



Your Wealth: The Number

It's safe to say most people have seared into their memory a few important numbers: Social Security number, home address, phone number, kids' birthdays and wedding anniversaries (hopefully). Most people can also rattle off a few important financial numbers: annual income, account balances, how much they are saving, sometimes even the monthly mortgage payment.

However, one number that is critically important to financial success is underappreciated. What is this overlooked and often unknown number?

Annual Living Expenses

In short, "The Number" is often the key variable in assessing one's financial situation. It is especially critical in determining the viability of retirement and legacy planning.

Despite its importance, it has been our experience that this number remains elusive, usually for two reasons.

First, The Number is difficult to discern because of the dizzying number of daily transactions occurring in various accounts (checking, savings, credit cards, retirement, etc.). Tracking all this movement of money is tedious at best and impossible at worst. It is obviously not how most people want to spend even one minute of their valuable free time.

Second, knowing The Number can be

psychologically uncomfortable. Some people would rather not face the reality of how much they are spending. Subtracting expenses from income could result in a negative number, an unavoidable proof illustrating spending is too high, and fat must be cut somewhere. Such an unpleasant experience is painful in the short-term. But once the initial sting passes, this exercise can lead to necessary conversations.

Despite the practical and psychological challenges with confronting The Number it is the cornerstone of a working financial plan. So why is this so important?

► What can The Number tell us at various stages of life?

1) The Working Years: The Emergency Fund

Knowing how much you spend each year allows us to plan for establishing a solid base of liquidity, sometimes referred to as a "rainy day fund," or an "emergency fund." This cash position serves as the cornerstone when constructing a customized investment portfolio. Before deciding on an asset allocation, risk tolerance, etc., it is wise to set aside six to twelve months of living expenses in a liquid, accessible account.

Having this base of available cash

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TOTAL RETURNS

	2Q2018	2018
S&P 500	3.4%	2.7%
Dow Jones Industrial Average	1.3%	-0.7%
NASDAQ	6.6%	9.4%
Russell 2000	7.8%	7.7%
MSCI EAFE (International)	-0.8%	-2.4%
Barclays Aggregate Bond Index	-0.2%	-1.6%

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can save money in several ways. Having sufficient cash available prevents the use of “bad debt” (i.e. credit cards) to fund an emergency. Surprise expenditures like these are a question of when, not if. It also prevents the need to “sell low” less-liquid investments (stocks, rental properties) when the inevitable emergency expenditure rears its ugly head. This fund can also help reduce the costs of insurance. Health, auto, and home insurance policies can be structured with higher deductibles, which usually lowers the premiums associated with protecting against these risks.

2) Pre-Retirement: Tracking Progress Toward Retirement and Other Long-Term Goals

When we have a good handle on cash coming in relative to cash going out we can then calculate how much is available to save for retirement, college, and other long-term goals. Without knowing The Number, we have no way to know how much we can or cannot save. Once spending is detailed, it may become apparent how much cash flow is “unknown” and in all likelihood, wasted.

3) Approaching Retirement: When Can I Retire?

The more accurate the estimate of The Number, the more confidence we will have in answering that critical question – “When can I retire?” Sometimes, the answer isn’t pleasant. This is the case when a gap exists between retirement cash flow projections and living expenses. This may create the need for a few more years of working and saving. As unpleasant as this result is for some, it’s much better than the alternative - a painful reduction in lifestyle in what are supposed to be the golden years. Happily, for some this calculation provides the necessary assurance that the nest egg and other sources of income will be enough to take that next step.

4) Retirement: Confidence in Sustainability

During the retirement years The Number becomes critical. The Number guides the discussion of risk tolerance and asset allocation. It is a necessary input in answering the question: “Will we run out of money?” There are many things out of our control: the economy,

the markets, tax rates, medical costs, etc. But the better we know The Number, the more confidence we have in projecting the sustainability of retirement cash flow. The Number may fluctuate through the years and stages of retirement, as higher levels of activity in the early years transition to higher medical costs in the later years. This calls for periodic reviews to update the assessment and discuss the plan. With conservative assumptions and a firm grasp on spending needs, we can work with clients to answer the question with a higher degree of confidence.

A Note on Taxes

Taxes are usually the largest cash outflow throughout our lives. With this in mind, it is helpful to focus on efficiently managing taxes before and after retirement. The tax code is complicated and ever-changing, but managing the tax effect on the bottom line should be a high priority for any comprehensive wealth plan.

Bottom Line

Even if all the sub-categories and specific details of spending aren’t spelled out, simply knowing the total of how much is going out is helpful. While tedious and potentially unsettling, digging in and identifying The Number is an essential exercise in the wealth planning process. Knowing it can bring the peace of mind that comes with a well-designed plan. Without it, wealth planning becomes nothing more than an educated guess.



► Market Update

U.S. Stocks Advance, but Emerging Markets Drag Down International Stocks

U.S. large cap technology companies continued driving overall stock markets higher in the second quarter. The NASDAQ Index, largely made up of tech and consumer discretionary stocks, outperformed the broader S&P 500 Index for the sixth quarter in a row. Energy stocks were another big winner in the second quarter, gaining 13% on

the back of more increases in the price of crude oil, which has gained more than 20% in 2018. International stocks were weak, particularly in emerging markets. Ongoing global trade concerns, a rising U.S. dollar, rising U.S. interest rates, and rising crude oil prices led to the worst quarter for emerging markets since 2015.

The tech leadership continued despite the heated

CONTINUED...Market Update

rhetoric on trade policy. Historically, tech companies have been more insulated from trade battles, but that dynamic may be changing. President Trump has made clear that intellectual property theft is one of his primary concerns as it relates to trade relations with China. In addition, tech companies now represent a far greater share of the economy than in the past.

Still, the narrow leadership of tech stocks over the last several quarters has caused some concern that the broader market would take a larger hit when tech stock performance turns. In addition to potential fallout from tariffs and trade policy changes, tech companies are facing heightened scrutiny from the government and a stronger dollar. With more than half of their sales coming from overseas, tech companies are vulnerable as foreign revenues translate to fewer U.S. dollars.

Global Trade: Lots of Tough Talk, Limited Action So Far

Along with central bank policy, global trade is the key issue for the markets in the second half of 2018 and beyond. While there has been a lot of attention, headlines, and debate on the topic, very little has actually been done so far. It is clear President Trump believes unfair global trade practices have harmed American businesses and caused American jobs to move overseas. His stated objective is to level the playing field and ultimately bring jobs and industry back to the U.S.

So far, the amount of tariffs that have been implemented versus threatened remains small. But Trump's recent actions demonstrate his commitment to take action. The Trump administration initially placed tariffs on solar panels, washing machines, steel, and aluminum, which represent a small fraction of U.S. imports. But Trump has turned up the heat after foreign powers, particularly China and Europe, responded in kind with their own threats. Most recently, the U.S. and China simultaneously hit each other with tariffs of \$34 billion. As of today Trump has threatened tariffs on up to \$800 billion worth of imports. That number represents nearly one-third of total U.S. imports and may include tariffs on nearly everything imported from China.

It is nearly impossible to predict the extent to which tariffs and other policy changes will actually impact the global economy. This is especially true given the difficulty of predicting the effect on business and consumer confidence. But the direct hit to U.S. economic growth would likely be modest. Most economists are predicting that U.S. GDP growth would slow by less than 0.5%. It's also likely inflation would temporarily move slightly higher, reflecting the one-time adjustments for tariffs.

The effect on certain industries is more easily predicted. Automotive companies, some technology companies, and



manufacturing companies that use steel and/or aluminum inputs are likely to suffer the most. Already, some companies have provided details on how these tariffs harm their business. In some cases, companies have warned they may shift production abroad to avoid them.

Growth in Earnings, Economy Tempered by Risk Awareness

Meanwhile, corporate earnings and economic growth have been healthy. The first quarter earnings season produced strong results, with revenues, margins, and earnings numbers all impressive. On top of that, the economy continues to perform well. However, several potential headwinds combined to temper the market's enthusiasm. The trade war topic is front-and-center, but others are also in play.

One of the biggest questions facing investors now is where we stand in the economic cycle. The current period of expansion is nearly ten years old, one of the longest in American history. Age alone doesn't send the economy into decline. But the length of the expansion increases the difficulty of overcoming the various risks facing it. The passage of tax reform brought a potential boost, but there is some concern that any improvement may only be temporary. Such government stimulus is typically more impactful when the economy is closer to a low point, and may have come too late in the cycle to make much difference.

Rising interest rates are another headwind to further growth. Rates rose again in the second quarter. The ten-year U.S. Treasury yield briefly broke above 3% for the first time in seven years before negative trade headlines led to a reversal. But with inflation data showing signs of acceleration, and the Fed indicating more rate hikes are likely in 2018, rates could be headed higher in the months ahead. Central banks overseas also plan to take steps to normalize policy. A rising U.S. dollar, rising oil prices, and emerging market volatility are additional headwinds that could slow the economy's momentum in the second half of 2018.

WE Speak Series

JIC is the Excellence Investor Sponsor for the 2018 WE Speak Series hosted by the Cincinnati USA Regional Chamber. Three luncheons are hosted throughout the year and each features a panel of female leaders in the Cincinnati region. This series gives attendees the opportunity to hear personal experiences, advice, and lessons learned from female leaders in the area. Speakers this year have included Laura Mitchell, Dr. Monica Posey, Tamaya Dennard, Denise Driehaus, and Leslie Ghiz.



JIC Named Top Workplace

Johnson Investment Counsel was named one of "Cincinnati's Top Workplaces in 2018" by Enquirer Media for the fifth year in a row. Based upon employee feedback, companies were evaluated on the following criteria: opportunities for career development, balance between work and personal life, compensation, manager performance, and overall job satisfaction.



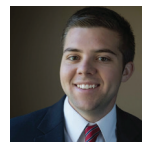
New Additions to the Team

We are pleased to announce that the following individuals have joined our team over the last several months:

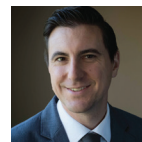
- > Joseph Abbott
Research Associate
- > Eric Bachus
Portfolio Manager Assistant
- > Joseph Carlo
Portfolio Manager Assistant
- > Zachary Kaufman
Systems Analyst
- > Kimberly Lammers
Portfolio Manager Assistant
- > Carolyn Moeller
Client Support Assistant



Abbott



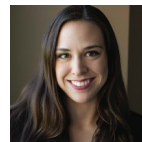
Bachus



Carlo



Kaufman



Lammers



Moeller

About Us

Johnson Investment Counsel, Inc. is Ohio's largest independent wealth management firm, managing over \$10 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs and more. Johnson Investment Counsel has built strong, long-term relationships with individuals and families, charitable organizations, foundations and corporations through three divisions: Johnson Private Client Group, Johnson Trust Company, and Johnson Institutional Management.

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- Johnson Mutual Funds
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