Mentor Monthly Missive

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It’s not your mother’s nursing-home insurance anymore

When I was in “the business,” we used to say that most life insurance was sold, not bought. That was mostly true: Our job was to uncover our clients’ need for insurance; it was rarely something they actively sought.

What is true about life insurance is true about what’s known today as long-term care insurance (LTCI): Few people seek it out on their own, but it’s something most should consider.

For an industry that’s only about 30 years old, a lot of change has come. The changes have been driven by a number of factors:

• Insurance companies discovered that they had priced their coverage too low and made inaccurate assumptions about what they’d have to pay out in benefits.

• They weren’t very good at predicting the longer life expectancies that resulted in more use of LTCI benefits.

• They weren’t prepared for the ultra-low interest-rate environment we’ve been in for the last several years.

As a result, there’s been a mass exodus of companies from the LTCI business, and rates have increased by as much as 90% in a single year for some policyholders. Underwriting is becoming more stringent by the month; future applicants should be ready for the possibility of genetic testing (to screen out those with a predisposition to Alzheimer’s and other diseases) and more thorough at-home cognitive screening. As with all types of insurance, the more you need it, the less companies want your business. (Continued on page 2)

MENTOR CAPITAL

Meet our Wealth Managers

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Mentor Capital Management Inc. was founded in response to the belief that a consumer’s best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

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It’s not your mother’s ... (Contined from Page 1)

Agents selling LTCI will say it’s something everyone should have. We disagree. We do believe that LTCI is something that most people should consider, but they should purchase it only if it’s appropriate given their personal facts and circumstances.

It’s not like car insurance, which is required by law to protect the public good; it’s more like life insurance, which not everyone needs. What facts and circumstances make LTCI a good bet? Here are the three major ones:

• Can you afford to pay the (often high) premiums? If you can’t, it’s a non-issue.

• Do you have assets to protect? If not, you may want to allow Medicaid to pay for your care in the event that it’s required.

• Do you have a spouse or significant other whom you want to protect from the bankruptcy that might result if a high level of nursing care is required long term? If you don’t, you might be less concerned than if you do.

Whether to buy LTCI, and the features and benefits that are right for you, are decisions that can be made only after a thorough consideration of the facts. If you’d like to discuss this issue, please phone our office.

– John Davis

Investing Your Year-End Bonus

What to do with that year-end bonus is a pressing concern because bonuses are increasingly supplanting annual pay raises as a means of rewarding employees. Here are a few ways to make the most of your bonus.

Pay Down Debt: Before you put any money into the market, consider paying off your debt. Credit-card debt, which often has a high interest rate, is a good place to start. Also, consider sending an extra payment to your mortgage lender, which can help shorten the life of your loan.

Maximize Your Match: Check with your employer to find out whether your 401(k) contribution is being deducted from your bonus. If it is, you may want to lower the percentage amount that you're contributing to your 401(k) before you receive the bonus. In so doing, you'll ensure that your contributions are spaced throughout the year, and you'll be able to take full advantage of your employer's matching contributions.

Feed Your Tax-Sheltered Accounts: If you haven’t already done so, consider contributing to a regular or Roth IRA. Tax-deferred portfolios can grow faster than taxable ones, and the gains on Roth IRAs are tax -free.

Match Your Investments to Your Time Horizon: Pay attention to your investment time horizon. If you're in your 30s and saving for retirement, aggressively positioned stock funds may be a good option. But if you plan to tap the money within a shorter time frame, you may want to focus on conservative investments.

Returns and principal invested in stocks are not guaranteed. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free. A 10% penalty may apply for withdrawals prior to the age of 59 1/2.

Monthly Market Commentary

November and early December saw Hurricane Sandy's destructive powers sweep their way through a series of economic data, including new home sales, personal income, and same store sales, making them difficult to interpret. These economic data will likely remain muddled for the next few months. With the U.S. presidential election done, earnings season done, and minimal news coming out of Europe and China, all attention is now focused on whether the U.S. can avoid the fiscal cliff. Similar to how markets made wide swings during the debt ceiling negotiations in 2011, investors may experience déjà vu should Congress fail to come to an agreement by the end of December.

GDP: The second estimate for third quarter real GDP growth was revised sharply higher to a very robust 2.7%, up from an initial estimate of 2.0% and up from the second quarter real GDP growth rate of 1.3%. This positive revision was mostly attributed to higher inventories and higher exports. Higher inventories are generally not a good thing as they could indicate slumping sales. Consumer spending and business investments were also revised downward.

Employment: November's employment report came in far better than expected, with job growth of 146,000: 147,000 private-sector jobs were added, while 1,000 government jobs were lost. The Bureau of Labor Statistics also indicated that Hurricane Sandy had minimal impact on the November job numbers. Overall, the job market has been relatively stable over the last 12 months, adding an average of 161,000 new jobs per month. At that rate, it will still take about another two years to gain back all the private-sector jobs lost in the recession. Unfortunately, job growth has not been distributed evenly across industries, with services strongly outperforming manufacturing and construction. The unemployment rate fell slightly to 7.7% from 7.9% in October.

Housing: Overall housing data continued to be positive, with homes prices expected to be up as much as 5% for 2012. November's Builder Sentiment, which is compiled by the National Association of Home Builders and tends to be a good predictor of housing starts and new home sales in the months ahead, is now at its best level since May 2006 and marks the seventh consecutive month of improvement. Even the Northeast region, which was hit by Hurricane Sandy during the survey period, showed improvements. More importantly, home inventories fell 1.1% in October to 2.14 million units, their lowest level since 2006.

Auto: Auto sales were up significantly in November. As a recap, Hurricane Sandy caused a dip from 14.9 million units in September to 14.2 million in October, but sales rebounded sharply to 15.5 million units in November. Morningstar economists believe that, with vehicles damaged by Sandy still in need of replacement, auto sales may remain above the 15-million mark again in December.

Retail: November's same-store sales (excluding drugstores) were only up a miserly 1.7%, a far cry from expectations of 3%-4%. Many economists had believed that a strong Black Friday would offset the earlier-in-the-month effects of Hurricane Sandy. Unfortunately, they failed to realize that even though previous storms may have been more damaging than Sandy, this was one of the few times that a storm has made a direct hit on such a highly populated, high-income, and high-spending part of the country. Also, sales from cyber Monday will count in December's report this year versus November last year.

Looking forward to next year and hopes of Congress reaching a settlement, consumers should realize that such a settlement may mean bad short-term news for the economy. Some tax increases will likely still occur, impeding growth in the first half of the year. On the other hand, even if no settlement is reached, the worst of the immediate impacts can probably be delayed by some sort of administrative action (for example, defense cuts can be saved for later in the year).

Happy Holidays from Mentor Capital!

Mentor Capital Management Inc. would like to take this opportunity to wish everyone a safe and happy holiday season. We look forward to strengthening current relationships and welcoming new ones in the New Year. So, from John, Dan and Tammy: Merry Christmas, Happy Hanukkah, Happy Kwanza, and Happy New Year.

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