BENJAMIN F. EDWARDS & CO.
INVESTMENTS *for* GENERATIONS

Financial Perspectives

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Busting Myths About Social Security

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If you have ever seen the television series "MythBusters", you know that the show's hosts and their team of experts have gone to extraordinary lengths to prove or disprove urban legends, rumors and myths. Through a series of scientific experiments, they see if they can "bust" the myth. Not all myths are busted. Sometimes they confirm them to be true. Other times they find them plausible when an unlikely or extreme set of conditions could prove the myth to be true, even if they couldn't confirm or bust the myth.

The idea of navigating Social Security filing and claiming decisions can be confusing and overwhelming. Social Security has thousands of rules about collecting benefits. They may not be as complex (or dangerous) as proving whether you can survive on a desert island using just duct tape, but there are more than a few myths about Social Security floating around. Let's see if we can bust some!

Myth: The Social Security Administration will help me choose what's best for me.

Busted! They will explain the rules, but they won't give advice on what is right for you. Also, due to government budget cuts, getting an in-person appointment to sit down and talk with someone at your local Social Security office is getting harder. Locations have been closed. Office hours are limited. They are encouraging individuals to do more online, including verifying your earnings history, researching your options, and filing your claims.

Myth: When my spouse dies, I can keep collecting their Social Security as well as my own.

Sorry, but this myth is busted! If you elect to draw survivor benefits, your own retirement or spousal benefits will stop. When a spouse dies, the survivor can "step into the shoes" of the deceased spouse and receive the benefit he or she was receiving or was entitled to receive. Those benefits will be reduced if the survivor elects to take them early (before full retirement age or FRA). Survivor benefits can be received as early as age 60 (age 50 if disabled) and you have the option to switch between your own and survivor benefits, but you won't receive them both at the same time. For example, you could elect to take reduced survivor benefits at age 60 and wait to take your own retirement benefit until FRA or even later at age 70 if your own benefit is higher. Or you could take your own retirement benefit at age 62 and then switch to the survivor benefit at FRA. Survivor benefits don't earn delayed retirement credits after FRA, so the benefit amount will not increase if you wait to claim them beyond your FRA.

Myth: You can work and collect Social Security at the same time.

Confirmed! It is true that you can collect Social Security while you are still working. However, if you file for benefits early – before your FRA – your wages may cause all or a portion of your benefits to be withheld. This is due to Social Security's earnings test. Once you reach FRA, working no longer impacts your Social Security benefits.

Myth: My ex can keep me from collecting spousal benefits.

Busted! If you have been divorced, you can collect spousal benefits if you were married for at least 10 years, you and your ex-spouse are both at least age 62, you are unmarried, and the spousal benefit you are entitled to receive from your ex is larger than your own. Unlike currently married couples, a divorced spouse can collect benefits even if their ex-spouse is not. Also, your benefits as a divorced spouse are not impacted by any spousal benefits that your ex's current spouse may be receiving or vice versa.

Myth: Social Security is going to run out of money.

Plausible, but not likely. Social Security receives payroll taxes from workers and their employers during their working years and income taxes on Social Security benefits. The trust fund is invested in special U.S. Treasury securities that pay interest.All three revenue sources have contributed to the $2.8 trillion surplus Social Security currently has. Social Security's total costs are projected to exceed its total income and by 2034, the trust fund could be depleted. However, Social Security is largely a pay-as-you-go program and in its 75-year long-range forecast, the annual Trustees Report shows that benefits can continue to be paid well after 2034. If Social Security could only pay out what it takes in through payroll taxes and income taxes, it would still be able to pay 79 cents for every $1 in benefits. Although that situation is not ideal – nobody wants to see their benefits cut – there are several actions that Congress could take to change the program so that doesn't happen. Some ideas that have been discussed include raising the taxable wage base, which is the income level at which you stop paying in to Social Security ($128,400 in 2018), increasing payroll taxes (currently 6.2% for you and your employer), and raising full retirement age (currently ages 65-67 depending on the year you were born). One or more of these tactics could be used to prevent benefit cuts in the future.

Don't let yourself get caught up in myths, rumors, or doing exactly what your friends have done. When it comes to filing for Social Security benefits, get your team together and test some theories before deciding which claiming strategy is right for you. Benjamin F. Edwards is here to help. **Confirmed!**

A Primer on "Responsible" Investing

There has been an increasing movement within the financial industry in the form of what's known as "responsible" investing. This concept entails much more than simply making sure your investments are financially stable as they relate to your individual goals and plans. Responsible investing encompasses the ideals of morality and human rights in society; how an investment acts in the capacity of bettering society.

The concept of responsible investing tends to resonate more with new age investors, sometimes referred to as millennials. Investment philosophies that might fall under the "responsible" umbrella go by many different names – and their associated acronyms – such as: **ESG** (Environmental, Social, Corporate Governance), **SRI** (Socially Responsible Investing), and **Impact Investing**. While many people might think these are terms all synonymous and interchangeable, that's not entirely correct.

Each of these concept names represents a different analysis style that is used to grade an investment. ESG screening is characterized by an investor who – through looking at the environmental, social and governance practices of an investment – can recognize companies that are identifying future industry risk. This should not be confused with market risk. As an example, in 2008 when scores of people didn't make their mortgage payments the result was an excess in foreclosures – a type of risk that was specific to the mortgage industry. This screening hopefully reflects positively in the investment's risk-adjusted performance. The next screener, SRI, describes an investor who is seeking to connect their investment choices with an 'extra-financial principal' such as a mission, faith, or human rights principle. For example, an investor who does not believe gambling is good for society will restrict casino investments from their portfolio. Finally, Impact Investing fits the investor who seeks an investment that has a positive impact in society or that brings an industry-wide change, thus aiding and enhancing economic and social conditions.

As an investor researching responsible investing, it should be generally understood that this is a journey to find your social goals and how to affect change. Our responsibility, as your advisor, is to provide socially screened investments or asset allocation strategies that fit those goals without compromising returns. How do we achieve this? By working with money managers who invest by running both *positive* and *negative* screening processes. Positive screens apply when companies make proactive, innovative contributions to solve social and environmental problems. Negative screens occur when companies move to exclude things like tobacco, weapons, nuclear power, adult entertainment and gambling – or more correctly, the companies that engage in these businesses – from their investment portfolios. As the investor, you can specify additional screens for responsible investing. However, the default screeners are based on the idea that the primary reason to practice socially responsible investing is to achieve meaningful improvements in the behavior of companies and society. Enterprises engaged in vice activities are excluded from the realm of possible investments.

The downside to ESG investing ranking systems is that it relies on corporate disclosure. This could favor larger corporations because smaller companies do not consistently disclose their investment information on a routine basis. Additionally, screening out companies using specific restrictions will help avoid companies with bad ESG practices, but could lead to underperformance.

Responsible investing is a strategy that may not be suited for everyone, but it's an idea you may want to at least consider.

Rising Interest Rates: How are My Stocks Impacted?

In fixed-income investing, one of the first basic principles we learn is that bond yields are inversely related to bond prices – when interest rates rise, bond prices will fall. With interest rates currently moving higher after a long period of historic lows, it's important to understand the potential impact on your investments. Many investors prepared for rising

rates by adjusting the fixed-income portion of their portfolios for a potential rising interest rate environment; however, they may not have considered what impact a rising interest rate environment could have on the stocks they own.

The impact that a particular interest rate increase is likely to have on a particular security is not as clear cut in the stock market as it is in the bond market. Usually rising interest rates are a by-product of economic growth, which may help a company, but higher interest rates also increase the cost of debt that a company may need to take on to grow. In addition to trying to gauge how the higher interest rate environment will impact a company's revenues and profitability, the company's leverage, dividend yield and payout ratio may play a role in how the company will perform in this type of environment.

Historically, stocks have experienced growth in the period leading up to rising interest rates, and have continued to grow after the initial hike — but at a slower rate. Picking stocks that will do well is difficult, and we have noticed it has been harder historically for even strong stock pickers in a lower interest rate environment as the overall market tends to do well. However, in rising interest rate environments the gap between strong stock pickers and weak stock pickers is generally wider and more apparent.

It is particularly important to look for higher quality stocks in a rising interest rate environment. Here are some general guidelines of characteristics to consider when researching potential stocks to own in a rising interest rate environment:

Attractive characteristics of companies that may do well:

- Companies with relatively low amounts of debt
- Companies with a growing dividend history
- Companies in the financial sector, such as banks, may benefit as the interest margins expand creating more profit

Adverse characteristics of companies that may not do well:

- Companies with relatively high amounts of debt
- Companies with high dividends compared to earnings
- Companies in the utility sector may be pressured due to their regulated rates of return and the inability to pass this pricing along to consumers

Historically, companies that grow their dividends and also retain some of their earnings for growth tend to perform better in rising interest rate environments. Companies that pay out most of their earnings as dividends have little capital for internal growth. These companies tend to have a much higher than average dividend yield and their performance may be similar to bonds in a rising interest rate environment. Companies with lower debt than their counterparts have the flexibility to use internal reserves to continue to grow and increase margins; while companies with higher amounts of debt may not have this luxury and will be forced to re-finance at higher rates.

While these are only general guidelines of how certain stocks and sectors have been impacted in the past, as an investor, whether you are picking stocks yourself or using a professional such as a money manager or your financial advisor, you should be aware of these important characteristics when considering a potential investment.

Market Recap

Market Summary (As of August 31, 2018)

	Year-to-Date	Trailing 12-Months	3-Year Annualized	5-Year Annualized
DJIA	5.04%	18.30%	16.25%	11.88%
Nasdaq	17.47%	26.15%	19.30%	17.70%
Russell 2000	13.37%	23.87%	14.51%	11.48%
S&P 500	8.52%	17.39%	13.73%	12.18%

Sources: Benjamin F. Edwards & Co. and Bloomberg

	U.S. Treasury Yields
Two-year	2.65%
Five-Year	2.77%
10-year	2.90%
30-Year	3.06%

Source: Bloomberg (as of September 1, 2018)

U.S. Stocks

Performance of S&P 500: Index Price Returns

for Periods Ended August 31, 2018

Sector	Weightings	Year-To-Date	Trailing 12-Months	Five-Year Annualized
Info. Technology	26.5%	19.98%	31.13%	21.32%
Health Care	14.6%	12.03%	14.19%	13.50%
Financials	13.8%	1.16%	14.90%	12.41%
Cons Discretionary	12.9%	18.32%	30.49%	15.29%
Industrials	9.6%	1.24%	10.95%	11.19%
Cons Staples	6.7%	-6.11%	-1.84%	6.30%
Energy	5.9%	2.66%	18.62%	-1.64%
Utilities	2.8%	0.87%	-2.73%	7.43%
Real Estate	2.7%	2.26%	2.70%	7.46%
Materials	2.5%	-1.94%	7.81%	7.87%
Tele. Services	1.9%	-7.28%	-1.82%	0.49%

Ranked by highest to lowest index weightings; Weightings may not equal 100 due to rounding.
Source: S&P®

- Sustained economic growth is likely to be a market driver as we move into and through the fourth quarter of 2018. Real Gross Domestic Product growth for the second quarter of 2018 was revised upward to a 4.2% annual rate, from the prior 4.1% estimate and the consensus growth rate of 4.0%. Major strong contributors included business investment in intellectual property, net exports and personal consumption. Consumer spending was up 5.2% for the 12-month period ended in July, while personal income rose 4.7%. Inflation remained in tow as the core consumer price deflator, which removes the volatile food and energy components, was up 2.0% over the past year, in line with the Federal Reserve's target. Manufacturing strength continued through August as the Institute for Supply Management Manufacturing Index handily beat forecasts with gains for new orders and production.
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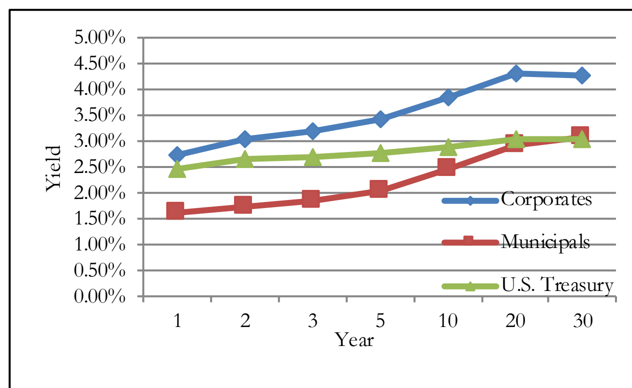
Fixed Income

Fixed Income Yield Curves (As of September 1, 2018)



Sources: Bloomberg, Bloomberg US Corporate (A) Fair Value Index, Thomson Reuters MMD.

- The yield curve continues to flatten in all markets (Corporate, Government and Municipal Bonds). This is due to the normalization of interest rates by the Federal Reserve Open Market Committee – the group that sets the short-term, overnight borrowing rates at the discount window at the Federal Reserve. The discount window (lender to banks of last resort) directly affects interest rates in the short end of the yield curve. Hence, we're seeing an increase in the first 1-5 years of the yield curve. We have not seen much of a move higher in the long end of the yield curve due to a lack of inflationary pressures in the economy. The market anticipates an additional rate hike at the September 26 meeting of the FOMC.

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IMPORTANT DISCLOSURES Past performance is not a guarantee of future results.

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Diversification does not guarantee a profit or protect against loss.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

Mutual funds and ETFs are sold by prospectus. Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from your financial consultant and should be read carefully before investing.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied ecomonic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.

An investment in a 529 plan will fluctuate such that an investor's shares when redeemed may be worth more or less than the original investment. Investors should carefully consider a 529 plan's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

An index is not managed and is unavailable for direct investment. The Dow Jones Industrial Average (DJIA) is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The Nasdaq Composite Index measures over 5,000 NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Russell 2000 is a stock-market index measuring the performance of 2000 small-capitalization stocks. The S&P 500 Index covers 500 industrial, utility, transportation and financial companies in the U.S. markets. S&P®, Standard & Poor's® and S&P 500® are registered trademarks of the Standard & Poor's Financial Services LLC.