FINANCIAL **newsletter**

Wealth Architects, LLC

FEBRUARY

We all hope for a long, healthy life, but—from a financial standpoint—the length of our lives may be starting to get out of hand. One projection from the U.K.'s Office of National Statistics estimates that more than 30 percent of the nation's children born after 2011 will reach age 100. That means that for every couple that reaches age 65, more than half will have least one partner live another 35 years.

If today's children continue to retire at what we currently consider a "normal" age, many could spend almost as much of their life in retirement as they spend working. Since a majority of U.S. citizens already face insecure retirements with current financial planning norms, extended longevity may become an overwhelming monetary challenge.

One solution to the problem may lie in changing when people begin to plan for retirement. A few extra years of growth can have a massive impact on the value of a retirement account. If we can train today's children to make good financial decisions earlier in life than most adults do now, they'll be better able to handle the cost of an extremely long retirement.

But it's today's adults who will need to teach them.

In general, adults usually impart their financial habits to children—whether they mean to or not. Kids are observant, and adults' financial decisions can imprint upon them easily. However, retirement planning, though essential, is an obscure subject. Children get to see how adults spend their money, but they don't often see how they save it.

Obviously, trying to lecture a young child about 401(k)s and investment strategies won't be helpful to anyone, so adults will need to take a more basic approach. By teaching children the underlying principles of saving, planning and money growth, you can turn their future financial decisions into a matter of obvious choices.

Getting Kids to Learn

Though teaching financial habits takes more than a piggybank, it's still a great place to start. Providing a younger child with both an allowance and savings goals is a great way for them to practice budgeting. Help the child set goals that are simple and attainable; if they set an ambitious goal, offer to help them by covering the difference if they reach a significant percentage of the total value.

But saving alone isn't enough: children need to understand that value can grow over time. This can be taught by providing them with interest: offer a small amount of money for each dollar they saved from their last allowance. They'll quickly learn that by forgoing some immediate gratification, they can reach their savings goals even faster.

Later on, you can reverse this process to teach a child about debt. Allow them to borrow money from you for a small purchase, but plainly explain that they'll have to pay the money back with interest. When they hand their money over to you later, it becomes a golden opportunity to explain how debt means paying extra.

If you prefer a more direct route of education, there are numerous online resources to help teach kids about money and smart planning—one of the most interesting examples being Warren Buffett's own online cartoon series "Secret Millionaires Club" (www.smckids.org).

As a child grows, help them get the ball rolling on retirement planning. Setting up a CD or IRA at a bank can be imposing to young adults, and they may need prompting. However, once they have it available, it will be much easier for them to save. Explain the importance of planning ahead for retirement and avoiding heavy credit debt (especially during college). Financial maturity doesn't happen overnight, so stay patient and don't try to cover everything all at once.

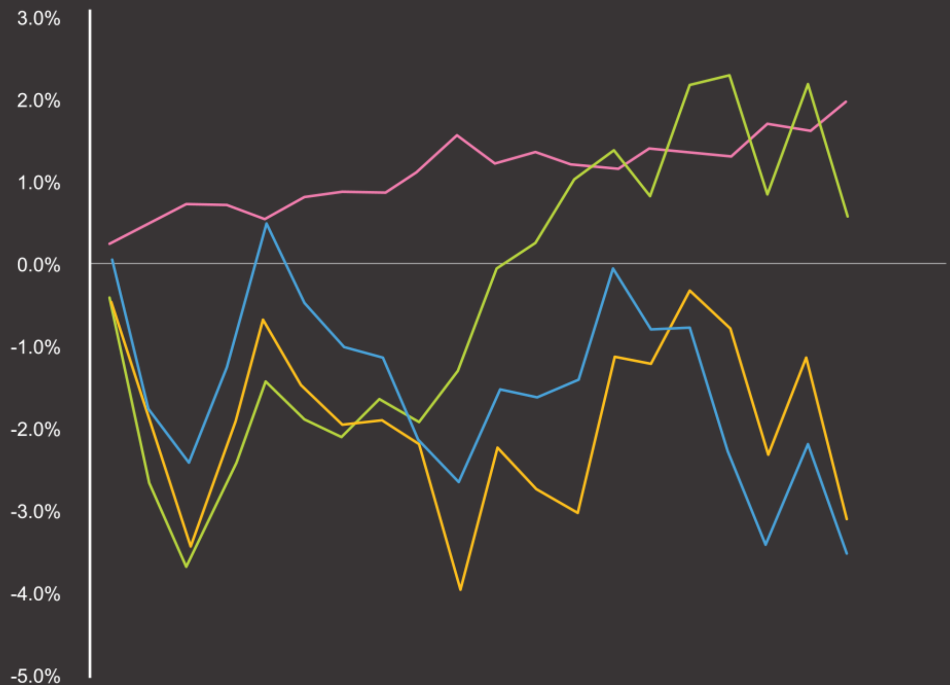
the market at a glance
JANUARY

U.S. Large Cap
(Dow Jones Industrial Average)
17,164.95 (-3.69%) ▼

U.S. Mid/Small
(Russell 2000)
1,165.39 (-3.26%) ▼

Foreign Large
(MSCI EAFE Index Fund)
61.22 (0.62%) ▲

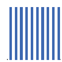
Bond Market
(Barclays Aggregate Bond Fund)
112.38 (2.05%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- After much anticipation, the European Central Bank announced it will pursue a €1T bond-buying program that will run from early 2015 to late 2016. It is hoped that the change in monetary policy will be able to restart growth in Eurozone countries, which collectively make up the world's largest economy.
- The U.S. Department of Labor reports that total employment in the country increased by 2.95M in 2014; this marked the largest one-year jobs increase for the country since 1999.
- The Swiss National Bank surprised the world by ending its currency peg with the Euro. Following the announcement, the Swiss Franc, which is viewed as one of the most secure currencies in the world, leapt 30 percent in value against the Euro.
- The Federal Reserve reported that consumer debt (not including mortgages) increased by $14.1B in November, pushing it to a record high total of $3.3T. Though credit card debt actually fell during the month, student debt and auto loans climbed significantly.
- Apple crushes earnings estimated by 37 percent and posts the best corporate quarterly profits in history. The tech giant brought in around $18B in profits during the last quarter of 2014—over 10 percent higher than the previous corporate record (OAO Gazprom, Q1 2011).
- Reports showed that the purchase of durable goods in the United States missed its anticipated 0.3 percent growth in December by a wide margin, posting a 3.4 percent drop from the previous month.
- U.S. home construction increased to 1.01M in 2014, 9 percent higher than the previous year. Home construction still remains far below the 2005 housing bubble high of 2.07M single-family homes per year.



Silicon Apps Overtake Sliver Screens

No one would debate that the mobile app market is huge. But just how big of a deal is it? Take a look at these stats:

- The iOS apps catalog contains 1.4 million apps.
- People spent $500 million on iOS apps in the first week of 2015 alone.
- In 2014, Apple paid app developers a total of $10 billion.

Those numbers don't even include Android apps. Android numbers are more difficult to compile, since multiple companies offer app stores. But, to give some perspective, Google paid out about $3 billion to its developers in 2014 for sales made through its official store.

Compare all that with Hollywood, where U.S. movie revenue came in at about $10.35 billion, and you can see just how important app revenue has become.

Although the numbers aren't the complete story (iOS data doesn't include Android apps or service businesses, and the Hollywood number doesn't include international box office revenues), app revenues have been growing exponentially for years while Hollywood revenues have remained relatively stagnant. If the app economy hasn't completely overtaken the U.S. movie industry yet, it soon will.

This surge in technology revenue isn't limited to mobile apps. The tech sector is seeing sweeping growth in many areas. Everything from online software to IT services is growing at an incredible rate. Though there are exceptions, of course, the trend has significantly raised the value of many tech companies over the past several years.

The question for many economists is whether the current trend is a normal growth spurt or whether the market is experiencing a new tech bubble.

You don't have to be ancient to remember the last tech bubble—it burst only 15 years ago. The so-called "dot-com" crash saw dozens of unbelievably fast-growing companies disappear overnight.

So, are we in the same position? There certainly are major differences between now and then. In the late 1990s and early 2000s, tech companies were able to draw investor capital bases with little more than a hint of potential success. The running joke at the time was that all a company had to do to increase its share price was add ".com" to its name. Companies were going into debt renting office space and buying computers to rush into a very uncertain industry.

Today, investors are more digitally savvy and know how to analyze "internet" companies more rigorously. Still, the risk of overvaluation is always possible. Some point out that several tech startups have unnaturally high stock prices and speculative sustainability. The rapid advance of technology coupled with quickly shifting cultural preferences for mobile technologies prevents investors from making anything more than educated guesses.

If the tech market finds itself with another bursting bubble, beneficial technologies may still survive. For example, despite the dot-com crash in 2000, no one thought that online services were going to disappear or that they would never be lucrative. Individual companies were in danger, but it was obvious the tech sector as a whole would bounce back.

What should you take away from all this as an individual investor? Even if you can't predict the future, it is still valuable to be aware of how technology can shift the value of markets. Knowing the broad changes can keep you from acting on speculation, fear or greed. You should know what drives your investments' success and how they fit into your personal portfolio. The best decisions are always made within the context of your personal financial plan, so speak with your financial advisor before making any changes.

Statistic source: www.asymco.com/2015/01/22/bigger-than-hollywood/

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