

NEWSLETTER

SUMMER 2024



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What's The Future of Social Security?



Will there come a day when Social Security won't be around? According to the Social Security Administration (SSA) we're about 10 years from Social Security benefits being reduced. The system now pays out more benefits than it collects in payroll taxes. Currently Social Security collects 12.4% in taxes, half is paid by employees and half is paid by the employer. If you are self-employed, you're paying the full amount.

If Congress does nothing to fix this problem, benefit checks will need to be cut an estimated 27% beginning in 2034 according to the program trustees. Based on Congress's past legislation history I'm concerned they won't do anything.

Benefit payments last year totaled almost \$1.1 trillion, which is a sixth of federal spending and is almost 4% or \$41 billion more than taxes collected. This has forced SSA to tap into the \$2.7 trillion trust fund.

The last time Congress made a major change to Social Security was back in the '80s. Since 1935 the program worked on a pay-as-you-go system but starting in the '80s it changed to pay in advance.

What this means is instead of collecting just enough in taxes to pay the benefits Congress passed legislation that started charging both employees and employers about 25% more to build up a trust fund. The idea behind this increase was to be paid for by and for baby boomers.

So, why did this happen and how is this problem fixed? One fact that I believe was overlooked is that there are more retirees and fewer workers supporting the system.

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CRPC

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According to SSA in 1940, there were 42 workers per retiree. Today the ratio is 3-to-1; by 2050 it will be 2-to-1. The burden on each individual worker will increase substantially and Social Security will no longer be able to keep their promises to retirees at current payroll tax levels.

Some blame that higher earners are not paying enough into the Social Security bank. Currently the income cap is \$168,600 which means earnings above this level are not taxed for Social Security. I for one think this is ridiculous because benefits max out based on the income cap for those who make more than \$168,600.

There are some who think that Social Security should be phased out. The idea is that workers can save or invest the 6.2% that they are currently paying into Social Security. Personally, I would prefer investing the portion that I'm paying into the system. However, we all know that most folks would spend this and not invest it and end up impoverished. As a society I think that it's safe to say we wouldn't stand for this.

Remember when President George W. Bush proposed partially privatizing Social Security allowing workers to invest a portion of what they pay in? There was enough push back from retirees to this idea that President Bush dropped the proposal.

How about raising the retirement age? When Social Security began back in 1935 the full retirement age for full retirement was 65 when life expectancy for a male was 61 and 65 for women. Today the full retirement age is 67 for anyone born since 1960. Today the life expectancy for a male is 74.8 and 80.2 for women. The two-year difference between then and now is a cut of \$42,000 in benefits. Now Washington is considering raising the full retirement age to 69 or 70 years.

There is talk about raising the 12.4% tax rate to 15%. It's estimated this increase should be enough to pay benefits for decades.








Could it be that there has been a gross mismanagement of who gets what? Regardless of how you feel about the future of Social Security, the bottom line is Social Security is paying out more than it's collecting, and future benefits could be reduced. I think that anyone who is currently collecting benefits would agree that benefits do not keep up with real inflation. If you're 65 years of age or older you know that when you receive an increase in your benefit Medicare premiums typically go up as well. Many of you have heard me say that at the end of the month you may be up a Big Mac or two.

Most importantly, Social Security was never intended to be our sole source of retirement income. It's never been more important than to plan well for retirement!



Jeff Townsend, CEO, CRPC

NEWSWORTHY ITEMS

-  The Anxious Generation – In the past decade the mental health of adolescents plunged. Rates of depression, anxiety, self-harm, and suicide rose sharply. But why? Social psychologist Jonathan Haidt has spent years investigating the reasons behind why this is happening. He has concluded that children need more social interaction and play with other kids and much less phone based social media. In his book, *The Anxious Generation* (a must read for parents with young children), he explains why social media damages girls more than boys and why boys have been withdrawing from the real world into the virtual world, with disastrous consequences. He urges parents to not provide smart phones to their children until they turn at least 16.
-  Buying vs. Renting – According to Realtor.com’s monthly Rental Report, the monthly cost of buying a starter home was \$1,027 more than the cost of renting in the 50 largest US metro areas.
-  Housing Shrinkflation – Worsening housing affordability has caused homebuilders to shrink the square footage on new builds. In 2023, the median square footage of new single-family homes saw its biggest decline. Over the last ten years the median square footage of new homes has fallen from 2,313 square feet to 2,036 square feet (Source: RESICLUB, PARCL Labs).
-  Importance of an Internship – According to Strada Education Foundation 49% of male and 44% of female college graduates are still working at a below college-level job ten years after graduation. Whereas 49% of graduates who completed an internship are less likely to be underemployed after graduation.
-  President Biden one-ups President Carter – President Biden’s proposed budget for 2025 would increase the top marginal rate on long-term capital gains and qualified dividends to 44.6%. President Carter raised rates to 40%. If approved this would be the highest rate since at least 1920 (source: Americans for Tax Reform).
-  Happy Caddie – Through April 21, the world’s number 1 ranked golfer, Scottie Scheffler, had already made \$16.3 million on this season’s PGA Tour, making him the third highest earner ever. His caddie, who gets a percentage of Scheffler’s winnings has made more than Rory McIlroy’s \$1.71 million who is the second ranked golfer this season (source: CBS Sports).
-  Get Your Bank’s Best Yields – To attract new customers it’s not unusual for banks to create new savings accounts with higher interest rates rather than increasing rates on existing accounts. It’s worth paying attention to what banks are paying you on your accounts. If you see that your bank is paying a higher rate on a different product consider transferring your funds to it.

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What is a Family Bank?

"You should give your kids enough to do anything, but not enough to do nothing."
-Warren Buffett

Do your heirs deserve your wealth? If you treated their distributions upon your death the same as if you were giving it to them now, would they be able to handle it right away? Do you know their priorities and what matters to them? Creating a family bank may help answer these questions.

You may have hard-working children or family members who are already making their way in the world, and you are confident they will achieve even greater success with any financial resources they receive from you. But you may also have family members who aren't as skilled with money or whose circumstances make financial gifts inappropriate. Many families are not only focused on the investment management of their assets, but also about the long-term welfare of their families and they want to have a strategy in place to preserve and grow both.

Investing in the next generation's growth and development is a natural process but the question becomes how much to support them once they are beyond a certain age. To help with this question without creating a sense of entitlement, some families have used a concept known as the "family bank". This is not a bank in the formal sense, but rather an arrangement where parents or grandparents form a trust that designates a portion of the family's wealth for loans to family members. The purpose is to foster responsible money behaviors and encourage productive endeavors. Instead of giving the money to children or grandchildren, the family loans the money through a formal process to be used in ways that contribute to their success and independence, lessening the risk of creating dependency on gifts.

Two types of loans might be considered. An Investment Loan is one whose purpose is to ultimately increase the family's wealth. Examples include starting a new business, or loans for educational purposes which likely increase the family members' earning power. An Enhancement Loan supports the family's strategy of increasing a family member's human or intellectual capital such as contributing to an independent lifestyle and sense of purpose. Although they may not directly increase financial earning power, they may provide a catalyst to finding the path to greater well-being.

A Family Bank trust is set up with consultation from the family's legal and tax advisors. One or more trustees are named to manage the process and make decisions. Rules are established for things such as whether loans can be forgiven and what happens if a family member defaults on the loan. A well-run family bank provides excellent financial education for family members and can protect assets that children and grandchildren might otherwise lose through poor choices. Communication throughout the family about the family bank's purpose, processes, and decisions encourages dialogue about the family's wealth and its philosophy regarding the purpose of money.

If you want more information about creating a Family Bank Trust, feel free to contact me at Townsend.

Sallie Diamond
Legacy Planner

Exciting News!

Sallie has obtained her designation as a Certified Professional Retirement Coach (CPRC). A Retirement Coach will help you explore all aspects of designing a dynamic and rewarding retirement lifestyle and will serve to guide you towards implementing a plan of action. Broadly speaking, retirement coaching is the process of helping you prepare for and transition into everyday retirement life. If interested in attending a class, email Sallie at Sallie@TownsendRetirement.com.



“We look for a horse with one chance in two of winning and which pays you three to one.” — Charlie Munger

Parimutuel in Perpetuum

This past May 4, I was lucky enough to be invited to attend the 150th running of the Kentucky Derby. The race was an exciting mix of fashion, cuisine, gaming and horses – one I would highly recommend for anyone to do at least once. The whole experience, and the way wagering is done in horse racing, got me thinking about investment markets and some of the conversations I have had with clients who have compared investing to gambling.

In my strong opinion, an investment is not a gamble, and a gamble is not an investment. While each involves a payoff or loss, they are not the same. Investments are owned claims on productive assets that have underlying value. Those claims are continuously re-priced by market participants in response to a variety of factors. By contrast, a gamble depends on a single, event-driven outcome – a win or a loss. One and done. There is nothing of value behind the money put down on a gamble – just the prospect of a favorable future outcome. Yes, you can opt to gamble again, but each outcome is generally independent of the previous outcome.

Serious long-term investors such as Charlie Munger would cringe at the idea of comparing investing to gambling because they take the process of valuing claims seriously. With investments there are a multitude of variables that factor into pricing and price changes. But if we had to compare investing to *something*, we can make a case that it is similar to a parimutuel activity. Like odds on horses, investments are priced by a consensus of others who put real money down. Those prices reflect expectations of future results. Results of what? The future operating results (free cash flow to shareholders) of the company. And since the price always reflects expectations for future performance, and because there is no finish line -- it is a race in *perpetuum*.

Parimutuel betting involves many players who place money on a single event where the entrants are ranked in the order of their finish. It has a nearly 150-year history, going back to 1865 when a Paris perfume shop owner named Pierre Oller figured out a system of wagering on horse racing that circumvented the problems of notorious bookmakers and a lack of regulation. Pierre would sell interests in individual horses through an auction pool, with each horse's price (the odds of a win) being the stated odds of winning. These odds are determined by the total money coming in on one race in proportion to the total bet on each horse. In parimutuel betting, the odds are not the actual probabilities of winning... just the crowd's consensus perception, as reflected by real money down.

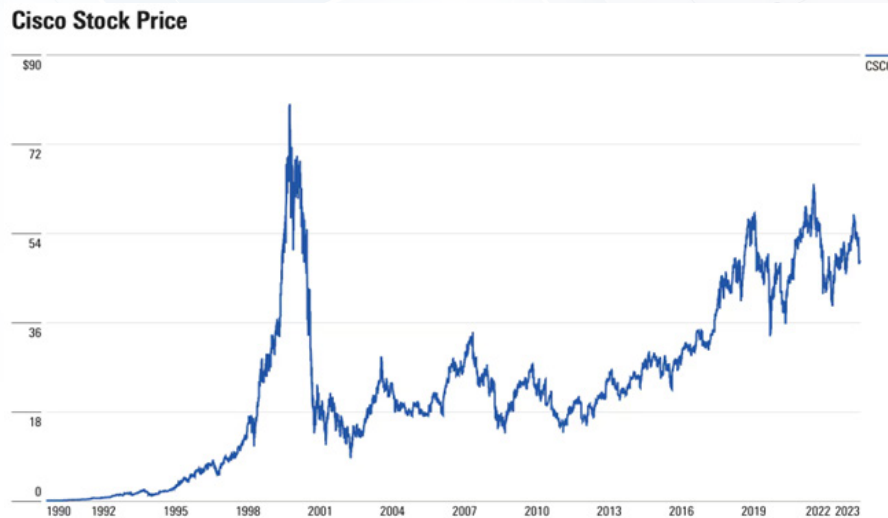
In a parimutuel system, bettors wager against one another. In fact, *parier mutuel* means “to wager among ourselves”. The goal in a parimutuel system is not necessarily to pick the winner of the race – it is to pick the horse whose actual odds of winning are far better than the stated odds (the price). For example, rational bettors would always put their money on a horse whose stated odds (also the payoff) are 8:1, but whose *actual* odds are 5:1. In a rational world, these bettors would place such bets an infinite number of times even though they would lose 4 out of 5 times. The same principle holds true for investing.

In investment markets the race is being run every second of every day. There is no end -- just prices (the odds) changing continually. Changing stock prices reflect changing expectations of future performance as the race continues *in perpetuum*. News releases and financial reports provide updates on the contestant's performances and condition. When prices move up, other investors have expressed the view that the odds of “winning” have improved; when the prices move down investors have expressed

an opinion that the odds of “winning” have declined. These price changes are independent of the actual results. And, as with horses, price movements generally do not reflect whether the actual odds have changed or not – they just reflect the amount of money people are willing to put down.

In parimutuel betting you are paid at the end of the event. Within investment markets you can cash in your investment at any time at the stated price and accept the payout. Or you can hold the investment if you believe that future results will exceed the results that are “priced in”. Think of the stated odds on a horse as its “price”. If you place your money on a 5:1 and the odds move to a 3:1, you will earn a gain. If the odds move to 8:1, you will suffer a loss. In investment markets, the odds (as expressed by price) can change for or against you at any time simply based on other people’s (or computer’s) perceptions. If this is the case, it follows that investors must determine what they believe an investment’s *real* odds are – and balance this against what expectations the current share price reflects. Since there is no end to the race (only changing prices), the goal is to look for mispricings (actual odds better than stated odds).

Occasionally, prices move to levels where accepting or avoiding certain investments becomes an easy decision: the payoffs are either too great or too insufficient. In horse racing, a heavily favored horse may carry a 1:5 odds (meaning a \$5.00 bet earns you \$1.00 if you win) may not be worth the risk. Cisco Systems is a memorable illustration of this (but not the only one). In late 1999, everyone knew Cisco was a fantastic company, had great products, and was dominating an exploding market (the internet). High expectations of magnificent future performance were reflected in the price. But, if you purchased Cisco’s shares in 2000 when everyone else had already bet on them, it would be a bad bet because the stated odds of winning (the share price) would be high and the potential payoff would be low (such as a 1:5 odds on a horse). Indeed, Cisco today is still 40% below its 2000 high, even though earnings per share are up 5-fold since then, why? The payoff (the stated odds) was too low relative to the risk. Avoiding bad bets can be as important as making good ones.



Source: Morningstar as of 12/04/23

To add a layer of complexity, investors also need to be cognizant of factors that can distort the system-wide price/value relationships. For example, when a central bank floods markets with liquidity, it may inflate prices (stated odds of winning) across the board. Or when a large number of investors (index investors) decide not to select individual investments, but rather to simply allocate capital *pro rata* to those with the highest prices (lowest payoffs) – price distortions can persist. Eventually these anomalies get reset.

In my opinion, much of investing is about understanding the expectations that are implied by prices. This is why time is well-spent, as Charlie Munger advises, analyzing the actual odds relative to the stated odds. Often, people (and computers) invest in what they view as the likeliest winner, but without regard

to price and payoff. And because of this, the prices/odds of the perceived “best” investments can rise to levels that make them super-risky (because so many have placed the same bet). Likewise, prices/odds on perceived “risky” investments can decline to levels that make them safe (because so many investors avoid them) and they carry high payoffs. This is where so many investors get tripped up: it’s not only about just trying to own good things, but also about prices. Ultimately, it is better to allocate capital to high-quality assets where payoffs are high, and risk of loss is low.

To summarize, we do not consider investments to be gambles, but there are certain parallels between the activities of investing and parimutuel betting that are worth considering. As Charlie Munger has said, “You’re looking for a mispriced gamble. That’s what investing is. And you have to know enough to know whether the gamble is mispriced. That’s value investing.” We “wager among ourselves” because one person’s loss can be someone else’s gain (opportunity or otherwise), but distortions do occur from external factors that impact sentiment and prices.

John Goltermann, CFA, CGMA
Senior Vice President & Chief Investment Officer

SUMMER IS OFF TO A TEE-RIFFIC START!

Townsend clients enjoyed the all-client golf tournament and golfing with our advisors this summer. If you would like to golf with a Townsend advisor, please reach out to Savanna.



CAYLE'S CONNECTION

Hello and happy summer to you! I'm going to focus on fun family activities. I'm always looking for ways to get out and about with my family. As always, if you have any ideas or if you try any of mine, please email Savanna and let us know.

☀️ My daughter Nellie loves to paddle board and we all love to kayak and hike. Jefferson Lake is near Jefferson and offers many activities. Fishing, boarding, kayaking, boating and gentle hikes are all available. There's even camping! <https://tinyurl.com/495hxb6j>

☀️ If you're looking for somewhere to swim, head to Loveland and the Lake Loveland Swim Beach in North Lake Park. There's lots of sand and lifeguards too. <https://tinyurl.com/dvrdbxk6>

☀️ If the weather isn't cooperating with outdoor activities, you may enjoy a trip to the Rocky Mountain National Wildlife Refuge. Located 10 miles NW of downtown, the sanctuary is home to numerous birds and animals. You can take the 11-mile Wildlife Drive or hike on one the trails. There are also classes and special events, interactive ranger talks and it's FREE.
Rocky Mountain Arsenal National Wildlife Refuge | U.S. Fish & Wildlife Service ([fws.gov](https://www.fws.gov))

☀️ If you're looking for a weekend in the mountains but want to avoid the hectic nature of Summit County check out Winter Park. They have a summer tubing hill at Snow Mountain Ranch. There's also lots of hiking and adventures awaiting. <https://tinyurl.com/2hdzfsbn>

☀️ I grew up going to Glenwood Springs and spending time in the hot springs pool, buying ice cream and going to the souvenir shop nearby. But now they have Glenwood Caverns Adventure Park. We went a few years ago with Terri and Mark and loved it. It started in the 1890s near the top of Iron Mountain with cave tours and has expanded to lots of fun rides like the Haunted Mine Drop, Soaring Eagle Zip Ride and the Alpine Coaster, shopping and dining. Glenwood Caverns Adventure Park in Glenwood Springs, CO

☀️ This is one I've never been to, but think I need to. St. Mary's Glacier and Lake offers a short 1 ½ mile out-and-back trail complete with stunning views of the mountains and St. Mary's Lake. It's located just off I-70 and the trailhead can be found via 7599 Fall River Road.

☀️ I'm definitely taking Eli to the Berry Patch Farm in Brighton this summer to pick strawberries, raspberries, pie cherries, plums and even flowers. They also harvest other edible plants you can purchase. <https://tinyurl.com/3466p9w4>

BOOK CLUB & IN PERSON EVENT WITH THE AUTHOR

Townsend clients had a book club during quarantine and we want to bring it back! We have the opportunity to talk with author Joe Siple. His book, *Charlie Fightmaster and the Search for Perfect Harmony*, is a book all clients will love.

Clients who want to participate in our book club are encouraged to reach out to Savanna to receive a free copy of Joe's book. In the fall, those who read the book can attend an in-person and webinar discussion with Joe to discuss the book.

If you would be interested in this book and event, please let Savanna know as soon as possible. We want to gauge clients interest in this type of event.

Townsend's Recipe Round-Up

Each month, we want to share some of our favorite recipes. This month's recipes come to us from Senior Vice President and Financial Advisor, Terri Thomas. She is sharing her recipe for bratwurst pasta!

Terri says "I don't know about you, but by mid-summer I am already tired of grilled foods and look forward to fall so we could eat more variety. So, this recipe is the best of both worlds. This is really easy and is absolutely delicious! You can add a nice green salad and some warm bread. Or, if you are like me, serve with a nice bottle of wine!! I hope you enjoy and as always, I welcome any comments and would love to hear if you tried it."

Let Terri know if you have a recipe to share!



Bratwurst Pasta (in a Buttery Beer Sauce)

Serves 6

Ingredients:

(1 Bottle of Cabernet for your enjoyment while cooking)

1 package of German Brats (remove the casing)

12 oz of thin spaghetti

½ C wheat beer or pale ale

1 C diced onion

1 T of minced garlic

1 T of Olive Oil

3 T of unsalted butter

Parmesan Cheese (sprinkle as much or as little as you want)

Black pepper to taste

OPTIONAL: Pinch of red pepper flakes (actually just do it); Chopped parsley for garnishing



REAL SIMPLE NEXT STEPS:

STEP 1: Open bottle of wine and pour yourself a glass. **STEP 2:** Bring large pot of salted water to Boil. Cook pasta until al dente. **STEP 3:** In a large deep saute pan heat the oil over medium heat and cook the brats (casings removed) breaking up the meat (about 4 mins) add onions and cook until translucent; add garlic and keep stirring for about a minute. **STEP 4:** Add beer to the pan. Be sure to scrape up the brown bits from the bottom, simmer until reduced by half, about 3 minutes. **STEP 5:** Pour 2nd glass of wine **STEP 6:** Add butter and Red pepper flakes, when butter is melted add pasta and Parmesan cheese. Toss until combined and remove from heat. **Don't forget to turn off burner. If you had two glasses of wine already, you might simply forget. **Add to bowls and top with parsley and more cheese if you wish.

DRINK MORE WINE AND ENJOY!!! If this dish didn't turn out like you thought, skip STEP 1 next time.

...and don't forget dessert! You can start this one earlier in the day and let it freeze so it is ready after dinner.

Cookie Butter Pie

Ingredients

1 package (8 ounces) cream cheese, softened

1 cup Biscoff creamy cookie spread

¾ cup confectioners' sugar

2 cartons (8 ounces each) frozen

whipped topping, thawed (6 cups total), divided

2 graham cracker crusts (9 inches)

¼ cup caramel sundae syrup

4 Biscoff cookies, crushed

Directions

In a large bowl, beat cream cheese, cookie spread and confectioners' sugar until combined. Fold in 1 carton whipped topping. Divide mixture between crusts. Top with remaining whipped topping. Drizzle with syrup; sprinkle with cookie crumbs. Freeze, covered, until firm, at least 4 hours.



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