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COMPASS Update

COMPASS Wealth Management, LLC is pleased to announce that in August, Tanya Rapacz, CFP®, joined the firm as a Senior Wealth Manager. Her addition provides clients with added depth and breadth of experience, as well as provides senior-level backup. It is expected that Tanya and Lou Conrad, CFA®, COMPASS' Founder and President, will work together on client engagements, though Tanya's focus will primarily be financial planning, whereas Lou will focus on investments. Tanya's addition will also help support the growth that COMPASS continues to enjoy.

Tanya has over a decade of wealth management experience, including co-founding a financial planning practice and subsequently merging it with another firm. She ultimately sold her stake and then co-founded a business dedicated to conflict resolution within companies. Tanya graduated from Wellesley College with honors and received a certificate in financial planning from Boston University, before attending a program on negotiation at Harvard University.

Separately, this fall Lou will become the Treasurer for Minuteman Senior Services (MSS), a non-profit organization based in Bedford, MA, devoted to helping seniors and the disabled live in their setting of choice in sixteen communities northwest of Boston. Lou joined the Board of Directors nearly two years ago and is a member of MSS' Executive Committee.

Lou also recently worked to reestablish a Mutual Fund group, which is part of the American Association of Individual Investors' (AAII) Boston Chapter, a non-profit dedicated to providing education to individual investors. Lou presents topics of interest to mutual fund investors, leveraging his experience as a former mutual fund manager and Director of Fidelity Investments' Fund Analysis and Research Group.

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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.

Four Retirement-Portfolio Withdrawal Mistakes to Avoid

- This article refers to the "4% rule" and how this rule-of-thumb should not be followed blindly.
- The "4% rule" reflects research that found a portfolio should not be fully exhausted during retirement as long as no more than 4% of its value is withdrawn annually (adjusted for inflation).
- Though rules-of-thumb may be helpful, COMPASS provides clients with detailed retirement planning analyses that incorporate their particular circumstances.

Some errors in retirement-portfolio planning fall into the category of minor infractions rather than major missteps. Did you downplay foreign stocks versus standard asset-allocation advice? It's probably not going to have a big impact on whether your money lasts throughout your retirement years.

But withdrawal rate errors can have more serious repercussions for retirement-portfolios. If you take too much out of your portfolio at the outset of retirement, and that coincides with a difficult market environment --you can deal your portfolio a blow from which it may never recover. Other retirees may take far less than they actually could, all in the name of safety. The risk is that they didn't fully enjoy enough of their money during their lifetimes.

Mistake 1: Not Adjusting With Your Portfolio's Value and Market Conditions. Even though the popular "4% rule" assumes a static annual-dollar-withdrawal amount, adjusted for inflation, retirees would be better off staying flexible with their withdrawals.

What to Do Instead: The simplest way to tether your withdrawal rate to your portfolio's performance is to withdraw a fixed percentage, versus a fixed dollar amount adjusted for inflation, year in and year out. That's intuitively appealing, but this approach may lead to more radical swings in spending than is desirable for many retirees. It's possible to find a more comfortable middle ground by using a fixed percentage rate as a baseline but bounding those withdrawals with a "ceiling" and "floor."

Mistake 2: Not Adjusting With Your Time Horizon. Taking a fixed amount from a portfolio also neglects the fact that, as you age, you can safely take more from your portfolio than you could when you were younger. The original "4%" research assumed a 30-year time horizon, but retirees with shorter time horizons (life expectancies) of 10 to 15 years can reasonably take higher amounts.

What to Do Instead: To help factor in the role of life expectancy retirees can use the IRS' tables for required minimum distributions as a starting point to inform their withdrawal rates. That said, those distribution rates may be too high for people who believe their life expectancy will be longer than average.

Mistake 3: Not Adjusting Based on Your Portfolio Mix. Many retirees take withdrawal-rate guidance, such as the 4% guideline, and run with it, without stopping to assess whether their situations fit with the profile underpinning that guidance. The 4% guideline assumed a retiree had a balanced stock/bond portfolio. But retirees with more-conservative portfolios should use a more-conservative (lower) figure, whereas those with more-aggressive asset allocations might reasonably take a higher amount.

What to Do Instead: Be sure to customize your withdrawal rate based on your own factors, including your portfolio mix.

Mistake 4: Not Factoring In the Role of Taxes. The money you've saved in tax-deferred retirement-savings vehicles might look comfortingly plump. However, it's important to factor in taxes when determining your take-home withdrawals from those accounts. A 4% withdrawal from an $800,000 portfolio is $32,000, but that amount shrivels to just $24,000, assuming a 25% tax hit.

What to Do Instead: It pays to be conservative in your planning assumptions. To be safe it's valuable to assume a higher tax rate than you might actually end up paying.

Disclosure: This is for informational purposes only and should not be considered tax or financial planning advice. Please consult with a financial or tax professional for advice specific to your situation.

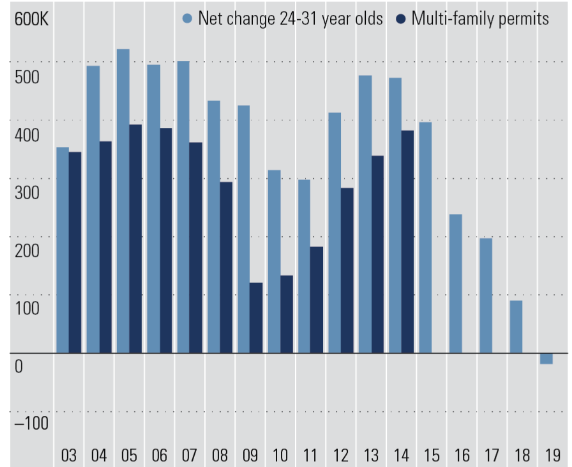
This article contributed by Christine Benz, Director of Personal Finance with Morningstar.

Aging Millennials Should Drive Up Single-Family Home Sales

- Millennials have been slow to purchase homes, in part due to lifestyle choices and affordability issues. The growth in the Millennial group has led to growth in apartment building construction.
- However, as the growth of this age group decelerates, multi-family construction should decline relative to single family construction.

In this recovery, there has been a surge in interest in apartment buildings. Meanwhile, single-family home sales are still running about 50% below their previous peak. The chart illustrates what may be behind some of that change. Following the decline in the 24-31 year old cohort, that group is now growing again. Not surprisingly, so are multi-family permits and interest in apartment buildings over the last several years. Looking at the data for 2014-2019, that age dynamic will begin to shrink according to Morningstar economists. That's bad news for people building apartments, but great news for the overall economy. Single-family homes utilize more labor and more materials than apartment buildings do. So, as the age group begins to buy homes instead of living in apartments, it should drive up single-family home sales and boost the economy.

Demographics Drive Renting Business



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.

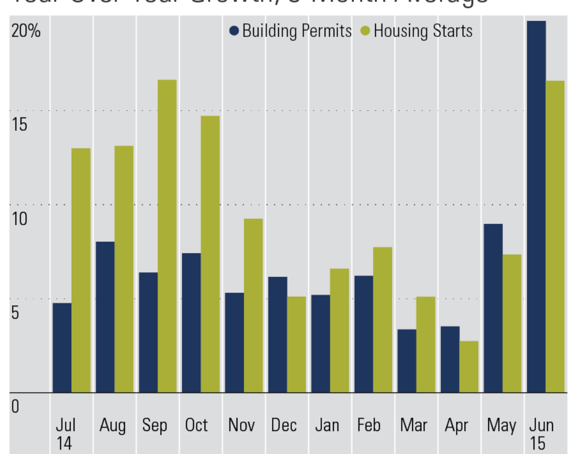
Source: Census Bureau, Morningstar

Housing Construction in Good Shape

- Though multi-family construction has been stronger than single family construction recently, this article (and the article above) point to underlying strength in the construction of single family homes.
- Such an environment reflects a healthy housing industry and its positive impact on the overall economy.

The chart depicts the state of the housing construction industry, suggesting that there is still plenty of room to grow in this slow, but steady recovery we've seen so far. The latest starts and permits data from the Census Bureau, however, shows a slightly exaggerated picture, as it is the multi-family category that's been making overall housing construction look better than it is in reality. Both starts and permits picked up in June, as multi-family activity rose sharply amid expiring construction tax incentives for developers in the New York City area. As a result, the housing construction revival is probably not as strong as the numbers seem to currently suggest. Nonetheless, improvements for single-family construction still look healthy, and continue to trend up closer to the 10% rate year over year.

Building Permits Versus Housing Starts
Year-Over-Year Growth, 3-Month Average



Source: Census Bureau, Morningstar.

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Monthly Market Commentary

August was a wild month, with powerful downward movements in most world equity markets early on, followed by equally impressive gains afterward. Investors feared that China's economic slowdown would drag down the rest of the world just as the Federal Reserve ended its emergency support. However, strong U.S. economic data combined with hope that the Fed will not increase rates in September set off an epic stock market rally.

GDP: The GDP report for the second quarter was revised up to a surprisingly strong 3.7% from just 2.3% in the previous report just one month ago. Although some GDP revision was expected, the quality and size of the upgrade were far better than anyone could have hoped for. Part of the strong increase in the second quarter was because of the abysmal first quarter, when the economy grew just 0.6%. Still, averaging the first and second quarters together, growth in the first half was over 2%, not bad for all the world drama.

Employment: On the surface, the August employment report was a modest disappointment to the market, with the U.S. economy adding 173,000 total nonfarm jobs versus earlier expectations of 215,000 jobs. However, readers should keep in mind that August is the lowest and most revised month in the employment data series. The total worker employment data was consistent with what everyone had been expecting and the average over the past six months.

There was other good news, too. The unemployment rate dropped surprisingly to 5.1% through a combination of job additions and a slightly smaller work force. The year-over-year, averaged data showed more of the same steady-state employment growth of just over 2% that has characterized most of this recovery. The steadiness has occurred despite large month-to-month swings that usually manage to cancel each other out.

Personal Income and Spending: Personal income and real disposable personal income grew 0.4% and 0.5%, respectively, exceeding more modest consumption growth of 0.3%. The battle between incomes and spending continues, with income growth exceeding spending growth for two months in a row after a period when consumption was winning out. Wage growth, due to a hiring binge late in 2014, is still running ahead of consumption, suggesting that there is more room for consumption to expand, especially now that oil prices are on their way back down. Historically, incomes and consumption have tended to move together, with consumption generally not as volatile as incomes. The close relationship and stable trend suggest a very consistent consumer who has not been spooked by world events.

Housing: This month's forward-looking housing reports support the thesis of a sharply improving housing market. The new-home sales report, in particular, offered some bullish clues indicating that the housing momentum is real and should continue in the months ahead. On the home price front, the news was also good, suggesting that the streak of large monthly increases appears to be moderating as June's data showed more modest monthly price growth. Housing has already provided a large boost to second-quarter GDP, and it looks like the third quarter is off to a good start, as well, providing hope that housing's substantial contribution to the GDP calculation could be sustained.

Monetary Policy: The Fed meeting on interest rate policy this week remains the market's focus. The raw economic data is not strong enough or weak enough for a firm conclusion, leaving everyone running around dissecting individual words in speeches and examining the circumstances of past rate increases. The Fed seemed to show a great willingness to raise rates, and then the situation in China worsened. It's tough to justify a rate increase in the face of financial turmoil. The impact of a small trial rate increase on the economy would probably be minimal, while the market impact of a change is likely to be high.

The Back Page

"Are you ready to start investing or do you want to keep throwing your money away on food, clothing and shelter?"

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