Traditions news from Traditions Wealth Advisors

Should Medicare, Social Security Issues Worry You?

By Ricardo Alfonso-Zaldivar

WASHINGTON—An unexpected weakening in the finances of Social Security and Medicare has raised concern about the bedrock programs of the middle class. The problems may only keep getting worse in a time of political tension and deep partisan divisions. Here are some of the questions and answers on an issue that ultimately will affect every American family and isn't going away:

WHAT'S NEW?

The government's annual Trustee's Reports on the programs shows the financial condition of both worsening significantly from last year. The projected insolvency for Social Security stayed unchanged-in 2034-but Medicare's moved three years closr, to 2026. A more immediate warning signal caught the eye of experts. Both programs will start tapping their reserves this year, meaning the income from payroll taxes and interest earned by Social Security and Medicare trust funds will no longer cover costs. The threshold was still a few years away in the 2017 checkup. "The near-term outlook in both programs got substantially worse," said Republican economist Charles Blahous, a former trustee helping to oversee program finances. "What is unusual in the space of one year is to go from something that isn't supposed to happen for four or five years to something that's happening right now. "As a result, the Social Security and Medicare will need a $416 billion transfer from the government's general revenues this year, when the federal deficit is shooting up from tax cuts and increased spending.

SHOULD WE BE WORRIED?

"Yes," said Leon Panetta, a Democratic elder statesman who held many government posts over a long career, from California congressman to White House budge director, defense secretary and CIA director. "What people have to worry about is that in a democracy we govern either by leadership or crisis," Panetta said. "What you are looking at right now is a situation where crisis is going to be the driving decisions. Rather than fixing it today, which is what we should be doing, we're simply going to postpone the day." Panetta is the co-chair of the Committee for a Responsible Federal Budget, a non partisan watchdog group.

WHY NOT WAIT?

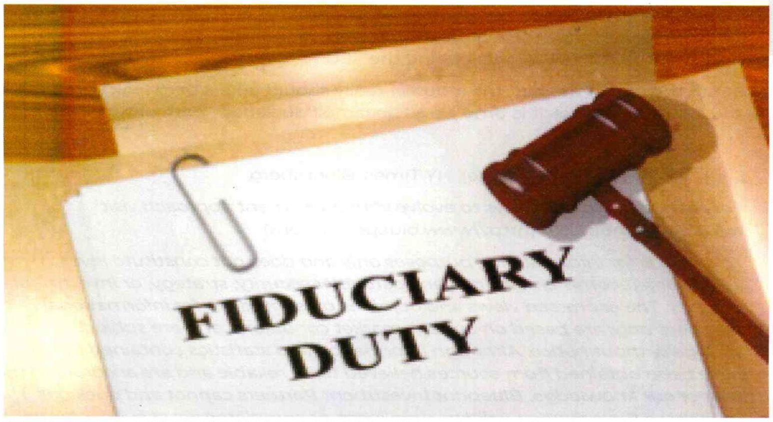
"A lot of people in Congress are focused on what's going to happen tomorrow, not what's going to happen in 2026," observes Rep. Frank Pallone, D-NJ. But waiting in the context of Social Security and Medicare inflicts more pain, leading to bigger tax increases, benefit cuts as high as 20 percent, or some combination of both as the programs slide deeper into the hole. Younger people, less likely to be following the debate, have the most to lose. Really the system is fine for older people; it's not fine for younger people," said Robert Bixby of the Concord Coalition, a nonpartisan group that advocates better control of federal budgeting. People under 50 are paying into a system that can't afford to pay them the benefit it's promising them, and I don't think they realize it. The more we delay reforms, the more sudden and draconian they would be, especially for younger people." **(continued on page 2)**

LOOK WHO'S HERE!

Jack Christopher Adams July 16, 2018

Proud grandparent's Brien and Kathy Smith

Parent's Kellie (TWA '99-"07)



Grow up and be a Fiduciary, Please!

TRADITIONS WEALTH ADVISORS HAS ALWAYS BEEN A FIDUCIARY

As you may recall, the industry authorities have avoided this issue for years. Former SEC Chair Mary Jo White took the stance that the SEC registered advisors were already acting as fiduciaries and really did not need a rule. This is of course complicated, because most of the issues are on the broker dealer side of the business which happens to be where most of the DOL Rules complaints and lawsuits came from. Oh, and by the way, the broker-dealers are self regulated by FINRA. Immediately in the aftermath, these firms have restored trading in retirement accounts and eliminated a number of policies designed to comply. It was argued the rules were bad for the small investors, but I really do not believe this was the motivating factor.

The good news is that the SRC finally voted in April to propose a package of rules that will focus on retail investors and be known as the "best interest" rule. Clever. This is classic, bureaucracy at its best,

mainly because in 2010, the Dodd-Frank Act authorized

the SEC to do just this. The Department of Labor rule was a deliberate work around for the SEC's lack of action, and ultimately was determined to be "regulatory overreach' by the courts.

What is important here is the weak inks in the investment advisory industry have been exposed. Investors are asking questions never before asked, and the standard of conduct has improved in response.

Investors should expect their advisor to act in their best interest as a fiduciary. In spite of the court ruling, I believe we have moved closer to that objective. Time, consistent investor demand, and perhaps some belated SEC actions, will move the needle even further I the years to come. We will have to wait and see if FINRA gets behind the SEC.

But the end of the day the industry really should take a hard look in the mirror and simply grow up!

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Core Medicare coverages which exist under current law should not be diminished for current or future beneficiaries," said Judith Stein, head of the Center for Medicare Advocacy, which provides legal help to beneficiaries. "Until we actually try to negotiate Medicare drug prices, we are spending billions of dollars a year that could be saved for the program."

WHERE DO TRUMP AND LAWMAKERS STAND?

President Trump promised not to cut Social Security or Medicare, and Treasury Secretary Steven Mnuchin recently suggested that tax cuts, rolling back regulations, and better trade agreements could boost economic growth and help stabilize the programs. But nonpartisan government experts who produced the annual Social Security assessment don't seem to be buying that, forecasting "sustained moderate

economic growth."

Republicans in Congress are losing their most prominent advocate for overhauling benefit programs with the retirement of House Speaker Paul Ryan of Wisconsin. Their budget credibility is seen as damaged after passing major tax cuts and spending increases.

Democrats want to expand social programs, not pare them back. Problem-solving is becoming a lost skill in Washington, said economist Douglas Holtz-Eakin.

"There used to be a playbook where the White House provided leadership and gave air cover to Congress to do hard things, so members could go home and defend their votes," Holtz-Eakin said.

"Maybe such a strategy is being hatched behind closed doors at the White House," he said, but "to date, there is no evidence."

If you have questions concerning this or any article in this newsletter, contact TWA at 979-694-9100

Macroeconomic & Financial Market Updates

By Brien L. Smith, CFP®/Owner and Brian Prescott, Financial Analyst Intern

Traditions Wealth Advisors

For the last decade the United States stock market has experienced unparalleled levels of calmness. That was until the early days of February when that peace was disrupted. This disruption can largely be attributed to a surprise increase in inflation and Federal Reserve interest rate increases. Nonetheless, financial markets quickly absorbed the new information and prices stabilized. However, as 2018 has progressed two problematic topics have dominated headlines, the US-China Trade War and the Yield Curve.

The stock and bond markets hate many things, however, the thing hated above all is uncertainty. They hate uncertainty in future prices, future policy, and future economic conditions. It is this uncertainty that can cause prices to fluctuate drastically. This brings us to the US-China Trade War which economists nationwide predominately agree; is not good. The biggest reason is that it will not only produce uncertainty in future policy, but also in future prices. Investors in the market do not know the extent that companies will be affected or how long the trade war will last. To date the price fluctuations associated with our trade war news has been minor but notable. However, if the trade war fully escalates then greater price fluctuations should be expected. Fortunately, that is a big if. But, should it come to fruition the prevailing expectation is that nobody will win the trade war, and American consumers will be the most damaged.

Additionally, another persistent headline this year has been the tightening of the interest rate yield curve. In other words, the interest rates between short-term and long-term bonds are almost equal. This is of great importance since historically when long-term interest rates are less than short-term rates a recession usually follows. However, just because the rates are almost equal does not mean that a recession is impending immediately. During the late 1960's, late 1980's and late 1990's the economy saw interest rates tighten but then stay at those levels for many years of growth. This tightening is merely a signal that the economy is shifting but not that the expansion is over. Moreover, all recessions are not created equal and even if long-term interest rates drop below short-term rates it does not mean the next Great Recession will be upon us.

It is evident that the financial markets and economy have shifted into a mid-late expansion phase, possibly even a pure late expansion phase. Historically, surges in technology stock returns have implied a complete shift into the late expansion phase. At the time of this newsletter Facebook, Apple, Amazon, Netflix, Google, and Microsoft stock returns accounted for 4.31% of the S&P 500's 4.97% return. In other words, six technology companies are carrying the S&P 500 index. Additionally, another good predictor of our current expansion phase is the unemployment rate. Which given our current incredibly low rate of 4% further implies a shift into the pure late expansion phase.

Therefore, we can infer that perhaps the markets are in a pure late expansion phase. Does this mean the we are about to hit a recession? The short answer is, not necessarily. Just because our expansion has lasted a long time does not imply that an immediate recession is more probable. Recessions do not happen on their own, they need a spark. It is true that the spark could be a trade war or interest rates. However, it is equally true that these could be minor bumps on the road to continued years of strong growth. Thus, recession predictions should be taken with a grain of salt and examined carefully.

Meet the Interns

Raoul Bascon –Financial Computing Intern

I am a graduate student pursuing a Masters in Financial Management at Texas A&M University through the Trade Risk and Investment Program (TRIP). Born in Dallas and raised in New Braunfels, I'm a true Texan but call any place with a Catholic Church home. You can find me meditating on Scripture in the morning and enjoying life with my friends in the evening after a good day's work. I chase after the Truth in the hopes that I will one day meet Him. An avid runner, I'm on track to run 1000 miles in 2018 and run a marathon in under 4 hours in 2019. I love spending time with God, my family, my friends and the outdoors. Long term, I hope to be a good father, loving my family, living in the Texas Hill Country and working as a trader at a financial institution.

Spencer Fredericks-Financial Analyst Intern

I am a Senior Finance major at Texas A&M and I'll be graduating in May of 2019. I hope to move onto a career in investment analysis or financial management once I graduate and potentially get am MBA or master's degree in finance after working in the field for a few years. I took part in a semester-long exchange program in Jonkoping, Sweden n the fall of 2017 which inspired me to want to travel more and eventually work internationally, if I have a chance. In Sweden, I joined the university rowing association, and at A & M I've been involved in several organizations including a freshman leadership organization for two years and A & M's Financial Management Association. Outside of school and work, I enjoy biking, playing disc golf, playing pool and just spending time outdoors with friends.

Brian Prescott-Financial Analyst Intern

I am a Senior Economics major and Mathematics-minor from San Antonio. I will be graduating in May of 2019 and plan on pursuing my education in economics. Eventually, I hope to earn a PhD in Finance academia due to my passion for economic research and ever growing interest in the financial markets. When I am not conducting research or studying, some thing I enjoy doing are hiking, watching documentaries, reading and playing racquetball. Additionally, I am also a member of the Aggie Investment Club as well as a tutor for Texas A&M student athletes in economics and econometrics courses.

Marissa Heffley -Accounting Intern

I am currently a senior in the Professional Program of Accounting (PPA) at Texas A&M and will graduate in May of 2020 with a Bachelor's degree in Accounting and a Master's degree in Management Information Systems. Post graduation, I hope to work in PricewaterhouseCoopers' assurance division and eventually transition in forensic accounting. In my free time, I enjoy spending time at the lake with my family, watching cheesy rom-coms and playing volleyball, soccer or basketball. My ideal day would be spent on the water paddle boarding, or Kayaking and would end with an eno, book and good conversation. If not near the water, a fun day riding roller coasters at Six Flags would be a great alternative. Most importantly, I am a firm believer in the power of positivity, kindness and laughter. "Unexpected kindness is the most powerful, least costly, and most underrated agent of human challenge."-- Bob Kerrey