# Ranstrom Financial Planning Services

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## Thoughts and Comments

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### Bike across America

I am, hopefully, on a bicycle tour across America. I say hopefully because in the first week we lost 6 riders either termporarily or permanently due to various injuries or ailments. Biking across America has been a goal of mine for some time and I am excited to be able to do it. If you want to check my progress, go to www.doylebikestheus.blogspot.com. Though I have my computer and phone with me, I am very fortunate to work with a very talented staff who will handle questions and problems while I am gone.

### Risk versus Reward

Before I left, on the same day I received calls from two different clients – one concerned about the risk in the stock market and another concerned about a major decline. The latter client was also concerned about the potential reward in the stock market and we discussed increasing his allocation in Moderate Growth and Growth which consist of stock funds. Though we receive calls like this regularly, that day illustrated the risk/ reward of investing.

At the end of the 1990s, investors were worried about missing reward with an increasing stock market, especially in some areas like technology stocks. This past decade investors worried about risk and stock market declines. Though there are never guarantees for the future, we are always concerned about the balance of risk and reward. It is our goal to develop and monitor portfolios with the best possible combination of potential return with reasonable risk. All portfolios, regardless of how they are allocated, have a degree of potential return and possible risk. At this time, we generally suggest a moderate/total return portfolio with an allocation of 25-35% in Moderate Growth and Growth, which consist of stock funds. The balance is allocated among the allocation groups which, again though there is no guarantee for the future, generally have a low correlation to the stock market. If you have questions on your allocation, be sure to give us a call.

### An Update on the Markets from Morgan — "What Is and What Should Never Be"

Some of you might recognize this as the title of the famous Led Zeppelin tune, penned by Jimmy Page and Robert Plant. As I see it, the song is a call to love and live in the moment with the lyrics prodding the area between reality and delusion. As I sat to down to write this section, I realized that much of what I have been reading in the newspaper over the last ten months exists in a similar space. Unfortunately, while most varietals of politicians and much of the financial elite espouse a world of delusion, we very much live in a world of reality. What should or should not be is not the real issue. What is, well, is. To expand on this a bit I have included a few examples from recent headlines:

- *The European Union is concerned with bailing out Greece.* This is delusion. The European Union is concerned with bailing out European banks that have high exposure to Greek bonds. It is probably in Greece's (and Ireland's) best interest to default and remove themselves from the European Union. In fact, this is an issue of solvency, not liquidity, as Mohammed El-Erian of PIMCO is fond of saying. In other words, Greece will most likely default at some point as it is close to an impossibility that it could ever repay its creditors while enduring austerity measures. That is what is.
- *The U.S. government is in danger of becoming Greece.* Delusion, again. Though the U.S. indeed has a significant debt problem, we could never be Greece. We issue our own currency and conduct our own monetary policy in contrast to Greece, which is beholden to the monetary policy of the European Central Bank (ECB) and the strength of the euro. Unless Congress decides not to raise the debt ceiling (which would be a self-imposed default and highly disruptive to financial markets) the U.S. cannot default from an operational standpoint. As mentioned, we issue our own currency and we have no foreign denominated debt, meaning that if we did have a debt crisis we would simply inflate away our debt. This would not be fun by any means and is something we are concerned about in the long run, but it would not be a technical default. Anyone who says the U.S. could be Greece is simply partaking in fear mongering.

- *We are in a normal post-recession economic recovery.* First quarter GDP growth came in at 53±, the housing market is double dipping, unemployment is above 9%, and consumer spending is weak. This is not a normal recovery. It is a recovery from a financial crisis. As Kenneth Rogoff and Carmen Reinhart pointed out in their book, *This Time is Different,* recoveries from financial crisis are slower than normal. In other words, the economy will most likely continue to grow, just slower than usual (think 2.5% GDP growth versus 3.5%). Be it stocks or economic growth, excessive optimism from Wall Street and the financial media simply clouds the vision. We feel it's better to see what is.

And finally - *This is the end of the world*. This is not the end of the world. The sooner we face reality and stop partaking in delusion, the sooner we can get back to creating a better present and future for us all.

**An Update on Taxes from Ryan — What Will Tax Rates Look Like in the Future?**

It is nearly impossible to follow all of the proposed tax bills, what is discussed in the House Ways and Means Committee, and all the tax commissions that nearly every president assembles to look at ways to revise or simplify the tax code. About eight years ago I simply quit trying to stay up on all of the proposed changes, learning the hard way nothing is final until it officially becomes law. Our time as advisors is better spent looking at the high level issues that may come into law and not worry about the details until they are actually in the tax code.

All of that said, tax reform and tax rates are getting a good deal of attention in recent months due to the Federal deficit, the nation's debt limit being reached, and the upcoming primary election. Therefore, now may be a good time to share our best guess on what lies ahead for tax law:

- Capital gains rates are currently at 15% for those in the 25% or higher tax brackets and 0% for those in the 15% or lower brackets. This rate will likely go up. Will it go up to pre-Bush years and be taxed at ordinary income tax rates or will it be raised to 20%? We are not sure, but we do believe it may rise in the future (2013 and beyond).
    - In addition, dividends are currently taxed at the lower capital gains rate. This special treatment is also likely to end.
- There is a great deal of talk for a major overhaul, primarily to simplify the tax code. Specifically, to reduce the number of tax brackets to three (12%, 22%, and 28%) and lower the brackets from the current higher rate six bracket system.
    - This seems easy at first glance, but to accomplish the simplicity many deductions would have to go. Most itemized deductions and personal exemptions for higher income earners would likely be gone. For taxpayers at all levels of income, the only itemized deductions that may survive would be mortgage interest and charitable contributions.
- It is hard to believe this, but there is more and more talk about at least the partial taxation of health benefits provided by employers.

In short, for all the talk of a major overhaul, sweeping changes are not likely. Call me cynical, but too many toes will be stepped on to eliminate certain deductions. So, what will lawmakers do if they decide to raise rates? You guessed it — they won't simplify at all. They will simply add more provisions to the code in an effort to keep the greatest number of people happy (politically speaking). I hope I am wrong.

One caveat to all our guesses: Income tax rates are nearly impossible to predict. While tax rates (relatively speaking) have remained generally within the same range over the last 25 years, the top marginal rate has varied wildly over the history of our nation, topping out at over 90% in the mid-1940s.

One quick item on the other side of the equation — if policymakers decide to cut into the deficit via austerity measures, they will face decisions as tough as or tougher than raising taxes. Currently, the vast majority of the federal budget goes toward Social Security, Medicare, Medicaid, and defense spending. Austerity measures may result in cuts to all programs, perhaps even those that have been off the table in the past.

**An Update from Courtney — Fargo and Beyond!**

As our clients have moved beyond the Fargo area for work, family, or retirement, we have been fortunate to go with them, in a sense. Over the years, we have grown to having clients in over 20 states and offices in both North Dakota and Oregon. One of the reasons we have been able to expand our reach is technology. As our Chief Nerd, I have helped in our transition to a web-based, mobile office. We can even answer our office phone from anywhere just as if we are sitting in our Fargo office.

Technology will play an increasing role in our lives and we continue to embrace those changes. There are many benefits of technology – we can often work faster and more efficiently, we have the ability to work from anywhere including wherever my dad finds himself on his bike tour, and we can work with clients who live far away from the frigid winters of Fargo.

As always, our primary goal is to serve our clients. We enjoy traveling to our clients as well as working with them over email and the phone. While we will continue to keep Fargo as our home, we are happy to go with our clients wherever their lives take them.