Precision Monthly

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In our ongoing effort to keep our clients' informed, periodically we will introduce members of our team in the Precision Monthly newsletter. This month we highlight our Chief Operating Officer, David Vollmer. We hope you will take a moment to learn more about David and his contributions to the firm.

The team at Precision Financial Services wishes you all the joys of the season and happiness throughout 2018.

December 2017

Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?

Infographic: Financial Tips for Young Adults

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The Precision Family- David Vollmer, COO

Tell us about your responsibilities as chief operating officer?

As COO, I am responsible for firm operations, including management of our support team. Additionally, I oversee trading and compliance, and, along with Michael Babyak Jr., lead our investment committee. This committee is responsible for the firm investment philosophy and portfolio management strategy.

How did you come to work at Precision Financial?

I interned at PFS while at James Madison. That experience confirmed that managing investments was a career I wanted to pursue. After graduation, I worked as an equity trader in NYC which gave me exposure to utilizing technical analysis when trading stocks. I learned how to be disciplined in my investment philosophy; ensuring emotions are kept in check even when markets are turbulent. During that time, I had kept in touch with the Precision team, and in 2006 I joined as the Director of Operations.

What experiences have positioned you for this role?

When I was a trader I was responsible for building and managing a division of traders in China. Managing this relationship allowed me to build a trading team from the ground up. As a result, I have a better understanding of trading operations and the realities and challenges of managing a team. The second experience was my pursuit of the Chartered Financial Analyst® designation which had a profound impact on my investment decision-making process.

What changes have you seen influencing the industry?

The industry has shifted from transactional business toward advice and planning. The good news is, Precision has been on the forefront of this evolution, as we have always focused on holistic advice and have provided financial planning dating back to the 1980s. But the industry is still complicated. Currently, there are multiple regulatory bodies with often overlapping and conflicting regulations, which is difficult to navigate. Our decision last year to focus on our role as fiduciaries for our clients allows us to do what we do best, comprehensive financial planning and wealth management, as our core service. The other influence is technology.

Can you tell us more about the impact of technology?

In today's ever-evolving world, you need to have an efficient business that has the capacity to handle rising demands of professional advice. Coordinating the diverse needs of our clients can be a challenge, but we continue to invest in technology that makes us more efficient and enhances our client experience.

In 2016, we invested in one of the most sophisticated software systems in the industry to deliver more powerful portfolio analysis and improved reporting. This investment allows us to make better informed decisions and to meet the individual needs of each client more effectively. We no longer have weeks to execute a trade across client accounts. Markets can be volatile and move quickly, so we must act accordingly. Our view is that technology is an essential tool for efficiency, but our client relationships remain our top priority.

Why do you believe a client should work with PFS?

Precision is unique because of the culture created 50 years ago by Michael Babyak Sr. Our team truly cares about our clients and their families. We respect the trust our clients' place in us and manage everything we do with integrity, creating the long-term family relationships we enjoy. Our advisors, employees and partners all have broad expertise on the issues impacting our clients' financial lives, and we collaborate to bring them our best advice.

What do you do when you are not at PFS?

I enjoy spending time with my wife, Katey, and our three children: Lucy, 9; Dylan, 5; and Micayla, 2.

Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?

It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.[1]

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.[2]

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.[3]

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.[4]

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry, and start families, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.[5]

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate — the percentage of the civilian labor force age 16 and older who are working or actively looking for work — peaked at 67.3% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then; in August 2017, it was 62.9%. This reflects lower birth rates, increased college enrollment, some men in their prime working years dropping out of the labor force, and large numbers of retiring baby boomers.[6]

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.[7]

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.[8]

1, 3) The Conference Board, February 24, 2017

2) *The Wall Street Journal,* January 16, 2017

4-5) Federal Reserve, 2016

6, 8) *The Financial Times,* October 25, 2016

7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017

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Infographic: Financial Tips for Young Adults

6 Steps for Young Adults to Build a Financial Foundation

1 Create a budget

Subtract your monthly living expenses (e.g., rent, food, utilities) and loan payments (e.g., student and/or auto loans) from your monthly income to see how much you'll have left over each month to save or invest.

Build an emergency fund 2

Stash away a small amount from each paycheck until you have a few thousand dollars built up that you can access in the event of a financial emergency.

3 Pay your bills on time

Automate payments with online bill pay. If you run into financial difficulty, be proactive and contact your lender before you miss a payment.

Use credit wisely 4

Avoid racking up unnecessary credit card debt and pay off your bill in full each month. If you can't, don't use your credit card.

5 Contribute to a Roth IRA and/or workplace 401(k)

Time is your friend. Start saving for retirement now, and your older self will thank you. Consider starting with 3% of your pay and increase from there.

Live within your means 6

Forget about what others are doing and set your own financial rules and goals. Live your best life by striving to live within (or below) your means.

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I still have money left in my FSA that I have to use by December 31st. How should I spend it?

Health flexible spending accounts (FSAs) are a great way for individuals to pay qualified medical and dental expenses using pre-tax dollars. While IRS rules do allow employers to offer either a carryover or grace period option for money left over in flexible spending accounts, many employer FSA plans still have provisions that don't allow for funds contributed to an FSA to carry over from one plan year to the next. In other words, if you don't use it, you lose it. If you find that you still have money left over in your FSA as the end of the year approaches, there are a number of ways to spend down your account balance.

FSA funds can be used to pay for a variety of out-of-pocket health-care expenses, such as deductibles and copayments. You can also use your FSA funds to pay for uncovered dental and vision care expenses. So now might be a good time to schedule any medical and dental appointments that you may have been putting off, stock up on contact lenses, or even replace an old pair of eyeglasses.

FSA funds can also be used to pay for both prescription drugs and many over-the-counter products, including:

- Athletic braces and supports
- Bandages
- First-aid kits
- Blood-pressure monitors
- Shoe insoles and inserts

Keep in mind that certain over-the-counter medicines (e.g., pain relievers and allergy medication) require a doctor's prescription in order for you to obtain reimbursement from your FSA.

If you continue to participate in your employer's FSA, remember to choose your contribution amount carefully so that you don't risk losing any contributions going forward. Many FSA plan administrators offer user-friendly websites that allow you to inquire about eligible expenses and keep track of your FSA purchases and account balances throughout the plan year.

What financial resolutions should I consider making as I look ahead to 2018?

A new year is right around the corner, bringing with it a fresh start for you and your finances. What will you do this year to help improve your financial situation?

Evaluate your savings goals. The beginning of the year is a great time to examine your overall financial plan. Maybe you want to buy a new vehicle this year or save money toward a Caribbean cruise next year. Perhaps you want to focus less on material items and more on long-term goals, such as your retirement savings. Regardless of what you are setting money aside for, make sure you come up with a realistic savings plan that will help you achieve your goals and avoid the risk of significant loss.

Pay down debt. Whether you owe money on your credit cards or have student loan payments to make, the start of a new year is a good time to develop a strategy to reduce your overall level of debt. Reducing your debt can help create opportunities to contribute toward other goals throughout the year. But unless you can definitely afford it, don't plan to pay off all your debts in one fell swoop. Set a smaller goal that you'll be more likely to achieve over the course of the year.

Automate as much as you can. Your plan to pay down debt can be accomplished more easily if you automate your bill paying, saving, and investing. Most banks, credit card issuers, retirement plan providers, and investment companies offer services that make payments automatic — allowing you to worry less about payment dates. The best part is that it might only take a few taps on your smartphone to make these processes automatic.

Think about organizing your financial documents. If your overall financial situation is already in good shape for the new year, consider taking time now to clear out and organize your financial records. Do you have important documents, such as your tax returns or passport, in a safe place? Are you holding on to records that you no longer need? Organizing your financial records now can save you time and frustration later if you need to locate a particular document.

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