Investor Insights & Outlook

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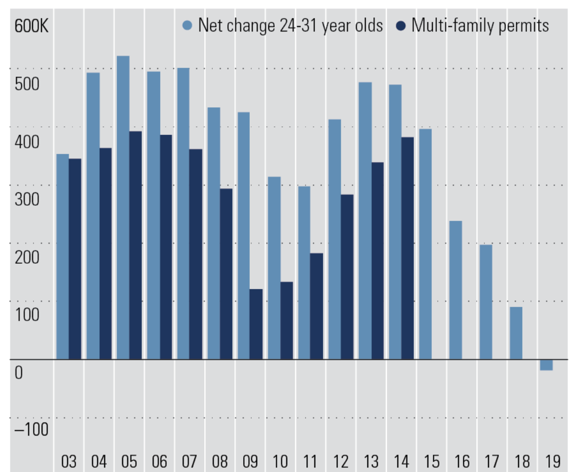
Aging Millennials Should Drive Up Single-Family Home Sales

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

Advisor Corner

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Cindy Menker, CFP™, CPA, MBA is President of Contour Financial, Inc. The firm, located in Orland Park IL, specializes in retirement planning and investment management. Tax planning, including tax preparation, is also offered.

Cindy is a member of the National Association of Personal Financial Advisors (NAPFA), the financial industry's leading organization.

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Employment Growth Remarkably Strong in May, Wages Push Higher

The U.S economy added 280,000 nonfarm payroll jobs in May, surpassing the consensus estimate of 220,000. Certainly there was some help from the addition of summer jobs in some industries, but generally it was a very strong and clean report. The jobs data also exceeded the 12-month average of about 255,000 jobs per month.

The job growth average for January through April was a mere 200,000 or so jobs added per month, well below the annual averages and a sharp falloff from a very strong autumn. Viewed on a year-over-year, averaged basis, the jobs market has been consistently strong since September 2014. The private sector employment rate has been growing at about a 2.6% rate. Adding in the lethargic government sector, nonfarm payrolls are expanding at a very healthy 2.3% rate.

Month-to-month wage progression was also robust at a 0.3% monthly rate (3.6% annualized) and some previous data was revised, perhaps confirming the overall strength of the jobs market. Though less dramatic, the year-over-year hourly wage growth rates also appear to be improving. Growth in hourly wages and the number of workers added are relatively similar at 2.6% and 2.2%, respectively. While the market always focuses on the jobs number, wage growth is nearly as important. At this stage of the recovery, hours worked provides little help to wage growth and that is the case again now. Combining all three factors, employees, wage rate, and hours worked, total wage growth has been little changed at about 5%.

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Options to Invest Cash

Investors with cash holdings want to invest them in something safe that will earn at least a little interest. Money markets and short-term bond funds are good places to start. Money markets come in two flavors: money-market accounts offered by banks and money-market funds offered by mutual fund companies. Bank money-market accounts are typically protected by the Federal Deposit Insurance Corporation, or FDIC, while money-market funds are not.

For a combination of safety and yield, an FDIC-insured online bank money-market account may be a good option, at least for now. That could change if and when interest rates rise, if such an increase would allow short-term bond funds to begin paying yields that are significantly higher than money-market yields. But given today's choice between a guaranteed rate of close to 1% and a nonguaranteed rate that's not much higher, the former appears to be a better option.

The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money. An investment in a money-market fund is not insured or guaranteed by the FDIC or any other government agency. Although money-market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in them. Bonds are subject to interest-rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to fluctuations in value due to changes in interest rates.

In-Retirement Withdrawal Strategies

The standard sequence for a tax-efficient portfolio drawdown is required minimum distributions first. Taxable accounts next, followed by Traditional IRAs and 401(k)s. Roth IRAs and 401(k)s last. The overarching thesis is to be sure to tap those accounts where you'll face a tax penalty for not doing so (RMDs) while hanging on to the benefits of tax-sheltered vehicles for as long as possible. Because Roth assets enjoy the biggest tax benefits--tax-free compounding and withdrawals--and may also be the most advantageous for heirs to receive upon your death, they generally go last in the withdrawal-sequencing queue.

That's a helpful starting point for sequencing retirement-portfolio withdrawals, and it goes without saying that you should always take your RMDs on time. That said it may be a mistake to always follow this strategy. The reason is that your tax picture will change from year to year based on your expenses, your available deductions, your investment performance, and your RMDs.

In order to keep your total tax outlay down during your retirement years, it may be worthwhile to maintain holdings in the three major tax categories throughout retirement: taxable, tax-deferred, and Roth. Armed with exposure to investments with those three types of tax treatment, retirees can consider withdrawal sequencing on a year-by-year basis, staying flexible about where they draw their income bases on their tax picture at large. They can help limit the pain of an otherwise high-tax year by favoring taxable and Roth distributions, for example, while giving preference to tax-deferred distributions in lower-tax years.

For example, in a year in which they have high medical deductions that push them into a lower tax bracket, they might actually give preference to withdrawals from their Traditional IRA accounts, even though they have plenty of taxable assets on hand, too. The reason is that it may be preferable to take the tax hit associated with that distribution when they're paying the lowest possible rate on that distribution. Moreover, aggressively tapping tax-deferred accounts like Traditional IRAs in low-tax years will mean that fewer assets will be left behind to be subject to RMDs.

On the flip side, in a high-tax year--for example, when RMDs are bigger than usual due to market appreciation--a retiree might reasonably turn to her Roth accounts for any additional income needed. Although those Roth assets usually go in the "save for later" column under the standard rules of withdrawal sequencing, those tax-free Roth withdrawals (versus, say, paying capital gains on distributions from a taxable account or paying ordinary income tax on tax-deferred withdrawals) may help the retiree avoid getting pushed into a higher tax bracket than would otherwise be the case.

401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. 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.

Monthly Market Commentary

This month, it seems that good news is bad news once again. A series of positive economic data (mainly stronger employment growth) lit up markets with fear that growth would rebound sharply in the summer months, just like in 2014, and that a better economic situation would likely push the Fed over the edge and force its first rate increase by September. Potential homebuyers are likely entering full panic mode as they scramble to get a deal done before that happens.

GDP: The first-quarter GDP growth rate was revised from a measly 0.2% to an outright decline of 0.7%. However, this decline was modestly better than the previous consensus forecast of a 1% contraction. Weather, port strikes, and a shifting energy market made a modestly slowing economy look worse than it really was. Second-quarter growth should look more like 2.5%–3%, as consumers rebound and net exports weigh less heavily on the data.

Employment: The U.S economy added 280,000 nonfarm payroll jobs in May, surpassing the consensus estimate of 220,000. Certainly there was some help from the addition of summer jobs in some industries, but generally it was a very strong and clean report. The jobs data also exceeded the 12-month average of about 255,000 jobs per month. And like so many other data points, it appears that the economy is coming off its weather and West Coast port issues that temporarily depressed a wide range of economic statistics.

The job growth average for January through April was a mere 200,000 or so jobs per month, well below the annual average and a sharp falloff from a very strong autumn. Viewed on a year-over-year average basis, the jobs market has been consistently strong since September 2014. Private-sector employment has been growing at a rate of about 2.6%. Adding in the lethargic government sector, nonfarm payrolls have been expanding at a very healthy 2.3% rate.

Wages: While the market always focuses on the jobs number, wage growth is nearly as important. Month-to-month wage progression was also robust at a 0.3% monthly rate (3.6% annualized) and the year-over-year hourly wage growth rates also appear to be improving, although in a less dramatic fashion.

Consumption and Savings: Monthly consumption data looked stagnant in April. Consumers are not spending all of their real income growth (which includes investment and rent income) or wage growth. Whenever that gap has become that wide in the past, there has been a combination of a downward revision to earnings and an acceleration in consumer spending. We saw this very pattern last summer. Morningstar economists don’t believe that consumers have become prolific savers. Instead, the more likely reason may be a physical inability to spend money (poor weather, lack of imported goods) and a mismatch of when the GDP report suggests consumers are spending their money and when those bills are actually paid. (February's nasty utility bills, which counted in February consumption reports, were likely paid in April, potentially dampening April retail sales and consumption reports, as well).

Housing: For a big change, all of the recent housing data showed a housing market that is accelerating across the board. Home price data, pending sales of existing homes, and new home sales all showed surprising strength and generally exceeded analysts’ expectations. An improving housing market is the linchpin to the economy maintaining its 2.0%–2.5% growth rate in 2015, even in the face of a decline in real GDP in the first quarter. A 3% direct impact on GDP may seem small, but if the sector can manage 15% overall growth, that would amount to a 0.5% contribution to GDP. While that may not sound like a lot, a 0.5% contribution in a world of 2.0%–2.5% growth is a big deal. (Housing's contribution in 2014 was a mere 0.1%.) Also, demographics will continue to keep a lid on growth that is still not fully appreciated by the market.

About Contour Financial

This newsletter is the link to a resource that will answer your most important financial question, namely:

- If employed – When can I retire?
- If not employed – Can I stay retired?

Contour Financial will answer this question, suggest alternative scenarios, if needed, and implement investment strategies in order to reach your objectives.

Customized strategies are developed and implemented. Personalized service is provided to clients. Investment, retirement, tax, estate, insurance, cash flow and education planning are all integral parts to the process.

Contour Financial is a private wealth management business located in Orland Park, Illinois. We work primarily with middle income and wealthy clients. As a fee-only firm, all compensation is disclosed. For clients seeking investment management by our firm, assets are held at Charles Schwab Institutional, an industry leader.

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