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2017 Stock Market Outlook: Stocks had a good year in 2016, rising 12% when dividend payments were added back. It's easy to forget now how tumultuous a year it was. There were three big pull-backs, the first happening right at the beginning of the year when the market fell 13% on fears of a recession in the U.S. and China. Stocks rebounded but then fell 6% after the unexpected Brexit vote and another 5% right before the Presidential election. This is how it usually works. Stocks don't consistently go up. There are always going to be unanticipated reasons for pullbacks, and even in good years, it's normal to see major price swings. But, the stock market is resilient, and the big gains are made when we understand why we bought our particular investments, are content owning them, ignore the day-to-day noise coming from Wall Street, and stay invested for the long-term.

While we are not making any predictions for the stock market in 2017 (one year is too "short term" to be able to do that with any degree of certainty), there are a number of reasons why stocks may have another good year. First, with Republicans in control, we expect to see growth-oriented fiscal policies such as tax cuts and regulatory reform that will make U.S. companies more profitable and competitive. Increased spending on the military and infrastructure projects will also provide a boost.

Second, U.S. companies are turning profitable. Starting in the third quarter of 2014, corporate earnings have been shrinking and actually went negative in 2016. Corporate earnings are expected to grow throughout 2017 thanks to a rebound in energy stocks and proposed tax reforms. If inflation remains low, this should translate into higher stock prices.

Third, large pension and sovereign wealth funds are over-invested in bonds and underinvested in stocks. As they look for higher returns, we'd expect a rotation out of bonds and into stocks.

Fourth, the number of publicly listed U.S. companies has dropped dramatically over the past 20 years. According to a recent Wall Street Journal article ("[America's Roster of Public Companies is Shrinking Before Our Eyes](#)" Jan. 5), the number has fallen by more than 3,000 since peaking in 1997 at 9,113. Private wealth funds have convinced management that going or staying public is full of regulatory hassles, not to mention having to be judged on a quarterly basis when earnings come out. The law of supply and demand dictates that a shrinking

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Brandon S. Collier, Editor

Collier & Associates, Inc.
30195 Chagrin Blvd., Suite #100
Cleveland, Ohio 44124
Phone: 216/765-1199
Fax: 216/831-8279

Email: newsletter@collieradvisors.com
Website: www.collieradvisors.com

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supply of companies should generally increase the prices of those companies.

These are some reasons why stocks may be poised for more gains. **Of course, there are always concerns.** With the Dow crossing 20,000 for the first time ever, the market is already at an all-time high. It has priced in these positive trends. Any disappointments with the size and scope of tax and regulatory reform, infrastructure spending, etc. could mean a big pullback. A strengthening U.S. dollar will hurt our large multi-national companies as their exports become more expensive to foreign purchasers. And, if inflation returns in a meaningful way, brought on by rising wages, then the Fed may raise interest rates to cool the economy. Our job as investors is to weigh these pros and cons and then make our decision.

Some Investment Ideas Worth Considering - Health Care Stocks and Oil and Gas Master Limited Partnerships: *Editor's Note: The following are not specific recommendations for any particular investor, but are ideas to consider as a starting point in your own research.*

Healthcare stocks are cheap relative to the rest of the market, based on the potential dismantling of Obamacare and drug price uncertainty. But, the long-term prognosis is strong as people are living longer and spending more on their health care, particularly in wealthier countries with aging demographics. Consider the large dividend-paying pharmaceutical companies like Johnson & Johnson (Ticker: JNJ) and Novartis (NVS) or the biotech industry as a whole. We expect to see major advancements in biotech, but the sector is volatile. We prefer owning the sector in the exchange traded fund, IBB.

Master limited partnerships (MLPs) are generally companies involved in the U.S. energy infrastructure - pipelines, storage tanks, processing facilities, etc. They benefit from an increasing demand for oil and natural gas and will benefit further from rising U.S. production from the shale revolution. The pipeline companies are stable and slow growing, producing consistent cash flows year after year. Investors buy them primarily for income. They were unfairly pummeled when oil prices fell in

2014 and 2015. They started rebounding in 2016 but are still well off their old highs. These are structured for tax purposes as partnerships, but can be owned in a corporate form through an exchange traded fund like TYG, which pays a current dividend of 8.4%.

Defense companies like Lockheed Martin (Ticker: LMT), General Dynamics (GD) and Boeing (BA) and banks like Wells Fargo (WFC) and J.P. Morgan Chase (JPM) are also expected to prosper with the new administration's commitment to building up the military and with rising interest rates. These sectors have risen since the election, but the P/E ratios of these listed stocks are generally at or below the average for the overall market.

If You Own Actively Managed Stock Funds Run by a Team of Investment Professionals (As Opposed to a Computer that Simply Invests in the Companies Comprising the Index), Compare How These Funds Performed Against the S&P 500's 12% Return: When expense fees and load charges are taken into account, they probably underperformed. One of the largest such investment firms promotes its funds by saying, "Investing in an index fund means investors won't do worse than the overall market, but it guarantees they'll never do better. So why settle for average?"

This sounds like a compelling case for active management -- after all, who wants to be average when you could hire someone who will beat the average? But, there are flaws in this logic. First, the promotional literature plays on people's innate desire to want to do better than average. But, when it comes to investing, if you are able to earn just average stock market returns over your investment lifetime, then you should retire very wealthy. According to Ibbotson Associates, over the very long measuring period of the last 90 years, the large-cap U.S. stock sector has returned 10% per year. For example, a 35-year old who can save \$50,000 per year in the stock market for 30 years and earn the historic average return of 10% per year will have \$8.2M by age 65.

Second, the S&P 500 is not the average or median performer when compared against all active funds. These funds charge fees that

are much higher than the 0.10% charged by the typical index fund. This is a very difficult hurdle to overcome, particularly when the actively managed funds tend to own the same companies that comprise the index. In fact, the index usually beats 80% of the competing funds. If you're looking for one that will consistently beat the plain old index, the odds are very much stacked against you.

Three popular low cost S&P 500 index funds: SPDR S&P 500, ticker: "SPY", expense ratio: 0.09%; iShares S&P 500, ticker: "IVV", expense ratio: 0.07%; and Vanguard S&P 500, ticker: "VOO", expense ratio: 0.05%.

The Trump Victory is Good News for Family Limited Partnerships: Last August, the Obama administration instructed the IRS to issue controversial regulations that would have likely ended this popular estate planning technique. The regulations would have eliminated the valuation discounts that wealthy parents use when gifting ownership interests in FLPs to their heirs. They are now expected to be withdrawn or dramatically scaled back. Plan on the FLP remaining a viable estate tax saving technique for families with large estates (in excess of the \$11M or so that is already exempt from the estate tax).

Dropping a Low Paying PPO Plan and Limiting the Damage: In the January 15th Newsletter, we summarized how to best negotiate higher PPO reimbursements based on Bill Rossi's lecture at our Scottsdale, AZ seminar in late December. What follows is Bill's advice for dropping a PPO plan and limiting the fallout. Dropping a plan is a serious business decision and demands careful consideration. This is not an ideal topic for this Newsletter, as the short format of the Newsletter items doesn't adequately capture the nuances involved. With that said, here are some recommendations:

Don't drop a plan out of anger. Do it rationally. Before dropping, always try to renegotiate.

Ironically, dentists with the most PPO participation (usually 5 or more) are the ones least inclined to drop even though they are in the best position to do so. It's not unusual to see these dentists collecting less than 75% of

what they produce. If this applies to you, it is time to start peeling off some of them.

You don't necessarily start with dropping the PPOs with the lowest fee schedule. That is a major factor, but the ideal PPO to drop represents a small portion of your patient base (say 10% or less) and has decent out of network benefits. The process of dropping this smaller PPO is going to be a "dress rehearsal" for the bigger ones you may later decide to drop.

When giving your notice to leave network participation, always be polite and leave the door open for the PPO to pay you more. Sometimes, if they didn't negotiate earlier, they will now. In any case, keep the communications professional and positive.

Ask them to send written confirmation to you confirming the date of the transition. Before the transition date, do not start telling patients. Do not send letters! These letters often aren't fully understood and can sound sanctimonious. Instead, train your staff to deal with patients both face-to-face and over the phone. They have to know how to tactfully address both old and new patients about your participation as "out-of-network providers." There are many nuances to this that go beyond what we can discuss here. It's best to get professional help through this process.

Be supportive of your staff. The more confident they are, the more calmly they will deal with this transition with patients and the better the patients will accept the change. Keep in mind that's it's very likely you're already seeing patients from various PPOs on an out-of-network basis. Patients are generally more loyal than you think. Very few offices will be completely out of PPO participation. The goal is to find the right balance.

It is also very important that you have a plan to fortify your practice. That is, you can't just drop the PPO and do nothing else. You want to build up the practice through advertising, adding services, and tuning up your systems.

The bottom line: If you handle things right, chances are you'll lose the discounts and you'll keep the majority of the patients in any given

plan. There are substantial risks and rewards in leaving a PPO. However, it's probably easier and less risky than you think it is. There are few decisions that you can make that will add more to your bottom line, not just this year, but for years to come. You can't "outrun" the discounts forever.

Massachusetts Dentists: Before you sign up with the "New" Delta, or drop Delta altogether, it is very important to discuss the nuances of these decisions. Collier subscribers can call Bill Rossi at (952) 921-3360 if you'd like to discuss this and get the "inside baseball" analysis of what's happening.

Amazon's 5% Cash Back Cards: If you're already paying the \$99 annual fee for Amazon Prime's free two-day shipping, music, movies, etc., you also have access to some appealing payment options -- the **Amazon Prime Store Card** and the **Amazon Prime Rewards Visa Signature Card**. They each pay 5% cash back on Amazon purchases and have no additional annual fee. The store card, which has been around since 2015, can only be used for purchases on Amazon, and you'll receive a \$40 gift card for signing up. The credit card, which was introduced this January, can be used anywhere, pays 5% back on Amazon purchases, 2% at gas stations, restaurants and drugstores and 1% everywhere else. These rewards are redeemable only at Amazon, however.

If you are debating whether or not the \$99 cost for Amazon Prime is worth it, ask the editor of this Newsletter (or, better yet, his wife), and you will get a resounding "Yes."

An Update on Tax Free Disability Benefits When Prior Premiums Have Been Paid by a Corporation: Note, the following concepts cannot work for (1) partnerships, (2) self-employed doctors or (3) S corporations since they cannot deduct an owner's disability insurance costs.

We have been asked to comment again on our long-time suggestion that an incorporated doctor pay his own disability insurance premiums and then have the corporation reimburse him

at the beginning of the next premium year in the event he is not disabled during the year. He will not be reimbursed if he is disabled. We have stated there are no guarantees, but this could result in the premiums being deductible with the benefits not being taxable. The "risk" is that the IRS might take the position that even if the doctor paid the premiums during the year he was disabled, the benefits are still taxable because of the established pattern of being reimbursed one year late.

IRS issued a private letter ruling many years ago (PLR 8027088) holding that the benefits were tax free because the doctor paid his own premiums during the year of disability, despite the fact that the corporation paid his premiums in prior years. Private letter rulings do not set precedent, but they do give us a good idea of the IRS's position. Yes, we like this approach just as much as in the past.

Employee Elections Not to Participate in a Retirement Plan: Occasionally an eligible employee will waive participation in a retirement plan. Why? IRS may assume she was coerced and might ask questions. Coercion is wrong and could disqualify a plan. We suspect the more typical reason is that she requests/demands current cash instead of a contribution. If you allow an employee to elect out of a plan, your plan must permit that option and you should get a form from your plan advisor for her to sign acknowledging her election can be denied or revoked by the plan if including her becomes necessary to meet IRS's rules on the number of employees who must participate in order for the plan to pass the annual non-discrimination testing.

HSA Beneficiaries: What happens to your HSA on your death? It passes to the named beneficiaries. If this is your spouse, then your HSA becomes your spouse's HSA and he or she can continue the tax-free growth and tax-free distributions for the remainder of his or her life. If children are named, then they can't continue the HSA. Their inherited share will be taxable to them in the year of receipt. For this reason, check your beneficiary designation, and if you're married, make sure it names your spouse.