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4th Quarter 2015

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Inheritan$e

70% of wealth lost at second generation, 90% at third

In August we ran across several studies that found 70% of wealth is extinguished before the second generation and another study that found some 90% of wealth may be lost by the third generation. After posting a brief article on www.street-cents.com that was one of our most popular of the year, we decided to expand further. (Our recent Millennial articles, study and introductions also garnered greater interest in the above statistics.)

(see **Inheritan$e,** Page 2)

INSIDE:

Oil and energy: friend or foe?

Energy our lowered price friend

Airlines, heavy energy consuming companies and vacationers are all cheering the lower price of oil, which tumbled dramatically in the fall of 2014.

Lower energy prices act as a wage increase for most as in some way a lowered price of energy helps as a "consumer."

(see **Oil and energy,** Page 4)

Filing an insurance claim is not always a good idea

One of the main reasons for having insurance is to offset risk, especially major risks and losses. We pay many insurance premiums throughout our lives to various carriers for a multitude of different risks. When a possible claim occurs, an initial thought might be "I am finally cashing in on some of those premiums!"

You might want to think twice before filing that claim, though.

Not only do you want to consider strategizing before filing your possible claim, you might want to hold off on even calling your insurance company. The premiums paid in our lifetimes reflect an amortization of the possibility of the risk occurring. The greater the risk, the greater the premium. If you are a constant "claimer," your premiums will

(see **No claim,** Page 3)

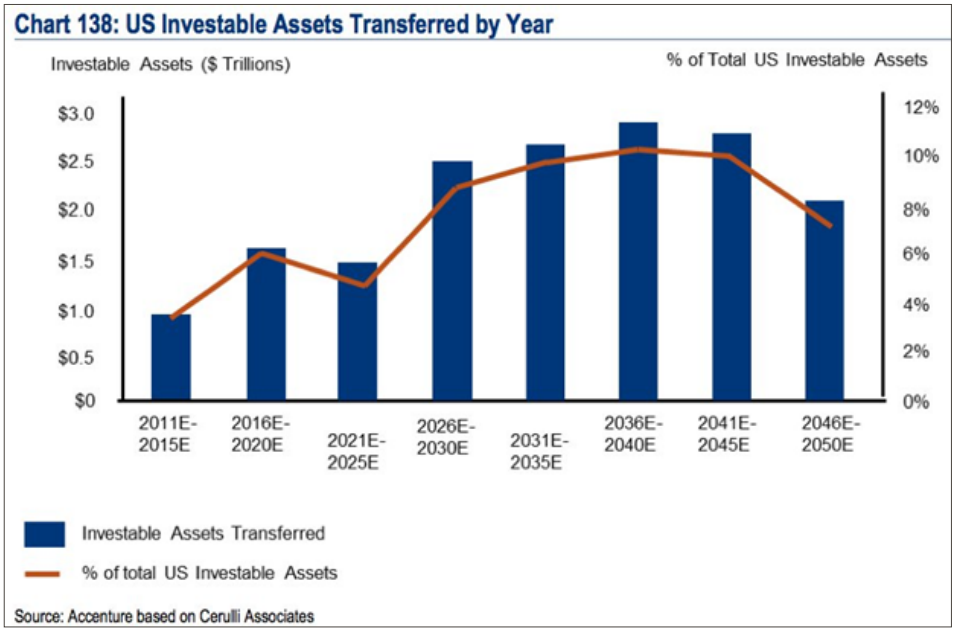
Inheritan$e

Baby boomers once again have once-in-a-lifetime affect

(continued from Page 1)

Just how could this happen?

Before we attempt to answer why this is happening we wanted to review a few statistics on just how much wealth will be transferring as the baby boomers begin once again dramatically changing economics and commence a once-in-a-generation transfer of some $30 trillion.



Peaking in the 2036-2040 time frame, according to this Accenture study, the total transfer of wealth is well over $30 trillion. While not an exact science, as future tax rates, medical expenses and economic growth can change these estimates dramatically, it is safe to say the baby boomers will once again have a once-in-a-generation affect as their wealth begins to move to the next generation.

Clearly there is a massive amount of wealth on the move in the next few decades; so why, if history repeats, will this wealth be chopped down by 70% by the next generation? We have a few ideas.

Keeping up with the Jones? Behavior

Watch any commercial and it essentially says "We deserve this," buy it now and pay for it later. This is a change from the afore mentioned baby boomer generation which in many cases were not fond of credit or even offered credit.

As mentioned in our previous writings Millennials have spent heavily and correctly on their education, which somewhat skews the chart (bottom right) by the Federal Reserve. After the great recession of 07-09, consumers de- levered (sometimes were forced to) as the chart shows. There may be continued keeping up with the Jones' going on again as the chart shows- high on right.

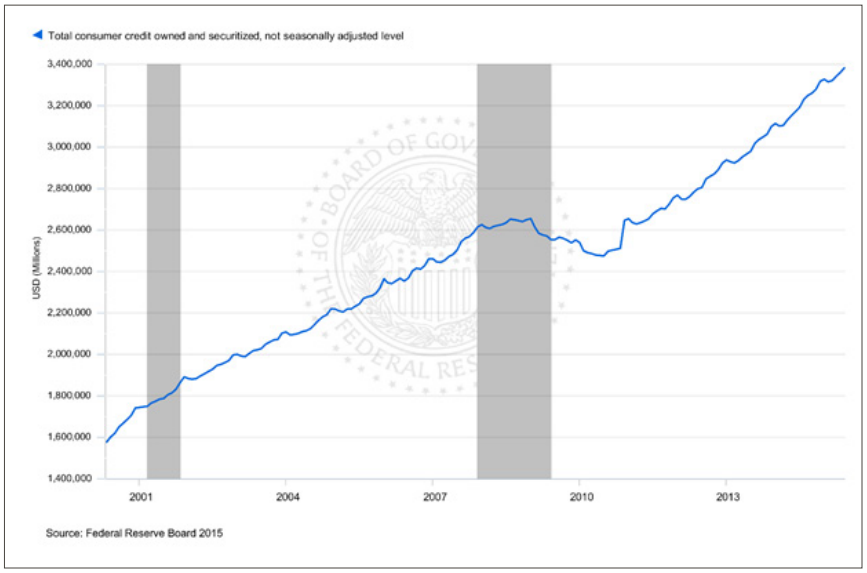
Planning Mistakes?

There have been and will continue to be instances where bad planning allows for capital to be overly taxed, unnecessarily captured by state or local governments and of course rising medical costs. While these are less behavior and more structural, a drag on the transfer not only from generation one to two, but the following generation may occur. If we as financial planners are doing our jobs correctly, this will be minimal but can exist no matter.

So what is the solution?

Oddly, an understanding that this large wealth transfer loss has occurred in the past, in our minds is the beginning

(see **Inheritan$e,** Page 3)



No claim for minor repairs saves in long term

(continued from Page 1)

reflect this. So it all comes down to whether it's worth it to file a claim in the long run. Take time to consider your options.

Do you have a CLUE?

Various carriers have been known to treat calls as a claim without the insured's knowledge. Comprehensive Loss Underwriting Exchange, CLUE, is a database that keeps records of claims. LexisNexis offers a handy service that allows easy research of five years of claims data. It can be an informative service to a homebuyer but it's not a database you want to land on accidentally by making an inquisitive phone call.

The easiest defense against this problem is to know your coverages and your deductible amounts. With the knowledge of what your insurance covers and the amount (i.e. ring, roof or fender) you can be better armed with the power to make your own decisions and not put yourself in a possible accidental or unworthy claim.

Speaking of deductibles, if at all possible, carrying a high deductible will likely save you money over the long term. Most insurances can be looked at as a defense for a major event. Not reaching to your insurance to cover minor or lower-cost repairs or replacements can be a good defense against higher long-term premiums. If you are a claimer with lower deductibles, you're more likely to have higher than necessary premiums in your lifetime.

One important planning tip is that it is critical to have adequate emergency funds available to cover all of your deductibles.

Some examples of NOT filing a claim

The easiest example is a car accident that is just barely over your deductible. It is likely that a $1,500 or even $2,000 claim against a deductible of $1,000, through eventual higher insurance premiums, may quickly turn your claim into a negative financial transaction over the longer period of time. Thinking of your premiums again as an amortization of your claims can help you determine if you should file a claim or not.

Filing a claim against an asset that has been depreciated in coverage to a small dollar amount may not only hit your CLUE report but could also result in higher immediate premiums — plus put you on the list for being dropped should you have several other claims in a short period of time. If you are dropped by a carrier, your new carrier with this knowledge may adjust your new premiums accordingly, as a higher risk. Some carriers may not even offer coverage to someone who has been dropped.

Say you accidentally lost a cherished ring. Your deductible is $1,000 and you think the ring is worth $3,000 but you have not had it appraised, did not itemize it on your policy and have no way of proving the value. It is highly likely you will get little, if any, by claiming this loss — and your file will be marked with a claim.

So when should you file a claim?

There are absolutely times when it's advisable to file an insurance claim. For example, automobile accidents that involve an injury, personal liability or severe damage to another vehicle, even if your car was not harmed, are cause to pick up the phone and bring your insurance company up to speed with the situation. Tell your story first, directly to your carrier, in order to protect yourself and arm your carrier with as much information to help defend in the situation.

Catastrophic damage to your asset is clearly cause for notification and in most cases, the sooner the better. Major geographic damage often causes a large backlog of claims all at once, making it better to be at the front of the line.

Lastly, another money saving tip, if you decide to pay out of your pocket for your repair or replacement, be sure to let the service company know this. There are often different prices for insurance-related and out of pocket services.

Inheritan$e: Knowledge gives all best path

(continued from Page 2)

of the solution. **No one wants to be in the 70% that does not transfer to the next generation** and the knowledge of this historical occurrence gives everyone a runway of what not to do.

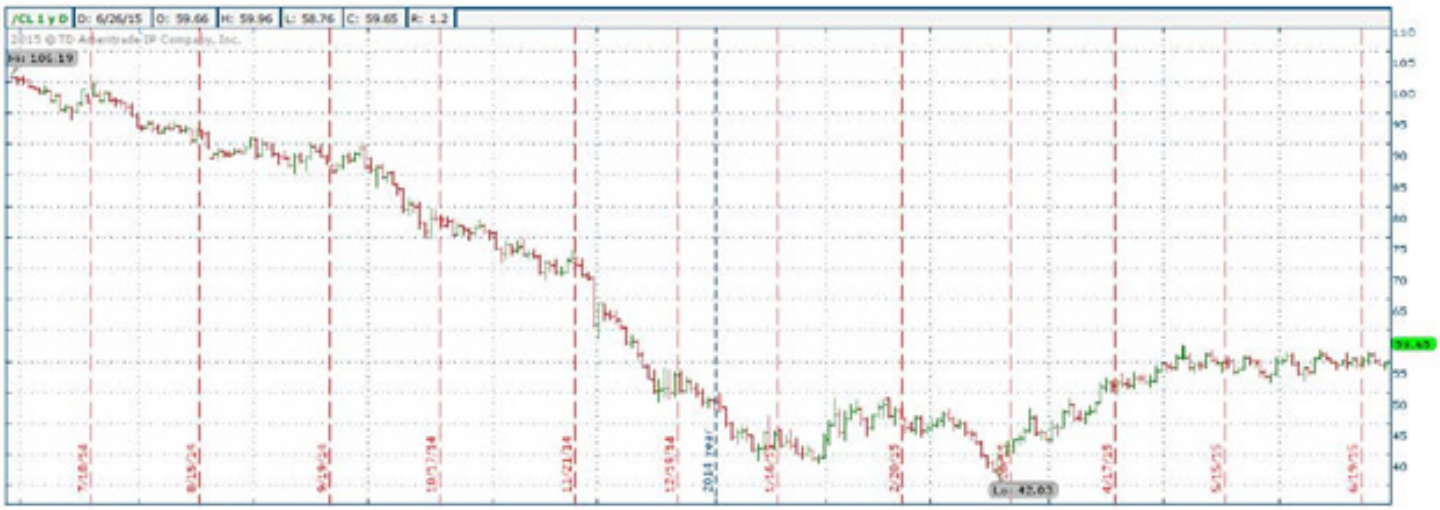
Communication with the next generation is also helpful. One of our most positive events this year was the meeting of many next generations. The conversations have been terrific and the meetings rewarding. The offer is still open to visit with any of the next generations.

Looking back after the next several decades, our bet is these types of statistics will turn dramatically in the opposite direction as more be-

Oil and energy

Investor: lower oil, gas prices more of a foe

(continued from Page 1)



This, the spot futures contract for crude oil, shows the roller coaster ride from $107 a barrel to $42 and back to $59.

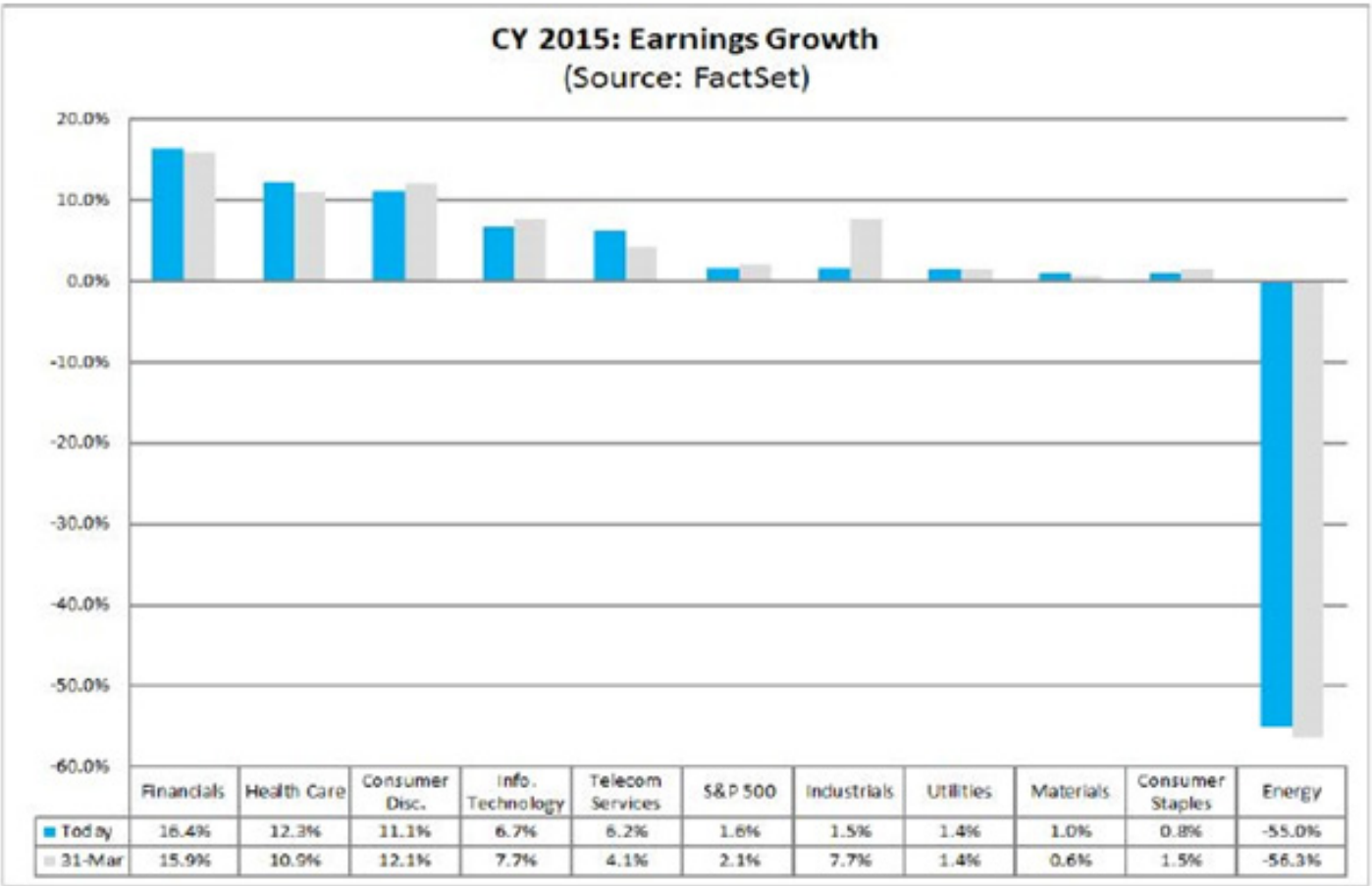
From Thomas Miller of OilPrice.com:

"It is estimated that for every penny gas goes down, consumers collectively save $1 billion. Therefore, the 2014/2015 drop has accounted for at least $50 billion in your pocket and mine."

As an investor or worker in the oil and energy field, more of a foe.

Energy has made up a great deal of the drop in

(see **Oil and energy,** Page 5)



	Financials	Health Care	Consumer Disc.	Info. Technology	Telecom Services	S&P 500	Industrials	Utilities	Materials	Consumer Staples	Energy
Today	16.4%	12.3%	11.1%	6.7%	6.2%	1.6%	1.5%	1.4%	1.0%	0.8%	-55.0%
31-Mar	15.9%	10.9%	12.1%	7.7%	4.1%	2.1%	7.7%	1.4%	0.6%	1.5%	-56.3%

Oil and energy

Investor: friend next year?

(continued from Page 4)

earnings for the entire market as a whole. Just as vertical drilling and the various Shoal plays came on line strong, the price as noted above dropped like a rock.

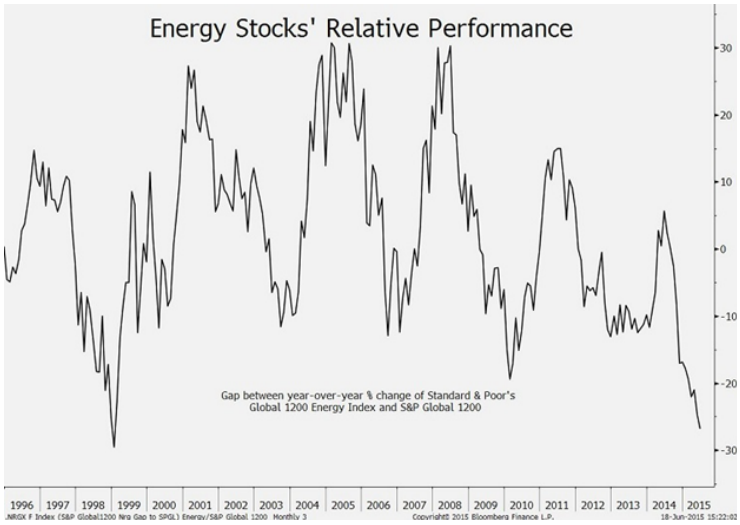
According to Factset, the Energy sector alone will mount a stunning >50% loss of earnings for the year 2015. If the E (earnings) drops, we would expect the price to follow as well.

Markets have noticed the E (earnings) portion of the energy arena and taken almost all energy related investments out to the woodshed for a major beating. Energy stocks and the sector as a whole have not been this out of favor/cheap/beaten up since 1998 (17 years!)

Good value: diamond or rock?

Energy and oil related: friend again

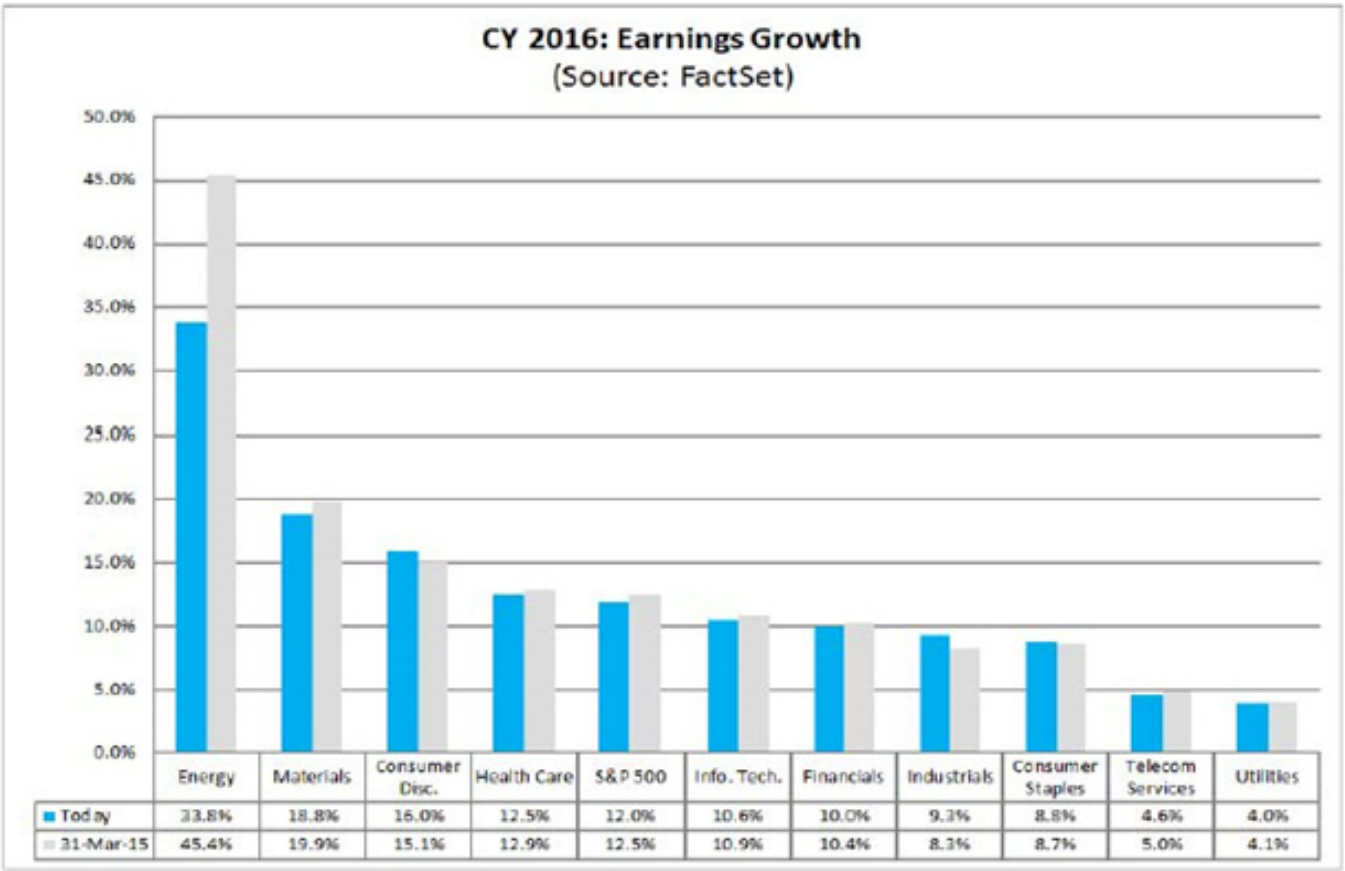
So as a consumer we are happy but greatly overshadowed if we invest, work or have any related dealings with the energy area.



Hold on, not all is lost---

As of now, which could of course change in the future, energy becomes a diamond next year (see chart below- energy biggest grower?), and, if true will very much be our friend as an investor while tempering our enthusiasm as a consumer.

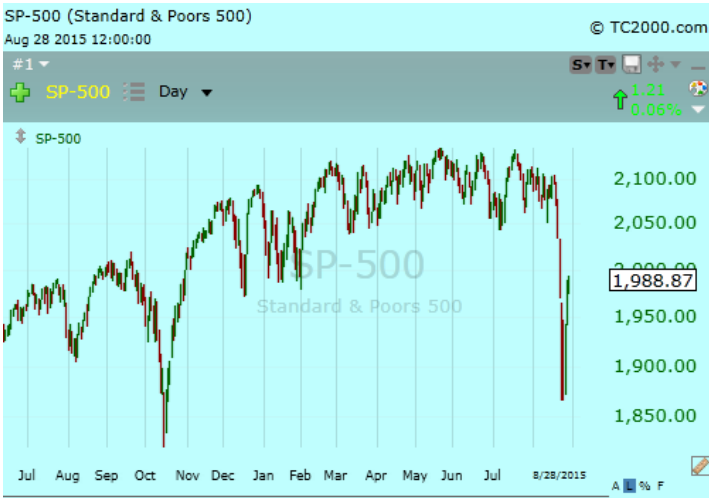
Another reason to never go "all in" or "all out" at any time as an investor!



	Energy	Materials	Consumer Disc.	Health Care	S&P 500	Info. Tech.	Financials	Industrials	Consumer Staples	Telecom Services	Utilities
Today	33.8%	18.8%	16.0%	12.5%	12.0%	10.6%	10.0%	9.3%	8.8%	4.6%	4.0%
31-Mar-15	45.4%	19.9%	15.1%	12.9%	12.5%	10.9%	10.4%	8.3%	8.7%	5.0%	4.1%

Market update

Heightened risk; jumpy and divergent -rate sensitive

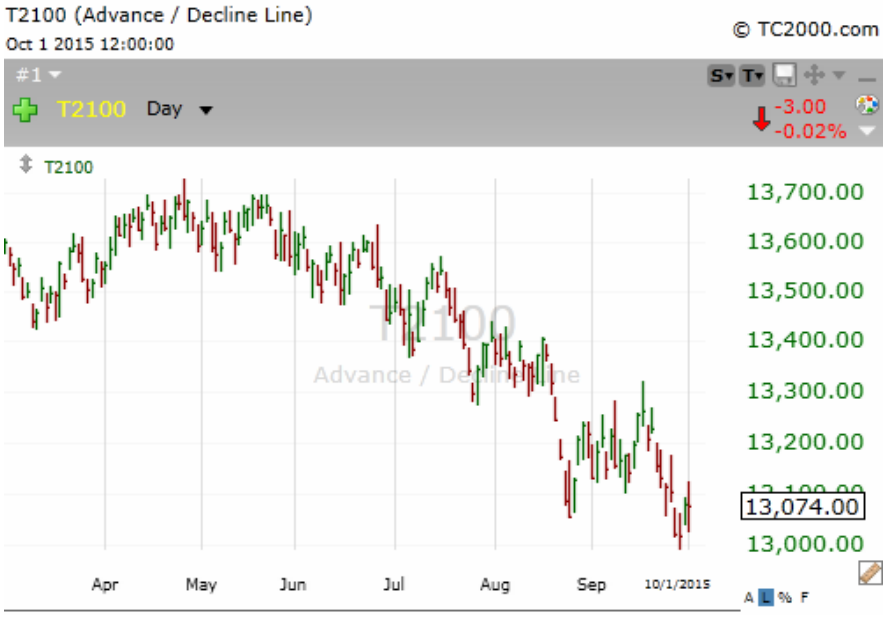


In late August, the indexes suddenly dropped again. While there were various reasons (excuses), the speed of the drop was even faster than the October 2014 drop - Flash Crash mini.

Like Pavlov's dog, investors are being trained that all will end well and buying the dips is safe. This of course works well - until it doesn't !

Respect is an important part of the capital markets, without it, history has shown things end badly.

Healthy markets move in tandem from all different asset classes without divergences. Late in the business cycle, factors begin appearing that show a narrowing affect.



The second graph shows the advancing issues less the declining issues on the NYSE. This graph reached its peak several quarters ago.

Not until this most recent quarter's decline, the S&P 500 (third graph) continued to hit new highs, while the underlying participants, represented by the (second graph) Advance Decline line fell. Again, not healthy but this can be corrected with a broadening of participation. Most recently, this index is being drawn down with the crowd of stocks.

(see **Market update**, Page 7)

Market update Final quarter historically best

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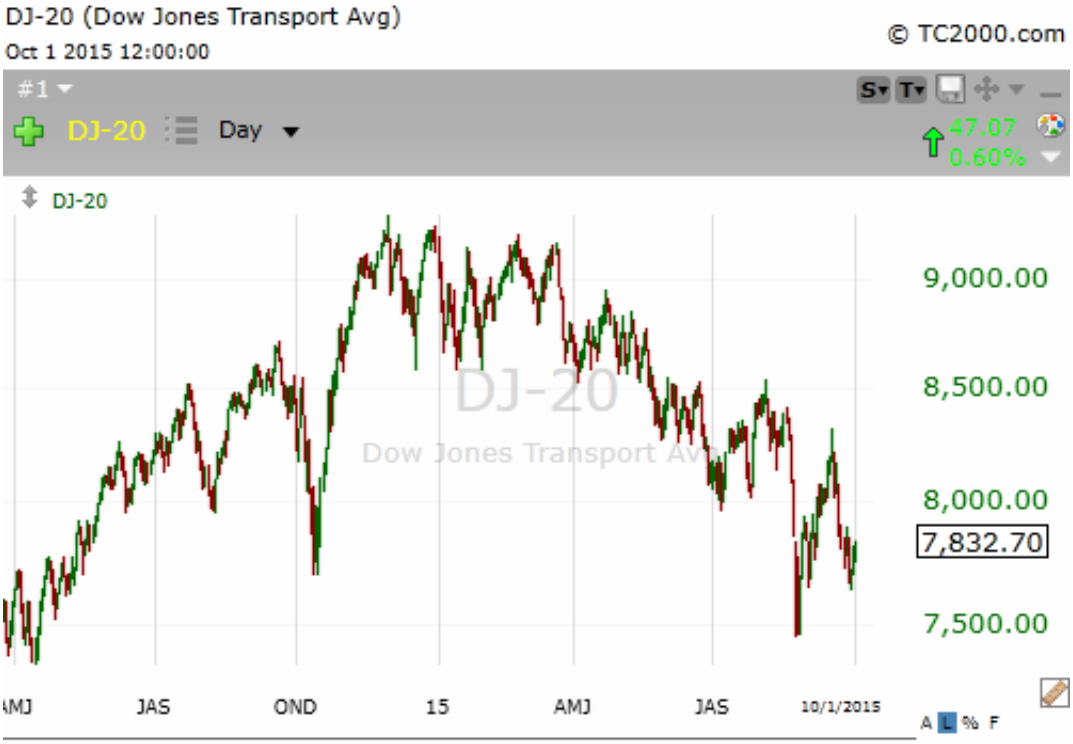

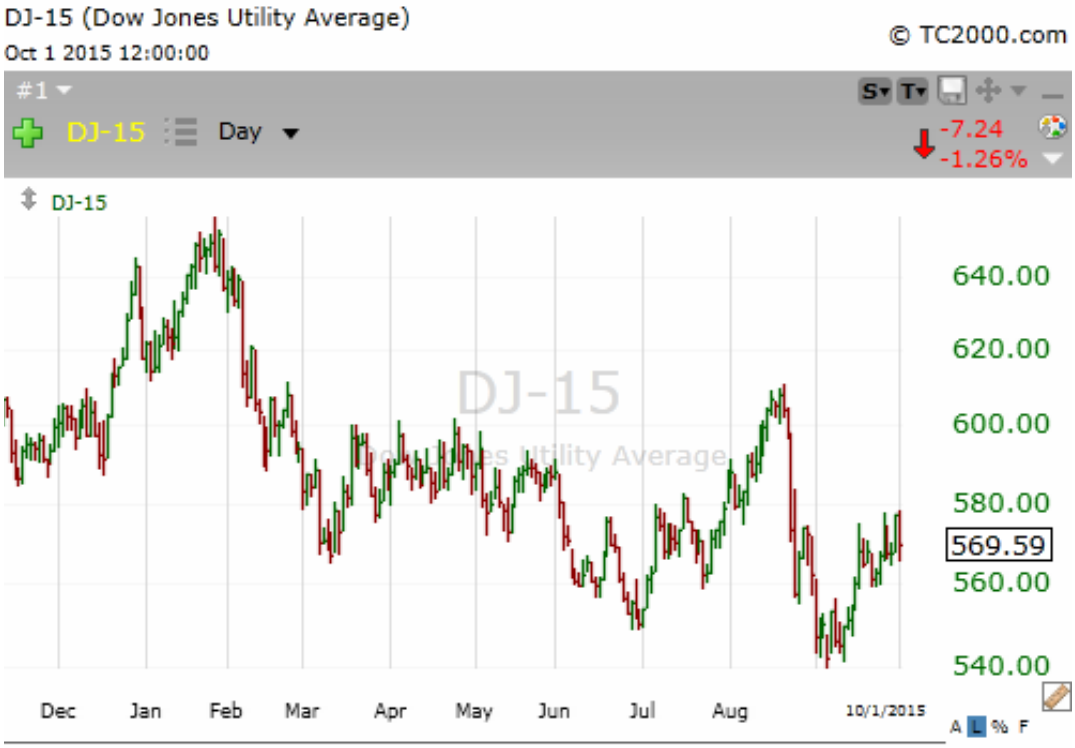

As mentioned before, healthy markets participate in tandem. The first graph on this page is of the Dow Transportation average which peaked in January 2015 and has been unable to find its footing, even with lower oil prices, which should be a tailwind.

While the Utility Average second graph, this page is less important today than in the past, it unfortunately confirms its sibling indexes in peaking earlier this year. Utilities face headwinds as rates rise but do offer another "canary in the coal mine" warning.

Markets will hopefully broaden and sibling indexes will join the party, especially with the final quarter of the year being one of the best, from a historical perspective. If they do not, we would expect further headwinds and volatility. For now we are watching this close.

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A few parting thoughts for you...

This year's holiday party marks a very special 20th anniversary of parties. A kid's educational themed party is scheduled at the Frontiers of Flight Museum **ON NOVEMBER 22, 2015 - THE SUNDAY BEFORE Thanksgiving from 2-4 p.m.** Please mark your calendars and note the different date.

Right on que the capital markets hiccupped during the seasonally weak period of late September and October. The final quarter historically is the best.

After the interesting finds on Inheritance statistics and the popularity of the initial post on street-cents, we look forward to bringing more insights into this and hope you enjoyed our initial article.

We all know to have a "CLUE" on when NOT to file and insurance claim, thanks to our initial credit.com article.

Have a great start to fall !

Dates:

Nov. 22 - J.K. Financial, Inc Holiday Party, 2-4 p.m., Flight Museum

Nov. 26 - Thanksgiving Holiday

Dec. 25 - Christmas Day