# The Light

Spring 2019

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## Risk, Return, and Market Volatility

*By Tim Rowsey, CPA, Investment Advisor Rep.*

One of the greatest challenges for investors is finding a comfort level in balancing risk and reward. Many people initially think that they want high rates of return until they experience significant declines instead of growth. Finding the most appropriate balance between risk and reward can be difficult.

The fourth quarter of 2018 was one of the times that could challenge an investor's resolve. During the fourth quarter the S & P 500 lost 13.9% and the Nasdaq lost 17.5%. The quarter was capped off by declines by all major indices of over 8.7% in December. For the S & P 500 the decline between Sept 20, 2018 and December 24, 2018 was even more dramatic. Over those 95 days the S & P lost just under 20%.

Many studies have been done that track the behavior of individual investors. Unfortunately, many investors make emotional investment decisions based on fear of loss. Many are also heavily influenced by the media. They tend to buy when stocks are in the news or markets are strong, and sell when markets have declined significantly or news is bad. This is exactly opposite of the "buy low, sell high" ideal.

Looking back at the financial crisis of 2008 and 2009 gives us another lesson from history. At this time the market dropped nearly 50% from its peak. During this extreme volatility many investors withdrew from equity holdings and went to cash. Several studies have shown that investors who stayed in the markets from June 2008 through the end of 2017 saw their account balances grow over 145%. This is nearly twice the average 70% return for those who moved out of stocks and into cash during the fourth quarter of 2008 or first quarter of 2009. Nearly a quarter of the investors who sold out of stocks during the downturn never got back into the market. They missed out on all of the recovery and gains in the following years.


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## Medicare Enrollment and Premium Costs

*By Chris Bevington, CPA, Investment Advisor Rep.*

Medicare is a federal Health insurance program for people age 65 and older, people of any age suffering permanent kidney failure, and for people with certain disabilities. Medicare is made up of four parts: 1) Part A- Hospital Insurance; 2) Part B- Medical Insurance; 3) Part C- Medicare Advantage Plans; and 4) Part D- Prescription Drug Insurance.

For individuals receiving Social Security, enrollment in Part A is automatic at age 65. In general, Part A is a pre-paid benefit, covered by payroll taxes paid during the wage-earning period. Medicare Part B is designed to help cover physician charges, outpatient hospital care, and various other medical expenses, not covered by Part A, as well as certain preventive care. When an individual signs up for Part A, he also automatically enrolls for Part B, unless he advises Social Security of his desire not to. An example of why an individual may decline initial Part B coverage, would be because of plans to continue working, and having group insurance coverage. To join a Medicare Advantage Plan, individuals must be enrolled in Medicare Part A and Part B. And finally, all Medicare eligible individuals may elect to purchase the prescription drug coverage offered by Medicare Part D.

For individuals who accept the automatic enrollment in Medicare Part B, coverage starts the first day of the month of their 65th birthday. If a person declines automatic enrollment at age 65, he will have another chance each year to sign up during the *"general enrollment period"* of January 1st through March 31st. Once enrolled, coverage begins the following July. However, monthly premiums increase 10% for each 12-month period individuals were eligible for, but did not enroll in Medicare Part B, except for the *"special enrollment period"* exception described below.

If an individual 65 or older is covered under a group health plan, either from his own or his spouse's current employer, and did not sign up for Part B at age 65, he will be eligible for a *"special enrollment period"* in which to sign up for Medicare Part B. This allows the individual to delay enrolling in Medicare Part B without having to wait for a general enrollment period, and without paying the 10% premium surcharge for late enrollment. This special enrollment period allows the individual to enroll in Medicare Part B at any time while covered under the group health plan. The individual would also be

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## *Risk (continued from page 1)*

The natural instinct of many investors at the end of 2018 might also have been to reduce risk and move to more conservative investments. This would have been the wrong response. As we know now, the first quarter of 2019 saw a remarkable recovery in the markets. Most of the market gains that were lost for the entire 2018 year were recovered by the end of February.

One thing that investors can do to battle the trend of the masses is to have a plan and stick to it. Investors who have a plan can focus on the long term and ignore the distractions of short term performance, media, and other negative influences. Having a long term plan helps take emotion out of the decision making process.

One tool that we utilize for clients as a part of the planning process is a risk analysis tool called Riskalyze. This can help prevent a client from making emotional decisions in a volatile market and lets the clients choose the level of return (or loss) with which they are comfortable. The tool assigns a numeric value between 1 and 99. Using this tool we can then align the clients' holdings with their risk tolerance.

If you have never used such a tool, we have a link at the bottom of our web site www.lightwealth.com that can be accessed to find your own risk level.

Diversification is another tip that can help investors hold to their long term plan in a volatile market. A balance of bonds, real estate, and even gold or precious metals as a part of a portfolio, can help mitigate the risk of a large market decline.

The risk that each individual is comfortable with ranges widely. That is why we believe it is important to set a long range plan up front, determine risk tolerance, and then let the market do its work for you. Ultimately, if these are all set properly, you will be able to have some peace of mind even through volatile markets. ■



## *Medicare (continued from page 1)*

able to enroll in Medicare Part B during an eight-month period that begins with the month his group health coverage ends, or the month employment ends, whichever comes first. If the individual does not enroll by the end of the eight-month period, he must then wait until the next general enrollment period, which begins January 1 of the following year. The individual also may be required to pay the higher premium, as described above.

So now that the general guidelines for Medicare enrollment have been covered, how are Medicare premium costs determined? As mentioned previously, assuming Medicare taxes were paid for a minimum of 40 quarters while working, there are no monthly premiums for Medicare Part A, as the premiums have already been "pre-paid" in the working years. Medicare Advantage Plans, also referred to as Medicare Part C, provide varying levels of services not covered by Parts A and B, and are only provided by private insurance companies. Insurance companies decide what services the plan covers, and as a result, monthly premiums vary from plan to plan, and from state to state.

For Part B Premiums, most people will pay the standard monthly premium of $135.50 in 2019. However, premiums are based on the modified adjusted gross income (MAGI) reported on your federal tax return from 2 years ago, and can be higher. If your MAGI, *(defined for Medicare premium purposes as total adjusted gross income plus tax-exempt interest income)*, is above $85K as an individual, or $170K for those married filing joint, you'll pay the standard premium amount, plus an extra Income Related Monthly Adjustment Amount (IRMAA) that is added to your premium. Refer to the chart below for details. Also note, for individuals filing married filing separate (MFS) returns, middle brackets are not available. This means a MFS taxpayer with a MAGI in excess of $85K would see their monthly premiums jump from $135.50 to a minimum of $433.40, with no breaks in between. If eligible for Medicare, make sure both spouses' MAGI is below the $85K threshold before considering MFS, or you could be in for an unexpected surprise in Medicare premiums, two years later.

Part D Prescription Drug Plan costs are somewhat a "hybrid" of Plan B and Plan C costs, and will depend on which prescription drug plan you choose, *(the average nationwide monthly premium for 2019 is $33.19)*, as well as your MAGI from two years prior. Refer to the chart below for details. Similar to Part B, there are late enrollment premium penalties for beneficiaries who do not enroll when first eligible (generally age 65).

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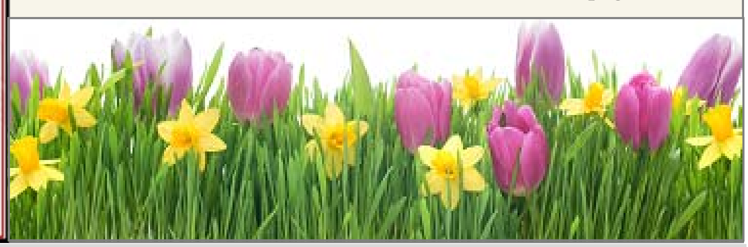


| If 2017 income (MAGI) was, 2019 monthly premiums will be: | | | Med Part B | |
|---|---|---|---|---|
| ***File Individual Return*** | ***File Joint Return*** | ***File MFS Tax Return*** | | **Med Part D** |
| $85,000 or less | $170,000 or less | $85,000 or less | **$135.50** | **Your Plan Premium** |
| $85,001 to $107,000 | $170,001 to $214,000 | *Brackets not available to MFS* | **$189.60** | **Premium +$12.40** |
| $107,001 to $133,500 | $214,001 to $267,000 | *Brackets not available to MFS* | **$270.90** | **Premium +$31.90** |
| $133,501 to $160,000 | $267,001 to $320,000 | *Brackets not available to MFS* | **$352.20** | **Premium +$51.40** |
| $160,001 to $500,000 | $320,001to $750,000 | *$85,001 to $415,000* | **$433.40** | **Premium +$70.90** |
| $500,001 or above | $750,001 and above | $415,001 and above | **$460.50** | **Premium +$77.40** |

For those receiving Social Security, enrollment in Medicare is typically automatic at age 65, although there can be exceptions as described above. For those applying for Social Security after age 65, be aware of the potential late enrollment penalties associated with Medicare premiums, and make sure to contact your Social Security Administration office, *(Mansfield- 888-491-1882; Wooster- 877-319-0729),* three months prior to your 65th birthday to enroll. Also, refer to the chart above to get an idea of how your taxable income levels may affect your premium costs. ■

# Market Recap

How the major indices performed in the 1st Quarter 2019

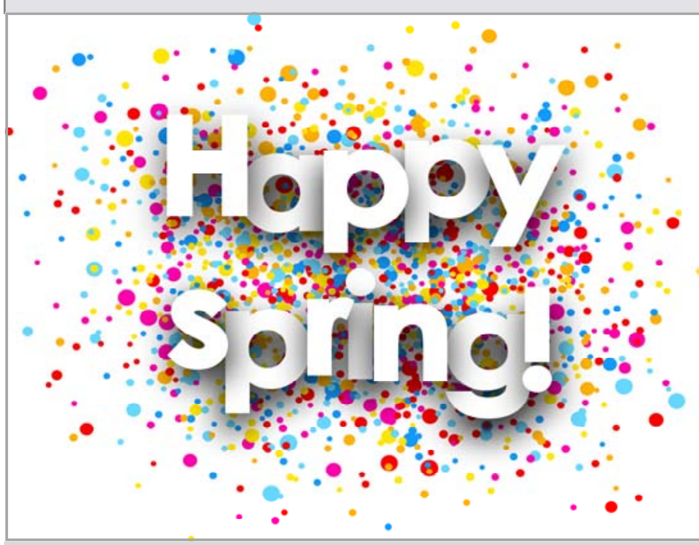
**DOW JONES INDUSTRIAL AVERAGE**
1st Quarter return 11.8% YTD return 11.8%

**S & P 500 COMPOSITE**
1st Quarter return 13.6% YTD return 13.6%

**RUSSELL 2000**
1st Quarter return 14.6% YTD return 14.6%

**BARCLAYS AGGREGATE BOND**
1st Quarter return 2.9% YTD return 2.9%

*All indices are reported Total Return which includes Dividends




# Market Update

*By Tim Rowsey, CPA*
*Investment Advisor Rep.*

**Equity Markets showed strong growth in the first quarter.**

Stocks saw significant increases in the first quarter with most indices recovering all of their prior year losses and posting additional gains. The S & P 500 grew 13.6% for this quarter. This index which was on the edge of a bear market in December is now back near its all-time high. The Dow Jones Industrial average also showed strong growth with an 11.8% return for the quarter.

**Bonds delivered nice gains for the quarter.**

The Barclays Aggregate Bond Index rose by 2.9% for the quarter. The Federal Reserve made a dramatic turn and the likelihood of rate increases in 2019 is almost eliminated. There is some concern over the inversion of the yield curve which may signal falling growth expectations. The possibility of a Fed rate decrease in 2019 is now at least a slim possibility.

**Equity growth is likely to slow in the second quarter.**

With double digit growth in the first quarter, some slowing of growth is likely in the second quarter. Historically large climbs in the S&P 500 have tended to reverse or slow in the quarter following a first quarter rally. The dramatic drop and recovery of the last two quarters are a reminder of the importance of having a plan and sticking to it through market volatility. ■

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