The Centurion Counselor
Fourth Quarter 2015

UNDERVALUED SECTORS
(CONSIDER!)
- CONSUMER DEFENSIVE
- NATURAL GAS
- AEROSPACE/DEFENSE
- SMALL CAP VALUE

OVERVALUED SECTORS
(AVOID!)
- HEAVY EQUIPMENT
- EMERGING MARKETS
- ASIA
- JUNK BONDS

Rug Pulled From Under Boomers

Recent changes to Social Security can have a big impact on two-income couples. New federal rules dramatically alter the strategies two-income couples may deploy to maximize Social Security spousal benefits. Among the most significant changes in the federal Bipartisan Budget Act of 2015 was the elimination of the file-and-suspend strategy. In addition, retirees will only receive either their own benefit or their spousal benefit, whichever is greater. Retirees will no longer be able to receive only spousal benefits first and then switch to their own retirement benefits at a future date.

Similarly, divorced people will only be able to collect their benefit(s) based on their ex-spouse's record, whichever is greater. Like spousal benefits, current rules let divorced people collect ex-spousal benefits while allowing their own benefits to grow until age 70. Widows should not be affected, and can still claim reduced survivors benefits starting at age 60 before collecting benefits based on their own work history.

Under the old rules, when a spouse reached full retirement age, typically 66, he or she could file for Social Security benefit eligibility. By doing so, the other spouse could start receiving spousal benefits equal to 50% of the applying spouse’s retirement benefit. At the same time, the spouse who applied for eligibility could choose the option of suspending his or her own benefits, receiving an additional 8% growth in benefits for each year before reaching age 70. Under the new rules, which go into effect April 30, 2016, suspension of benefits will no longer be permitted.

Retirees will have a small window of opportunity to evaluate their options as the change will kick in about three months from now. Those age 66 and older, or who will turn 66 during the next six months, still have time to file and suspend their benefits. And people who are already using the strategy to collect spousal benefits alone can keep doing so.

For those seniors who have been planning their retirements for years, taking the file-and-suspend strategy into account in their retirement planning, Uncle Sam has at least grandfathered in those who are at least 62 now, or who will turn 62 this year. It's only a four year's heads up, but at least the government didn't yank the rug out immediately, leaving millions of seniors hanging and swaying in the wind.

They'll still be able to claim spousal benefits alone after they reach their full retirement age (66 for most of today's seniors), and then collect their own larger benefits at age 70, enhanced by 32% for waiting the four extra years to collect on their own work records.
With the new rules in place, married couples will still have the basic strategy available to them to delay to age 70 to receive the larger payments. If they can't afford to wait to collect, they can always collect on one spouse's record while the other delays collecting till age 70.

If the higher earner delays collecting to age 70, this will have the better outcome for the couple and yield a higher survivor benefit for the surviving spouse.

It goes without saying that delaying benefits only pays for people who live long enough to make up for the benefits they would have received had they started collecting earlier. In most cases, someone who waits until age 70 to start collecting Social Security retirement benefits would need to live at least until age 80 to come out ahead and have more money in total than if he or she had started receiving reduced benefits at age 62.

Near-retirees have a lot of thinking to do and need to digest the implications of these new changes and the ultimate outcomes when considering the shrinking number of strategies that are left to them.

How did we do last year?

We will divide our 2014 Predictions from one year ago into 2 categories (1) "dead on" or (2) frankly missed the mark.

"Dead on"

We stated "Russia is being underestimated as a risk for the markets. We believe that Russian adventurism will continue with the possibility of upsetting markets around the world". Russia continued the fighting in Eastern Ukraine for a good part of the year, and then in September they started bombing in Syria which upset markets.

"Interest rates will remain tame. While the Federal Reserve may raise rates in 2015 we believe that the 10-year Treasury will stay under 2.5%". The Fed only raised rates one time and the high yield during 1015 was 2.44%, the year-end yield was 2.3%.

"Missed the mark"

We predicted that oil would outperform the S&P 500. Not even close. While the S&P 500 was negative for the year, oil did even worse.

Our 2016 Predictions

- The Eurozone will continue to have problems causing more speculation about its eventual demise. Far right parties will gain ground again this year;
- Oil prices will rebound;
- Saudi Arabia will devalue its currency and face internal problems at home from its Shia minority;
- Interest rates will remain tame again this year;
- The economy will slow later in the year as the recovery loses steam (we believe the market is already discounting this).
- Central bank policies around the world will come into question.

HEDGEYE
GLOBAL WARMING?
NO MONETARY POLICY.