HD
Wealth Strategies
An Independent Firm

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TOUCHSTONE

The Quarterly News from HD Wealth Strategies

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HD Wealth Strategies becomes a Registered Investment Advisor

We are proud to announce some exciting changes that will improve our ability to meet the high standards of client service that we all expect.

Recently, HD Wealth Strategies has become a Registered Investment Advisor ("RIA"). Since 2010, HD Wealth Strategies has operated under the corporate RIA of Raymond James Financial Services. The State of Colorado Department of Regulatory Agencies (DORA) has reviewed and approved our application to be an RIA.

This transition marks an exciting time for us and our clients as we will be able to grow and develop more in-house client services and resources. Becoming a Registered Investment Advisor simply aligns our long-held business principles with the structure of our firm. As an RIA, we have a fiduciary duty to our clients, which means we have an obligation to provide appropriate investment advice and always act in our clients' best interests.

We founded HD Wealth Strategies seven years ago with the vision that the investment and financial planning business could be more than the over-done concept created by retail investment chains. Developing deeper, more meaningful client relationships is more important than trying to attain as many accounts as possible. We take the time to get to know each of our clients on a personal level; we are able to understand goals and come up with solutions to problems.

Politicians' are currently debating whether advisors should be required to act in the best interest of their clients, as fiduciaries. Unfortunately, many individuals and firms in our industry are driven solely by commissions and product sales, the concept of being held to a fiduciary standard is seen as a substantial hurdle and ultimately an obstacle to profitability.

HD Wealth Strategies is committed to a fiduciary standard and transparent fee based relationships wherein the objectives of our clients are aligned with our focus and objectives. We are so incredibly thankful for the opportunity to work alongside our clients' as they reach their financial goals. This exciting improvement for HD Wealth Strategies is another success for our clients who put their trust in us.

Allie Schmidt
Financial Advisor,
CFP®, CPA

Is Forty the New Twenty?

Another Look at Asset Allocation

Allison Schmidt, CFP®, CPA

Historically, asset allocation was pretty straight forward: you had a portion in stocks for growth and a portion in bonds for stability, such as the popular 60/40 (60% stocks, 40% bonds). You rebalanced that once a year, and over the last 30 years, you would have returned about 8%*...not too shabby!

You were even able to avoid visiting the heart wrenching depths of the stock market bottoms in 2002 and 2009. Your portfolio during those times no doubt declined in value, but nothing compared to those taking on 90% or 100% stock exposure. But, times are different now. I would argue (and not many people disagree) that the next significant move for interest rates is up. (Bonds 101: if interest rates rise, bond prices fall. This scenario is the opposite of the last 30 years: interest rates dropped, so bond prices rose, contributing to your 60/40 return of 8%.) Interest rates are currently sitting close to historic lows. This fact magnified by our anticipation of higher than average inflation is why I'm recommending investors to take a closer look at the bond portion of their asset allocation and here's why:

One word, inflation. *It's baaaccckkk.*

Since 2009, we have averaged under 1.5%^ inflation per year, less than half of the historic average of around 3%^. Remember quantitative easing or QE? This was when the Federal Reserve tried to help jump start the economy as we were trying to emerge from the Great Recession, and unemployment was upward of 10%**. This program consisted of the Fed purchasing bonds from banks, with the intention of lowering the interest rate and putting more cash into circulation or increasing the money supply; however, with increased regulation and historically low interest rates, the banks didn't lend—they held onto the cash (shown with increasing M2). Banks' balance sheets just got bigger, and it's hard to blame them for not lending. It didn't make sense for the bank to take any risk on lending to anyone who had less than stellar credit at such low rates—they just weren't being paid to take the risk. Would you lend someone money, who has a less than perfect track record of paying back debts, for 30 years at 3%? No, probably not, but would you at 8%? You might consider it.

How does the money get into the system?

We think this could happen in a couple ways that could create almost the perfect increased inflation storm. The Fed has let us know that we will likely see about three rate hikes in 2017, so increasing interest rates... check. Potential deregulation...check. Both measures would encourage banks to lend. The White House has discussed increased infrastructure spending and possible reduction in individual/corporate tax rates, so people will have more cash to spend...check.

So, if inflation is coming and maybe coming more quickly than we thought six months ago, what do you do? From an asset allocation standpoint, we suggest simply consider owning things that inflate and minimize what does not, such as bonds and cash. The old 60/40 allocation is outdated and could be downright dangerous with impending rising rates, inflation, and how much longer everyone is living. We need our money to last and to keep its spending power. Reevaluate the 40% and take a look at other non-correlative assets that could provide the benefits that bonds once did, income & principal stability, both of which are at stake today.

Inflation is powerful and something you don't want to miss.

A cup of coffee that costs $2.50 today goes to $4 in a couple years, and there's not much chance it costs $2.50 ever again (even shown locally in the housing price increase in Colorado).

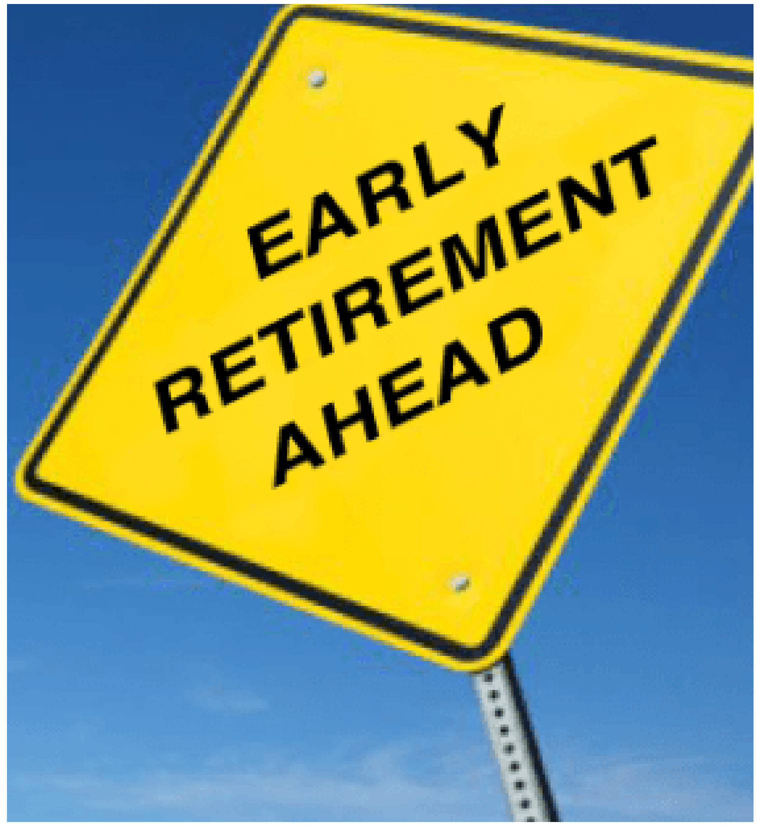
We're not in the business of predicting whether markets will go up or down over short-periods of time, so please don't confuse this with a market call. This is anticipating a longer term trend to be prepared for. Our goal is to help our clients focus on their financial goals, build portfolios that are well-diversified to weather market moves, give credence to economic realities, and prevent them from outliving their money. There is no question decreasing the predictability of a portfolio (bonds & cash) will increase volatility in your portfolio, both positive and negative. Be sure to meet with your financial advisor to discuss what is appropriate for you financially and emotionally. Investing and volatility can be a lot like riding a roller coaster—once you've started, it's never advisable to hop off in the middle.

For more in-depth analysis on this topic, such as historic inflation, M2, and the Federal Reserve graphs, please check out my partner, Steven Higgins's article *"**Inflated Expectations:** A Cause for Concern or Optimism"* on our blog at www.hdwscolorado.com/blog.

** 60% S&P500(TR) Index/40% Barclays U.S. Aggregate Bond Index*
*^ Source: CPI   ** Source: Bureau of Labor Statistics*
See Disclaimer Corner on back page.

Three Tips for Early Retirees

Allison Schmidt, CFP®, CPA



Thinking of retiring early? Here are a couple tips to help work towards the next chapter of your life successfully.

1. Pay Taxes on your Timeline: If you're in your late 50's/early 60's and have a dramatic decline in your taxable income due to an early retirement, you have several new options available to you in regards to how you look at paying taxes. You should strive to take advantage of the years you're in a lower tax bracket, and pay taxes on your earning timeline. It may make sense to actually create a taxable event (take cash out of IRAs/401ks) to take advantage of your lower taxable income in early retirement, prior to receiving social security or a pension. I'll agree it is a shift in thinking for most early retirees going from a "defer" mindset to "incur", considering the prior year, many were likely in the highest earning years of their lifetime and trying to defer paying taxes as possible. So, even if you don't necessarily need the increased cash flow think about either taking cash out of your Traditional IRA/401k (tax-deferred accounts) and putting into your non-retirement investment account or doing a Roth Conversion (after-tax accounts) to pay the tax today. You could pay up to 10% less in taxes overall by planning ahead and pulling income if you're in the 15% tax bracket, as opposed to the 25% tax bracket later in retirement.

2. Stay in the Game: It is tempting and used to even be a rule of thumb to dramatically reduce your stock or growth piece of your portfolio when you retire. The old adage went something along the lines of: your age should represent the percentage you have in bonds, so at age 30, 30% bonds/70% stocks and age 60, 60% bonds/40% stock and so on. However, we are now in somewhat of a new normal with bonds. This was created by record low interest rates and the inherent risk in bond prices is causing concern of principal decline when interest rates rise. This compiled with longevity (with many retirees now living in retirement for a couple decades as opposed to just a couple years) has caused us to take another look. Depending on your personal goals, needs, and risk tolerance, it may make sense to stay in the growth game and position your portfolio to keep up with the rising cost of living to be available for you not just today or tomorrow but 15, 20, even 25+ years from now.

3. Consider Part-Time Work: The major deterrent to early retirement is the addition of the early years that your portfolio will need to provide cash flow. Creating some cash flow from a part-time gig may allow you to delay pulling on your retirement assets, potentially allowing them to continue to grow. Compound interest, once coined the 8th wonder of the world by Albert Einstein, can be dramatic over just a couple years, especially if those years happen to coincide with a bull market. Additionally, you may be able to take advantage of different employer offered benefits, such as health insurance, 401k, or other employer sponsored plans that may offset some of your early retirement expenses. Sometimes the ability to retire earlier may simply lie in being open to supplementing income before social security or a pension with part-time work. For others, part-time work is a part of the retirement dream, being able to do something they enjoy. In addition to beaches, a cerveza or two, and a good book, part-time work doing something you enjoy could also add to your retirement happiness.

Traditional IRA account owners should consider the tax ramifications, age, and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation. See Disclaimer Corner on back page.

Steve Higgins
Principal,
Financial Advisor

What a Difference a Year Makes

Steven Higgins, Financial Advisor, Principal

Holy smokes! 2016, in contrast to 2015, was anything but boring.

It all started last January. The first trading day of 2016 saw the market roll over and play dead. We experienced one of the most significant stock corrections since 2008. Some stock indexes were down over 20%. With the year just beginning, many people were thinking that there was no hope for the rest of their year. Well, the markets started to dig their way out and by the end of March, the S&P 500 was capturing new highs. The summer started with little excitement and people seemed happy enough that the markets were slightly positive for the year.

As the “Brexit” vote neared it seemed likely that the vote to allow Parliament to begin the process of exiting the European Union was destined to fail. However, as the voting polls closed late in the evening on June 26th, it was clear that there was significantly more energy behind “Brexit” than previously thought. Over 33 million people voted in the referendum. 51.89% voted to leave the EU versus 48.11% who voted to stay.

Curiously, an hour after voting ended, the two top Google searches in the United Kingdom were “What is Brexit?” and “What is the European Union?” The markets were shocked. Here in the U.S. the S&P 500, a broad measure of U.S. stocks, dropped by over 5% in just two days. Within a week the market had recaptured all of those losses and began a trek to set new all time highs.

As Election day neared, we felt like there was a looming tension about to be relieved. There were so many strong things going on in this country that simply weren’t being talked about.

It seems everybody who was supposed to know anything was dead wrong about everything, late Tuesday night, when it appeared an upset was looming, DOW Industrial Average futures had dropped over 800 points! Donald Trump won the election and the stock markets went up. Some stocks were up more than others. To close out 2016, small cap stocks measured by the S&P 500 small cap index, gained 26%, while the S&P 500, a broad measure of large companies gained 12% while bonds as measured by the AGG had a slight gain of 2.41%.

When we look at the entire year of 2016 we see two very different stories from the beginning to the end with all kinds of drama in between. At the end of the day, balanced portfolios did reasonably well, especially with the beginning of the year taken into consideration.

All indices are unmanaged and may not be invested into directly.
See Disclaimer Corner on back page.

While investments remain the engine, it’s the quality of the strategy itself that is most important.

The advisors at HD Wealth Strategies are committed to being a firm that crafts strategies and manages investments to reach goals for our clients.

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Disclaimer Corner

The DOW Jones Industrial Average (DJIA) known as “The DOW” is an index representing 30 stocks of companies maintained and reviewed by the editors of The Wall Street Journal.