On Course Financial Planning
Facing the Future with Optimism and Courage
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Elder Fraud

Most financial planning blogs and articles discuss strategies on how to invest and allocate assets during your accumulation years. For most retirees, the biggest perceived threat to their financial wellbeing is stock market volatility. But in too many cases, the biggest financial threat to seniors has nothing to do with the economy or the capital markets. According to the FBI, more than 2 million seniors were victimized in 2018 by financial fraud. In 2017, 63,500 elder financial exploitations were reported to government agencies totaling more than $6 billion. The average loss was $34,000 and in 7% of the reported incidents, the loss exceeded $100,000. Most incidents of financial fraud are never reported. The United States Senate Special Committee on Aging has issued a report: *Protecting Older Americans Against Fraud,* which details the most common scams targeting seniors.

IRS Impersonation Scam. Scammers typically accuse victims of owing back taxes and penalties. They threaten home foreclosure, arrest and in some cases deportation if immediate payment is not made by certified check, credit card, electronic wire transfer, prepaid debit card or gift card. After victims make an initial payment, they are often told that new discrepancies have been found in their tax records, which require another payment. Most of these calls involve a disguised, or "spoofed" caller ID to make the victim believe that the call is coming from Washington DC's 202 area code or the "Internal Revenue Service". Taxpayers have been told that the IRS never makes phone calls to tell them that they own back taxes. However, Congress passed a law in 2015 that enables the IRS to use private debt collectors to collect overdue tax debts. The IRS will notify a taxpayer in writing when their account has been transferred to a private collection agency. Once the IRS sends this letter, the collection agency will send its own letter and then may begin calling the taxpayer. It's inevitable that scammers will take advantage of this new moneymaking opportunity. If the IRS has questions about your return, you'll receive a letter and there's an appeal process to settle any disputed tax bill.

Robocalls. Robo-dialers are used to distribute prerecorded messages or connect the person who answers the call to a live person. Robocalls often originate overseas, ignore the national Do Not Call Registry and often spoof caller IDs to hide their identity. Some spoofing techniques alter the caller ID to the victim's local area code and I've received robocalls with my name as the caller ID. Robo scammers pose as representatives of banks, credit card companies, creditors or government agencies. A recent spoof causes "Social Security" to appear as the caller ID to mislead people who are told that their Social Security number has been involved in fraudulent activity. Robocallers hope to obtain account numbers, Social Security numbers, mother's maiden name, passwords and other identifying information. Nomorobo is a phone app I've been using that has eliminated most robocalls to my cell phone.

"Can you hear me?" "Are you there?" scam. The goal is to get your voice print saying, "yes". At that point, the call is often disconnected. Then, the scammer charges your credit card using your "yes". If asked, don't respond or press 1 to speak to a live operator to be removed from the list. Just hang up. These calls are also used to identify people who are likely to answer a phone call from an unknown caller. If you respond in any way it will likely lead to more robocalls.

Grandparent scam. This is a common scam in which imposters pretend to be the victim's grandchild and/or an arresting police officer, lawyer or doctor calling on behalf of the grandchild. The fraudster claims the grandchild is in trouble and needs money to help with an emergency, such as getting out of jail, paying a hospital bill or leaving a foreign country. Con artists often tell victims that their family member was pulled over by the police and arrested after drugs were found in the car. The "grandchild" often tells the victim to refrain from alerting his or her parents. After payment has been made, the fraudster will often call the victim back claiming that more money is needed for another unexpected legal fee. Victims who were duped later said that they wish that they had asked some simple questions that only their grandchild would know how to answer.

Computer tech support scam. Victims see a pop-up screen while surfing the internet or receive a call from an alleged Microsoft, Apple or Dell tech support technician. The scammer claims that their PC is infected with a virus. Victims are asked to give remote access to their computer and a credit card or bank account number to pay for virus removal. Sometimes, scammers hack into a victim's computer, lock them out and demand a ransom payment to regain control of the computer. Some scammers have paid a fee to Google to appear on the top of the "sponsored results" section of searches for computer tech support. If you need computer help, contact a company's tech support directly. Do not give control of your computer or credit card information to a third party that calls you out of the blue.

Romance scam. More and more Americans are using the internet to find romance. According to the Pew Research Center, 12% of those aged 55 to 64 reported using an online dating site in 2016. While some find love, others are scammed by con artists who exploit their loneliness and vulnerability. Romance scams disproportionately target women. In a related scam, known as confidence fraud, con artists assume the identity of a US soldier serving overseas and claim to need financial assistance. Typically, romance scammers connect with victims through internet chat rooms, dating sites, email and social media. Con artists have been known to create elaborate profile pages to give their fabricated story more credibility. They often call and chat on the phone for weeks or months to build trust with their victims. Eventually, the scammer will ask for money, sometimes for travel expenses to visit the victim. In other cases, they claim to need money for medical emergencies or hospital bills for themselves or a child. Victims may unknowingly take part in money laundering when con artists send them checks to cash under the guise that the scammer is overseas and cannot cash the checks. Be wary of anyone who declares his or her love and then requests money for a visit or to pay for unexpected bills or medical expenses.

Identity theft. Identity thieves use pilfered identities to steal from bank accounts, make unauthorized credit card charges and submit fraudulent billings to Medicare. Some create phony tax returns that direct tax refunds to their own mailing address or bank account. The 2017 Equifax data breach exposed personal information belonging to 145 million people – nearly half the US population. Scammers have capitalized on the Equifax breach by claiming that they work for Equifax and are calling to verify account information. Placing a freeze with major credit bureaus helps prevent credit cards or loans from being taken out in your name.

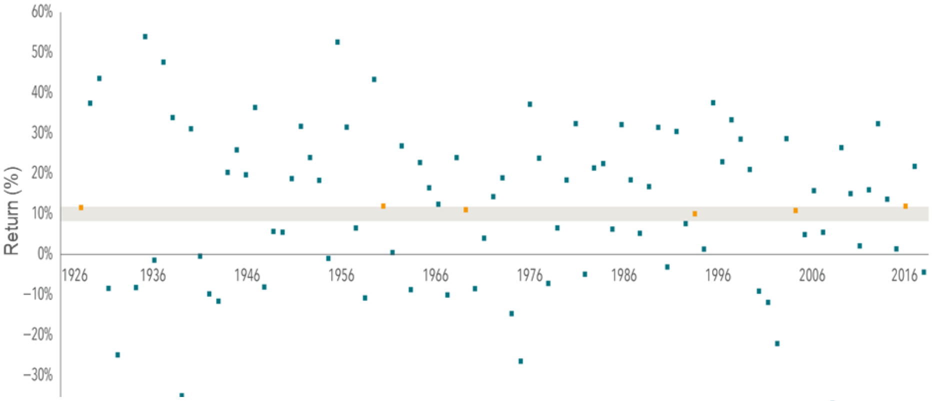
Government grant scams. In the most common variation of this scam, victims receive a phone call from a con artist claiming he or she is from the "Federal Grants Administration" or the "Federal Grants Department" – agencies that do not exist. Scammers request that victims wire money to pay for processing fees or taxes before they can receive their government grant. Government grants are made for specific purposes and require an application process; they are not awarded because you are a good citizen. Do not wire funds to cover fees for the so-called grant. Government grants never require fees of any kind.

Sweepstakes scams/Jamaican lottery scam. Sweepstakes scams continue to claim senior victims who believe that they have won a lottery or a new car and that to receive their winnings they must wire a few hundred dollars to cover processing fees and taxes. Scammers will often instruct their victims not to share the good news with anyone so that it will be a big surprise when they tell their families the news of their good fortune.

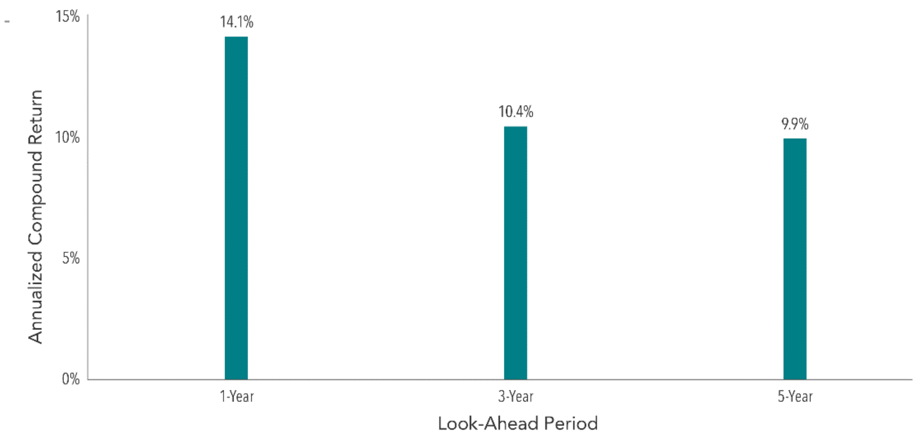
In the News

From the beginning of the current bull market, which began in March 2009, the S&P 500 Index has yielded an average annualized return of 15.1% – not including dividends. If we eliminate the five best days of each year, the annualized return declines to a mere 1.1%. Likewise, if we eliminate the five worst days of each year, the annualized return rises to 32.2%. Numbers like these are often used to promote market timing strategies that promise to tell you when to be fully invested in the stock market and when to be sitting in cash on the sidelines. After all, why settle for 15.1% if you can get 32.2%? However, on average, two of the S&P 500's five best days each year over the past decade have occurred within a week of one of the five worst days of that year – during times of extreme market volatility. It would be nice if there was a market timing strategy that could insulate you from market declines. But no such strategy exists. The financial rewards of equity investing come in short bursts that cannot be timed or known in advance. The old saying has been proven true time and time again – the best returns come from time in the market, not timing the market.

Economic theory states that full employment and low inflation cannot coexist. To the ongoing dismay of the Federal Reserve, core US inflation has remained below its 2% target, even with what amounts to full employment today. Central banks in the United States, Europe and Japan struggle to achieve their 2% inflation targets despite a decade of low interest rates. One important factor behind the low inflation is technology. Intel co-founder, Gordon Moore, formulated Moore's Law - as technology improves, the relative price of technology declines. Companies are using technology to produce an increasing number of goods and services and the unit costs of production are declining. Over time, these lower costs are passed on to consumers in the form of lower or less rapidly increasing prices, even in sectors of the economy that do not relate directly to technology. According to a study by Vanguard, the declining price of computer technology and electronic products has subtracted 0.5% per year from production costs and consumer prices since 2001. In other words, annualized inflation would have been 0.5% higher and the Fed's 2% inflation target would have been achieved years ago. Competitive pressures mandate that companies will continue to replace older production processes with newer and cheaper tech intensive ones. Vanguard's report concludes – *"Overall, our assessment further bolsters our view that inflation and interest rates will remain historically low for some time…Moore's Law and the pace of* *technological innovation are likely to remain an obstacle to central banks' goal of 2% inflation."* This sounds like good news to me.



Charts from Dimensional Fund Advisors



The annualized average return of the S&P 500 Index from 1926 through 2018 has been 10%. But this isn't the whole story because it tells us nothing about the large variations in the index's annual returns. The shaded band in the top chart ranges between 8% and 12%. Only six of the past 93 years saw returns within plus or minus 2% of the long-term average. The pattern of annual returns has been random, with returns falling well outside the band most years. From 1926 through 2018 there have been 1,057 overlapping 5-year periods and 997 overlapping 10-year periods. Despite the large variation in annual returns, 88% of rolling 5-year periods and 95% of rolling 10-year periods produced positive returns. This is just another example why it's imprudent to adjust your portfolio allocation based on recent stock market performance.

The S&P 500 Index has logged several new all-time highs this year. Consequently, many predictions that the good times are about to end have appeared in the financial media. We listen to forecasts made by serious sounding financial "experts" because they give us a false sense of comfort. The second chart shows the annualized average return of the S&P 500 one year, three years and five years after reaching an all-time high. As can be seen in the chart, historically, new market highs have not been precursors of poor future returns.

According to an article in the *Wall Street Journal,* public pension plans with more than $1 billion in assets earned a median (half more, half less) return of 6.8% for the year ending June 30th and their 10-year annualized average return was 9.7%. CalPERS, the pension fund for California's public workers, is the nation's largest public pension fund and it reported a 6.7% return for the year ending June 30th and a 10-year annualized average return of 9.1%. These plans have access to the country's most talented money managers and their portfolios contain all the fancy, must have investments -- commercial real estate, stocks, commodities, hedge funds, infrastructure, timber land and private equity. State and local pension plans have $4.4 trillion in assets but face a $4.2 trillion shortfall in what is needed to pay promised benefits. CalPERS' portfolio contains enough assets to pay just 70% of its future obligations to public workers in California.

So how does the performance of these pension plans compare to my Lazy Golfer Portfolio? The Lazy Golfer portfolio consists of five Vanguard index funds-- allocated 40% to the Total Stock Market Index Fund (VTSMX), 20% to the Total International Stock Index Fund (VGTSX), 20% to the Inflation Protected Securities Fund (VIPSX), 10% to the Total Bond Market Index Fund (VBMFX) and 10% to the REIT Index Fund (VGSIX). It has an annual expense ratio of 0.17%. Rebalance the fund on your birthday and ignore Wall Street for the remaining 364 days of the year. For the 12 months ending June 30th the Lazy Golfer earned 6.9% and its annualized average return over the past 10 years has been 9.9%.

Public pension plans have transferred hundreds of millions of dollars from plan participants into the pockets of money managers who, on average, can't outperform a simple, "dumb money" portfolio. I can't make this stuff up. Buying and holding a balanced portfolio of diversified index funds is the best way I know of to maximize the after expense, post-tax return of your invested dollars – regardless of what the "smart money" is doing.

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