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The Bulldog Bulletin

1st Quarter 2019

Get These Decisions Right

The sheer number of financial decisions required to manage our finances can seem overwhelming. But often we spend an inordinate amount of time on small stuff — getting the bills paid on time, reconciling bank accounts, and calling to have a late charge waived. While those things need to get done, how do we judge whether we're headed on the right course? There are six basic financial decisions that can determine the course of your financial life:

1. How you earn a living. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more than another? Your income is going to drive all your other financial decisions, so investigate your options:

- Are you sure you're being paid a competitive wage with competitive benefits? Even if you aren't interested in changing jobs now, pay attention to what is going on in your field.
- Do you have an outside interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary, or it could turn into a part-time job or business after retirement.
- Can you get some additional training to help secure a promotion or qualify for another job? Read up on what jobs are expected to experience the highest growth rates and/or highest salaries over the next five years. If you don't enjoy your current job, you have even more incentive to implement these suggestions.

2. How you spend your income. The amount of money left over for saving is a direct result of your lifestyle choices, so learn to live within your means. To get a grip on spending, consider these tips:

- Analyze your spending for a month. In which categories do you spend more than you expected? Are you wasting money on

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Keeping Expectations in Check

The most important part of creating a financial plan and investment program is knowing how much you will need to save to reach your goals. And by determining your expected rate of return, you can also figure out how much you will have to save annually. Unfortunately, there is no way of knowing for sure what that rate will be for stocks in the future, so most people turn to clues from the past.

The average annual return of the S&P 500 from 1926 to 2016 was 10% (though not adjusted for inflation), but that overall average does not mean it's the return the average investor can expect (Source: *2017 SBBI Yearbook*). To make that assessment, you must begin by reviewing the equity risk premium, or the excess return expected from a stock rather than a lower-risk investment like a bond. There are many complicated methods to calculate the premium, but the simplest option calculates the difference between total returns for large-company stocks and long-term government bonds.

Between 1926 and 2016, this difference was 4.4% (with significant fluctuations throughout that period), but that might not be a reasonable expectation in the near future. This is because price/earnings (P/E) ratios are at high levels, but may not increase much further since

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Decisions Right

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impulse purchases? Give serious thought to your purchasing patterns, trying to find ways to reduce spending.

- ❍ One of the most significant spending decisions will be your home. Many people purchase the largest home they can afford, often straining their budget. Purchasing a smaller home will reduce your mortgage payment as well as other costs associated with owning a home.
- ❍ Prepare a budget to guide your spending. Few people enjoy setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. A budget gives you a road map for spending your income. Start by setting a budget for a couple of months, tracking your expenses closely over that time. You can then fine-tune your budget for an annual period.

3. How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calculate how much you'll need to meet your financial goals and how much you should be saving on an annual basis. If you can't seem to save that much, go back to your spending analysis and cut spending. First, look for ways to reduce spending by lowering the cost of your purchases. Perhaps you can refinance your mortgage, find insurance for a lower premium, or use strategies to reduce taxes. At some point, however, you may need to cut your discretionary spending, such as entertainment, dining out, clothing, and travel.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher

rates of return have more volatility than those with lower rates of return. While you don't want to take on excessive risk, you also don't want to leave all your savings in investments with little growth potential. Your portfolio should contain a diversified mix of investment categories based on your return expectations, risk tolerance, and time horizon for investing.

5. How you manage debt. Before you take on debt, consider the effect it will have on your long-term goals. If you are already having trouble finding money to save, additional debt will make it even more difficult. To keep your debt in check, consider these tips:

- ❍ Mortgage debt is acceptable as long as you can easily afford the home.
- ❍ Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but make sure it is only used for emergencies. It may also make sense to use a home-equity loan to pay off higher interest-rate consumer loans, but don't run those balances up again.
- ❍ Never purchase items on credit that decrease in value, such as clothing, vacations, food, and entertainment. If you can't pay cash, don't buy them.
- ❍ If you must incur debt, borrow wisely. Make as large a down payment as you can. Consider a shorter loan period, even though your payment will be higher. Since interest rates can vary widely, compare loan terms with several lenders. Review all your debt periodically to see if less-expensive options are available.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent them from adversely affecting your financial goals. Make sure to have:

- ❍ An emergency fund covering several months' worth of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.
- ❍ Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.
- ❍ A power of attorney so someone can step in and take over your finances if you become incapacitated.

Making the correct choices for these six basic financial decisions will help put you on the right financial course. If you'd like help with these decisions, please call. ❍❍❍

Expectations

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corporate profits are not expected to increase rapidly anytime soon. In addition, a large portion of the equity risk premium is determined by dividends, which are now at low levels.

If the equity risk premium decreases in the future, total returns will fall lower than average. It's impossible to know for sure if this will happen, but it would be wise to keep your expectations of return below the average. Consider these strategies:

- Review your financial goals and how much you'll need to save annually to meet them.
- Save more of your income to make up for lower returns. If necessary, consider taking a second job or cutting expenses to provide those extra savings.
- Invest in a tax-efficient manner. By utilizing tax-deferred investment vehicles like 401(k) plans and IRAs, you can likely pay a lower amount of tax later than what you'd pay now and have more to invest. You can also consider focusing on investments that generate capital gains instead of ordinary income, and minimal turnover in your portfolio will help those gains grow over the years.
- If there is a prospect of lower returns in stocks, consider other investment options for a diversified portfolio of cash, bonds, and stocks, with a greater emphasis on nonstock options.
- Don't concentrate your investment portfolio in one category, because a lack of diversification in asset classes can expose you to greater losses if an asset declines.
- Evaluate your portfolio's performance annually to make sure your returns are on track. If they are lagging behind expectations, make adjustments to compensate. ❍❍❍

Preventing Identity Theft

It's a common assumption that most identity thefts occur as a result of Internet usage. But online problems typically result from the user's carelessness — responding to an email message asking for financial information or clicking on links in an email message. A far greater percentage of identity thefts occur as a result of a lost wallet or stolen mail.

Armed with your name, Social Security number, and birthdate, thieves can obtain credit cards, get loans, purchase a car, or apply for a job in your name.

While you typically aren't responsible for anything charged by an identity thief, you will have to work to restore your credit and close all fraudulent accounts. If you are a victim of identity theft, inform the three major credit bureaus so a fraud alert can be placed on your account. Also file a police report in case a creditor wants proof of the crime. Make sure to report the theft on the Federal Trade Commission's website at ftc.gov/idtheft.

To help prevent your identity from being stolen, follow these tips:

- **Protect your Social Security number.** Only give it out in situations where it is absolutely required, such as on tax forms, employment records, and for banking, stock, and property transactions. Don't print your Social Security number on your checks.
- **Only carry essential items in your wallet or purse.** Don't keep anything showing your Social Security number in your wallet. Don't keep any passwords in your wallet. Thieves can obtain a great deal of information from checks, so consider not carrying them with you.
- **Check your credit report annually.** All consumers are entitled to one free credit report per year, which can be requested at annualcreditreport.com. Review your credit reports carefully for errors at least annually. Make sure you are aware of all accounts listed and that balances are for expected amounts. Check for unfamiliar addresses and inquiries about loans you never applied for. If you find errors, report them immediately in writing.
- **Carefully share information online.** Never reply to an e-mail message asking for personal financial information. Reputable companies will not request sensitive financial information in this manner. Before giving personal information, review the site's privacy policy, which should tell you how the information will be used and whether the site sells information to third parties. Leave information blank, especially Social Security numbers, if you are uncomfortable providing data.
- **Shred financial information when discarding.** When discarding old tax returns, bank statements, brokerage statements, canceled checks, charge card statements, or any information with account numbers or identifying information, shred the information first. You may also want to shred credit card solicitations so someone doesn't use it without your knowledge.
- **Remove yourself from mailing lists.** Preapproved credit card offers are an easy way for thieves to get credit cards quickly. Credit bureaus often sell lists to companies making these offers. Call the credit agencies and request the removal of your name from these lists. ❍❍❍

Financial Data

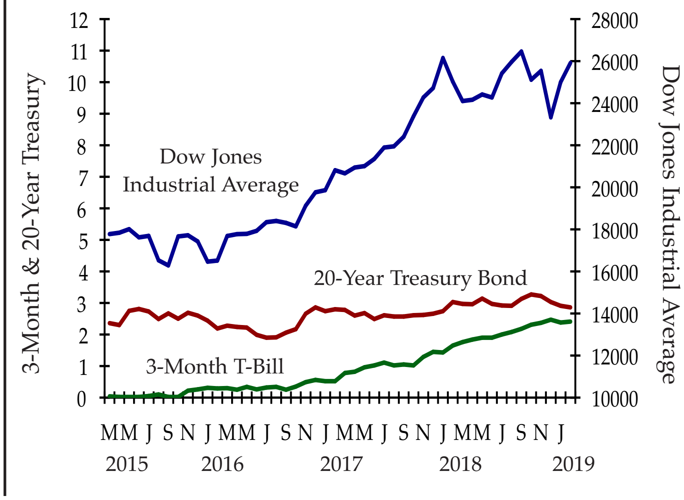
Indicator	Month-end Dec-18	Jan-19	Feb-19	Dec-17	Feb-18
Prime rate	5.50	5.50	5.50	4.50	4.50
Money market rate	0.56	0.59	0.61	0.33	0.30
3-month T-bill yield	2.47	2.38	2.41	1.45	1.65
20-year T-bond yield	3.03	2.91	2.86	2.66	3.03
Dow Jones Corp.	4.40	4.16	4.08	3.13	3.63
30-year fixed mortgage	4.16	4.11	4.00	3.51	4.02
GDP (adj. annual rate)#	+4.20	+3.40	+2.60	+2.90	+3.20

Indicator	Month-end Dec-18	Jan-19	Feb-19	% Change YTD	12-Mon.
Dow Jones Industrials	23327.46	24999.67	25916.00	11.1%	3.5%
Standard & Poor's 500	2506.85	2704.10	2784.49	11.1%	2.6%
Nasdaq Composite	6635.28	7281.74	7532.53	13.5%	3.6%
Gold	1281.65	1323.25	1319.15	2.9%	0.1%
Consumer price index@	252.04	251.23	251.71	-0.1%	1.5%
Unemployment rate@	3.70	3.90	4.00	8.1%	-2.4%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

March 2015 to February 2019



Past performance is not a guarantee of future results.

News and Announcements

Reviewing Legal Documents

Whether this is your first, second, or subsequent marriage, take a look at major legal documents to see if changes are needed. Even if you've been married for a while, it's not a bad idea to review these documents:

- ❍ **Estate-planning documents** — If this is your first marriage, you may not even have estate-planning documents. In that case, at least prepare a will and durable power of attorney, so that state laws won't dictate how your estate is distributed. For those entering a subsequent marriage or with children, thoroughly review your estate-planning documents. Changes may be needed to provide for your spouse while also protecting your children, which could involve setting up trusts. Review your estate-planning documents every couple of years.
- ❍ **Asset ownership** — Review how assets are titled to ensure they are consistent with your estate-planning goals. If assets are owned jointly with rights of survivorship, that will take precedence over any provisions in estate-planning documents. Typically, a home, bank accounts, and brokerage accounts will be owned jointly.
- ❍ **Assets with beneficiaries** — These assets would include life insurance policies, retirement plans, and individual retirement accounts (IRAs). For assets with named beneficiaries, these designations will take precedence over estate-planning documents.
- ❍ **Business arrangements** — If you are a partial owner of a business, review any agreements dealing with what happens to the business if you die or sell your interest. The agreement may need to be changed to allow your spouse to continue ownership after your death or for him/her to become involved in the business. ❍❍❍

FR2018-1128-0058