord, Massachusetts 01742

lconrad@compassinvest.com
www.compassinvest.com

Tel:(978) 254-7040
Fax:(978) 254-7039

© COMPASS Wealth Management, LLC, as well as Morningstar. While the information contained in this newsletter relies on sources believed to be reliable, accuracy cannot be guaranteed. Unless otherwise noted, all information and opinions are as of the date of transmittal, and are subject to change without notice. This newsletter is intended for general informational purposes only and it does not discuss all aspects that may apply to your situation. Please consult with a qualified professional. COMPASS Wealth Management, LLC is a registered investment advisor with the appropriate regulatory authorities. For additional details on the services that COMPASS offers, we encourage you to also review Parts 2A and 2B of our Form ADV, which is provided on request. For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site (www.compassinvest.com). The criteria used to determine "Morningstar's Best Client Newsletter", which was awarded to COMPASS in 2012, can be reviewed in The COMPASS Chronicle's September 2012 edition, which is also available on our web site.