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# QtrNotes

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## Quotes:

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.
*Winston Churchill*

Uncertainty buys you opportunity. Europe [after Brexit] is better valued than the US.
*Jeremy Siegel, Wharton School, University of Pennsylvania*

72% of eligible UK voters voted in the Brexit referendum. In the last 100 years, the highest percentage of eligible voters to cast ballots in a US presidential election was 63% – in 1960.
*CNBC*

16 of the last 18 presidential election years have produced a positive total return for the S&P 500 stock index. Since 1944, the only down election years were in 2000 and 2008.
*BTN Research*

## The US Seeks Stability . . .

Adjusted for inflation, the US economy grew just 1% in the first quarter, falling below the previous quarter's 1.4%. Both the US economy and corporate profits have been under pressure from a strong US dollar and relatively weak oil prices. The US economy is on a path of economic growth that remains sluggish, but continues to move in the right direction.

The unemployment rate has stayed extremely low at 4.7%, and new unemployment insurance claims continue to trend lower. Employment data is positive, and consumers' disposable income is now growing faster than inflation.

Strong household income bodes well for future consumption. Auto sales remain high, and demand for new single-family home construction is growing. Most signs and leading economic indicators suggest further expansion at a slow to moderate pace, although persistent worries over global recession have resurfaced in the aftermath of the Brexit vote.

| *Index* | *6/30/2016* | *YTD* |
|---|---|---|
| **Dow Industrials** | **17,929.99** | **2.9%** |
| **S&P 500 Index** | **2,098.86** | **2.7%** |
| **Russell 2000** | **1,151.92** | **1.4%** |
| **MSCI EAFE** | **1,608.45** | **-6.3%** |
| **Global Bond Index** | **483.04** | **9.0%** |
| **10-Year Treasury yld** | **1.49%** | |

## . . . While Brexit Brings Uncertainty

On June 23, 2016, the United Kingdom narrowly voted in favor of "Brexit", a referendum on whether or not to leave the European Union. The measure was generally expected to fail; the results shook global markets, and the consequences are still uncertain. The EU is a multi-national political, economic, and regulatory body, the most ambitious attempt in history to establish a borderless environment among different countries.

Britain has always been a reluctant participant in the European Union, maintaining a separate currency even as it participated in the open economic market. Their vote to exit has raised concerns that some of the remaining 27 countries may also leave the EU, or that the United Kingdom itself may break up, with Scotland and Northern Ireland leaving the UK and rejoining the EU.

What does all of this mean and what happens next? The whole world is trying to figure out the ramifications. A key strength of the European Union is its ability to foster trade among its members. Whether you operate your company in Spain or Belgium, whether you sell goods in France or Italy, everyone follows the same rules. Along with the common currency and elimination of customs and trade barriers, the single regulatory framework of the EU eases trade: banking regulations, technical standards, worksite safety guidelines, antitrust regulations, employment opportunities, accreditation, and much else are all standardized under the European Union. As Britain leaves the EU, they will have to negotiate new trade deals and agreements with their former fellow members.

While the world digested the initial reactions to Brexit, stock markets around the globe pulled back. The British pound crashed and the Euro declined. Fear and uncertainty led investors to sell risky assets, while money flowed into the perceived safety of US dollars and bonds. As of July 1, the yield on US treasuries had fallen to 1.38%, its all-time low, pushing bond prices higher. The US Federal Reserve is unlikely to raise interest rates in the near term. Given the uncertainty, global interest rates are likely to remain historically low.

Volatility has picked up, and we expect that portfolio values could see bigger than usual

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## Interest Rates

Interest rates remain at historically low levels, with more than $12 trillion of foreign bonds trading at negative interest rates. UK investors are receiving just 0.9% yields for 10-year loans to a government whose economic future is highly uncertain. Against this backdrop, a 1.5% interest rate on 10-year US treasury bonds sounds relatively appealing.

In this environment, the Federal Reserve is extremely cautious and may not raise rates at all this year. What this means for investors is that interest rates on bonds will be lower for longer. Bad news for savers, good news for borrowers. Low interest rates should boost stocks, as business benefits from low rates and cheap access to funding.

Considering refinancing your home? Interest rates are at all-time low, and now would be the time to lock in these low rates. Rates for 15-year and 30-year fixed mortgages have been as low as 2.75% and 3.5%, respectively.

## Brexit Brings Uncertainty

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swings over the next few weeks. In the long term, investors must keep events in perspective. In light of Brexit, the EU will undergo change, but Europe will remain an economic force in the global economy. We ask ourselves whether global trade will expand further in the years ahead, can European companies maintain operations, and will Europe as an economic region continue to grow in the years ahead.

We believe the answers to all of these questions are yes. This argues for maintaining a long-term perspective and an interest in owning global companies that operate all over the world. Companies in Europe will continue to operate profitably as will those in the US. Some British companies will actually benefit from this decision, while others will not. The same is true for companies here in the US and elsewhere.

Trade agreements have been ratified and undone many times in history: the beneficiaries of such changes are revealed over time as events unfold. Joining the European Union did not make Britain an important world power, nor will leaving the EU undo its economic contribution.

Turbulence abroad is not a reason to shun all foreign risk and accept more domestic risk. Maintaining global diversification remains important, and our ability to rebalance helps deal with these periods of stress.

## Long-Term Care Insurance

Long-term care (LTC) insurance is frequently thought of as nursing home care, but it can also cover home health care and assisted living. However, it is not cheap. Over the past several years, costs for policies have soared by 20-40%. While some retirees can self-insure or pay the new higher premiums, for many the cost is simply too high, especially in retirement. So what can you do to make LTC coverage affordable?

We view insurance as a risk management tool. If there is a risk that you or a healthy spouse will be impoverished by long-term care costs, then you should get the coverage.

Buy a policy which meets your basic risks. It may not cover 100% of nursing home expenses, but it could mitigate costs and preserve your nest egg. Paying nursing home costs is most challenging when one spouse remains healthy.

When premium cost is a concern, start by getting quotes for basic coverage. Here are some tips when seeking a lower-cost policy:

- Get LTC quotes when you are healthy, preferably in your fifties.
- Don't overinsure. Target the average cost of home health care (8 hours) or assisted living care in your area ($100-$150/day median cost in Miami).
- Choose a reasonable elimination period (at least 90 days) to lower premium cost.
- If necessary, buy a shorter benefit period (three or five years of coverage). The odds of needing the policy longer than that are low.
- Use a simple inflation rate of 3% to 5%, or a compounded rate of 3%.
- Get a shared policy with your spouse: shared policies buy a pool of benefits that can be split with your spouse and can provide more affordable coverage.

What is your risk of needing long-term care? In our experience, immediate nursing home care is a low probability event. The answer depends on your health, family history, and situation.

- You have about a one in three chance of buying coverage at age 60 and using your policy benefits.
- Half of all claims last more than one year. The average length of claims lasting more than a year is 3.9 years.
- 71% of claims start with home care, while only about 15% start with either assisted living or nursing home care.
- The average stay in a nursing home for both men and women is 2.6 years.
- Only 15 percent of claims last more than 5 years.

If you need long-term care insurance, an agent who is an LTC expert can help you consider various offerings. You can count on us to help you evaluate your options or select an agent.