GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

July 2018

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2736.61	0.67%	4.01%	2.36%
Dow Jones Industrials	24856.74	0.35%	2.95%	-1.47%
NASDAQ Composite	76586.43	1.01%	7.69%	9.90%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.74%
10-yr Treasury Bond	2.84%
30-yr Treasury Bond	2.95%

Information as of July 5, 2018 Source: Thomson Reuter's Thomson One

MARKET COMMENT

Summer for Thee

Summer for thee, grant I may be
When Summer days are flown!
Thy music still, when Whipporwill
And Oriole-are done!

For thee to bloom, I'll skip the tomb
And row my blossoms o'er!
Pray gather me-
Anemone-
Thy flower-forevermore!

Summer for Thee, Grant I May Be - Emily Dickinson

It's summertime and "the livin' is easy, fish are jumpin', and the cotton is high," so the song goes from Porgy and Bess! The stock market continues swingin' and swayin' in a summer breeze (see chart 1 below), so it's as good a time as any to relax, read some poems, and listen to music. At Gateway we are enjoying summer swelter, but are on the job listening to what the markets are saying. At present, it seems we are **marking time,** and remain a bit tight-lipped, as the market waits for Q2 earning results and watches the trade tariff banter (see chart 2). However, that doesn't mean the stock market volatility is taking a vacation. We are still seeing 1-2% daily swings in the major indices and individual stocks moving up and down daily with even greater volatility. Yet, with all the movement, there is no strong trend to the upside or downside at the current juncture (except on the NASDAQ & small caps) – just range bound for now.

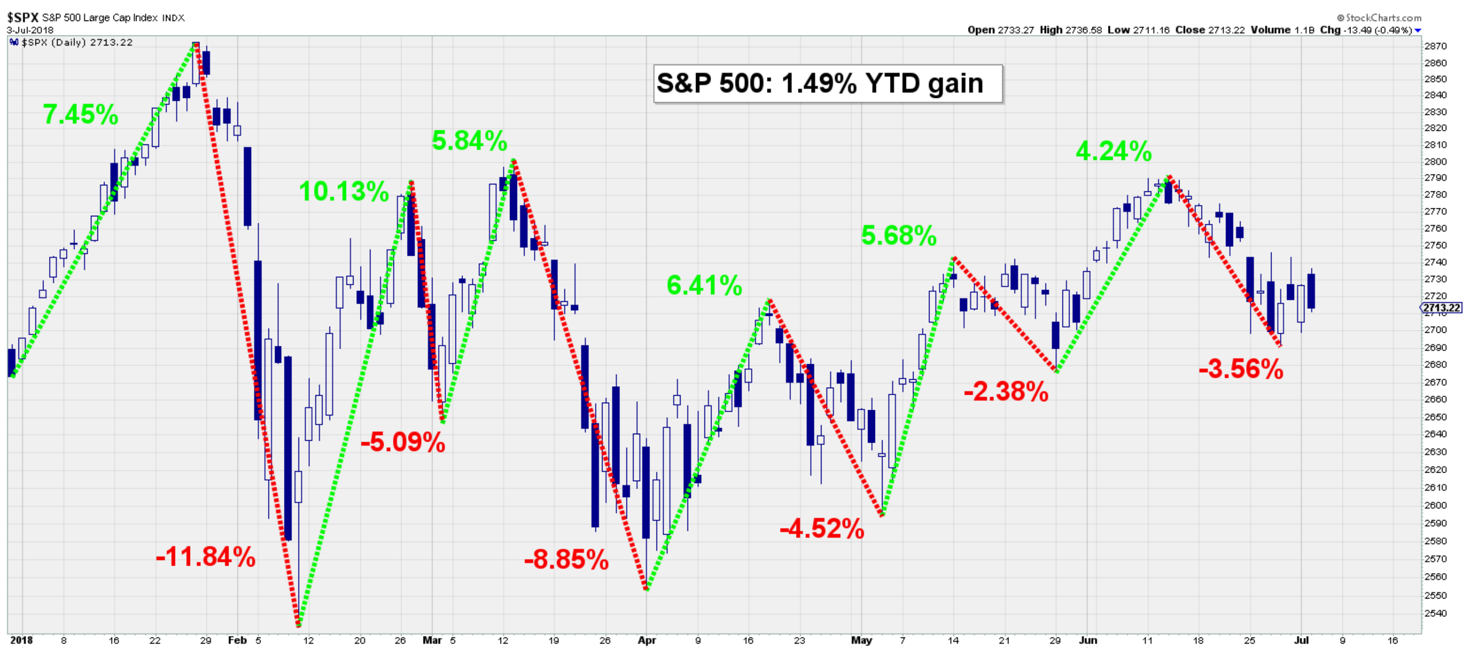
One of the analyst we followed at the Raymond James Portfolio Strategy group had an excellent comment about the close of our 2nd quarter:

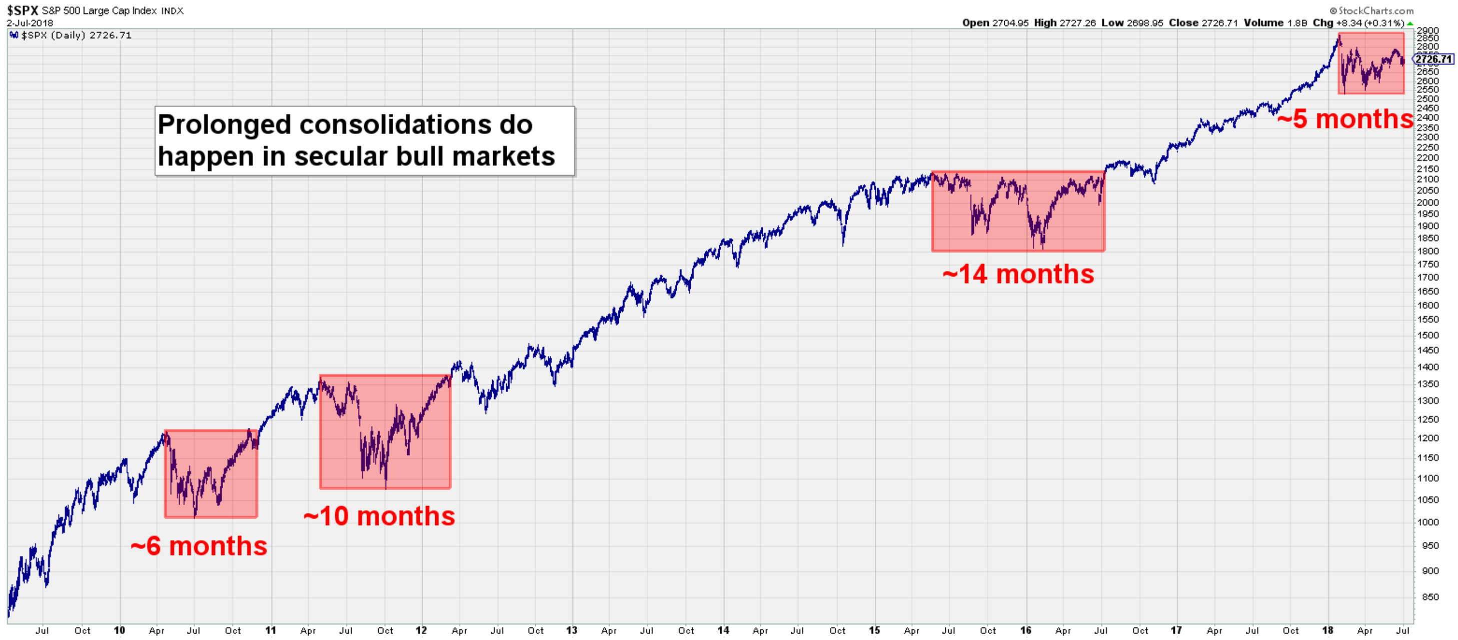
"A strong earnings season, which saw one of the strongest earnings growth rates on record at 25.7% provided a nice fundamental backdrop for equities. While economic data was mixed throughout the quarter, the overall trend remains supportive. However, the wall of worry continued to build within the quarter with trade tensions dominating headlines, but rising oil prices, rising USD, rising interest rates, inversion fears (inverted yield curve), rising inflation (although under control), a breakdown in the global synchronized upswing (as emerging markets and Chinese market move sharply lower), and peak earnings narrative provided increased risk to bull market. While the back-and-forth trade rhetoric may get worse before it gets better as negotiations are still on-going (likely keeping the market range bound in the 2600-2800 level in the near-term), we believe the positives still outweigh the negatives and see upside in equities through year end."

- J. Michael Gibbs, Director Equity Portfolio & Technical Strategy

Looking into the future, we will be paying close attention to the Federal Reserve's comments on the path of interest rates, consumer spending, oil prices, and November's mid-term elections.
But for now, it might be a good idea to follow Ms. Dickinson's advice, pick some Anemones, and enjoy their beauty – which certainly sounds better than watching "the news!"

As always, we thank you for your continued trust and confidence.





Charts provided by Andrew Adams, CFA, CMT via Charts of the Week, July 5, 2018

PLANNING STRATEGY

Raymond James "Point of View" article. M18-2146969

Social Security Taps Trust Fund; Should You Be Worried?

The board of trustees for Social Security recently issued their 2018 annual report. Once again, this year's report provided a dark reminder that the fiscal health of the program has further deteriorated. Like last year's report, Social Security's trustees said the program's trust fund would be depleted in 2034. However, unlike last year, for the first time since 1982, Social Security has to dip into the fund to meet its obligations. Treasury Secretary Steven Mnuchin said in a statement that "lackluster economic growth in previous years" and an aging population have contributed to the shortage.

What Does This Mean for You?

First of all, it's important to understand what all this dire talk really means. Over the years, as Social Security has collected more in taxes than it has paid out in benefits, the surplus has been put into a separate trust fund. The trust fund buys special U.S. Treasury bonds that earn interest for the fund. Up until this year, the payroll taxes plus the interest on the trust fund bonds have exceeded the amount needed to be paid out in benefits. This year's report showed that Social Security has now reached the point where benefits paid out to Social Security recipients exceeded total revenues collected from employee Social Security taxes plus the interest earned on its bonds. Now that the crossover point has been reached, the trust fund will begin to deplete, ultimately projected to run out in 2034.

While it's true that the Social Security trust fund could essentially go "bankrupt" in 2034 if no changes are made to the current system, the majority of Social Security benefits would still be funded through the ongoing Social Security tax system. Approximately three-fourths of the benefits paid out for Social

Security are funded from tax revenues collected from current workers. The only purpose of the trust fund is to pay the difference when committed benefits exceed collected revenue.

So, if no changes are made to the system and the trust fund is totally depleted by 2034, what happens? The good news is that the system can continue to pay benefits from ongoing tax revenue and that revenue will cover most of the benefits. Social Security trustees continue to reiterate that the system should be able to pay approximately 75% of its benefits in 2034 even if the trust fund is completely exhausted. Therefore, while the headlines about Social Security continue to be scary, it's important to realize that the system going "bankrupt" does not mean all payments will stop; it actually means that 75% of benefits are still fully funded.

What Adjustments Can Be Made?

The big question on people's minds is whether *their* benefits will be cut. Current projections assume no changes to the system will be made; however, in reality, there are several potential adjustments that could extend the viability of the trust fund for many more years. It's important to note that these proposals do not suggest cutting benefits for recipients ages 55 years or older. For everyone else, potential adjustments include:

1. **Raising the percentage** taken out of paychecks for Social Security payroll taxes (currently 6.2% for Social Security and 1.45% for Medicare paid by both employee and employer). Research has indicated that gradually raising the payroll tax by just two percentage points would be enough for Social Security to be solvent for the next 75 years.
2. **Raising the limit** on the amount of pay that is taxed for Social Security (currently $128,400).
3. **Raising the age of retirement** at which people start to receive full benefits (currently age 67 for those born in 1962 and after).
4. **Lowering the annual adjustment** for cost of living.
5. **Cutting benefits.** Many believe that actual cuts to benefits would be means tested so that those with limited income and assets would not be impacted. Politically, this would be the most difficult change for Congress to make.

The Bottom Line

While the long-term viability of Social Security is definitely a concern, bankruptcy of the Social Security trust fund does not mean everyone's benefits will go to zero. Even when the trust fund is depleted, the system can still pay approximately 75% of benefits from then-current tax revenues. Most believe that benefits paid to older Americans – those age 55 and above – will not be affected. And even for younger workers, relatively minor changes to the system could extend the system's viability for their lifetimes.

With more and more people retiring without pensions, Social Security plays a crucial role in most people's retirement plans. We encourage you to have a conversation with your financial advisor about where you stand for retirement, how much Social Security you plan on receiving, and factors you can control to help you reach a financially successful retirement.

LIFE & LEISURE

Raymond James "Point of View" article. M17-052863

Where Medicare Falls Short

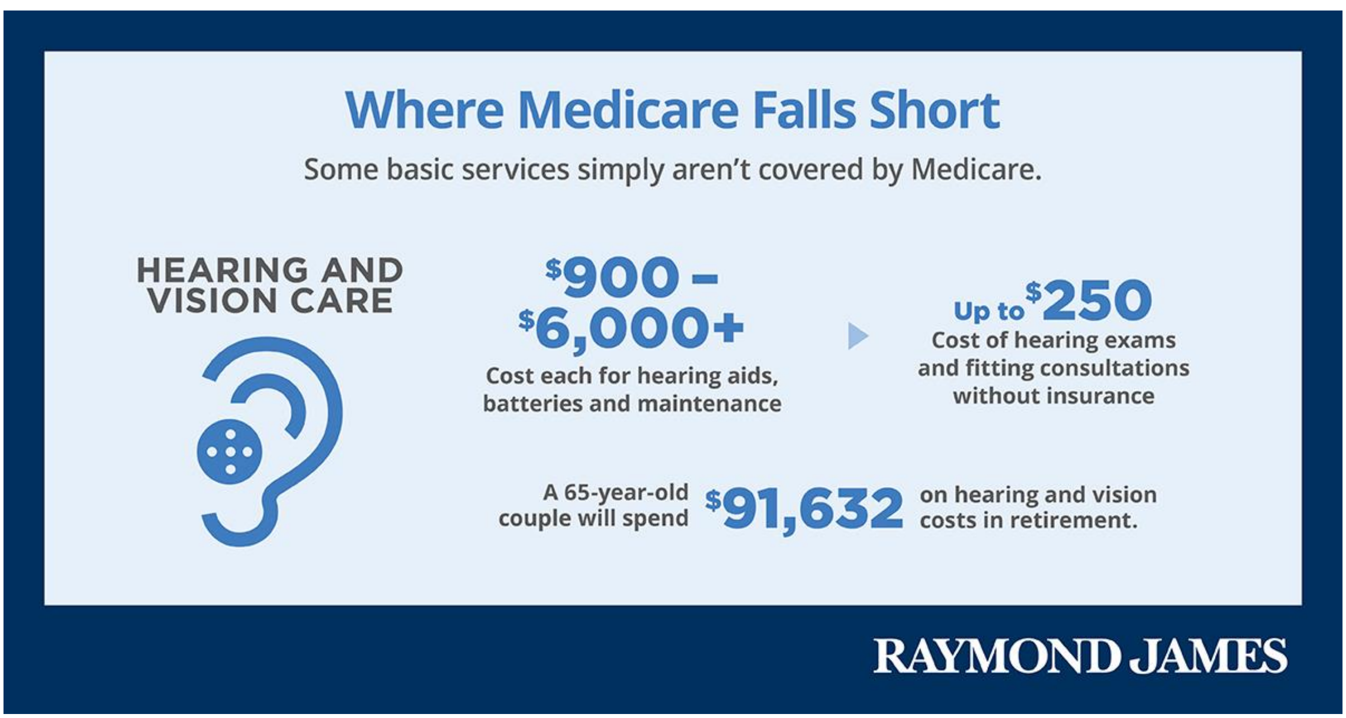
It's never too early to start thinking and planning for retirement, especially when it comes to the top three expenses: housing, transportation and healthcare. You may have a clear vision of your ideal retirement, but that dream could fade if unexpected healthcare costs start to eat away at your hard-earned retirement savings. The fact is, even with Medicare, quality healthcare can come with a hefty price tag. There are still premiums, copayments, deductibles and other out-of-pocket expenses that must be accounted for.

Finding the Gaps

Estimating your future medical costs and planning for them will require becoming familiar with what Medicare will and won't cover, and the various costs involved. So what can you expect to pay out of pocket should you need one or more of these common services? Take a look.

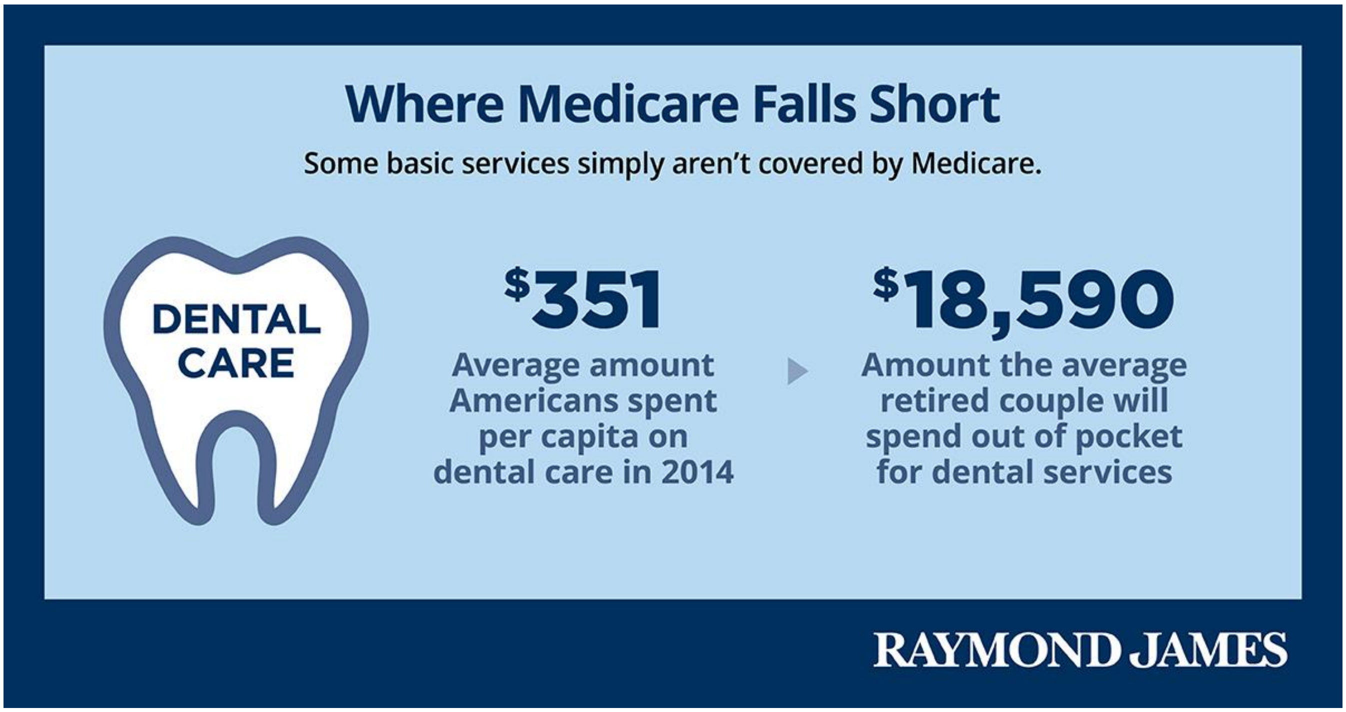
Hearing and Vision

Hearing aids can range from $900 to more than $6,000 each, depending on the technology. More advanced ones sport Bluetooth capability that streams sound from your cellphone, for example, making it easier to hear a phone conversation. They also need to be replaced every five years or so and require care, maintenance and, of course, batteries. Medicare covers hearing tests when medically necessary (think vertigo or injury), but otherwise you're on your own. A typical hearing test can cost up to $250 without insurance; it's about the same cost for a hearing aid fitting or consultation, too.



Dental Procedures

Routine dental care, including dentures, is not covered by Medicare or supplemental health insurance. The American Dental Association estimated that two exams and cleanings and a set of X-rays cost about $288, on average. It is estimated that an average retired couple will spend $18,590 out of pocket for dental services without additional insurance. That doesn't mean you should forgo visiting the dentist to avoid these costs. Sound absurd? It happens. One recent study by the Centers for Disease Control and Prevention found that almost half of Americans over age 65 had not visited the dentist in the past year and that 20% of older adults have untreated cavities and are losing teeth.



Mental Health

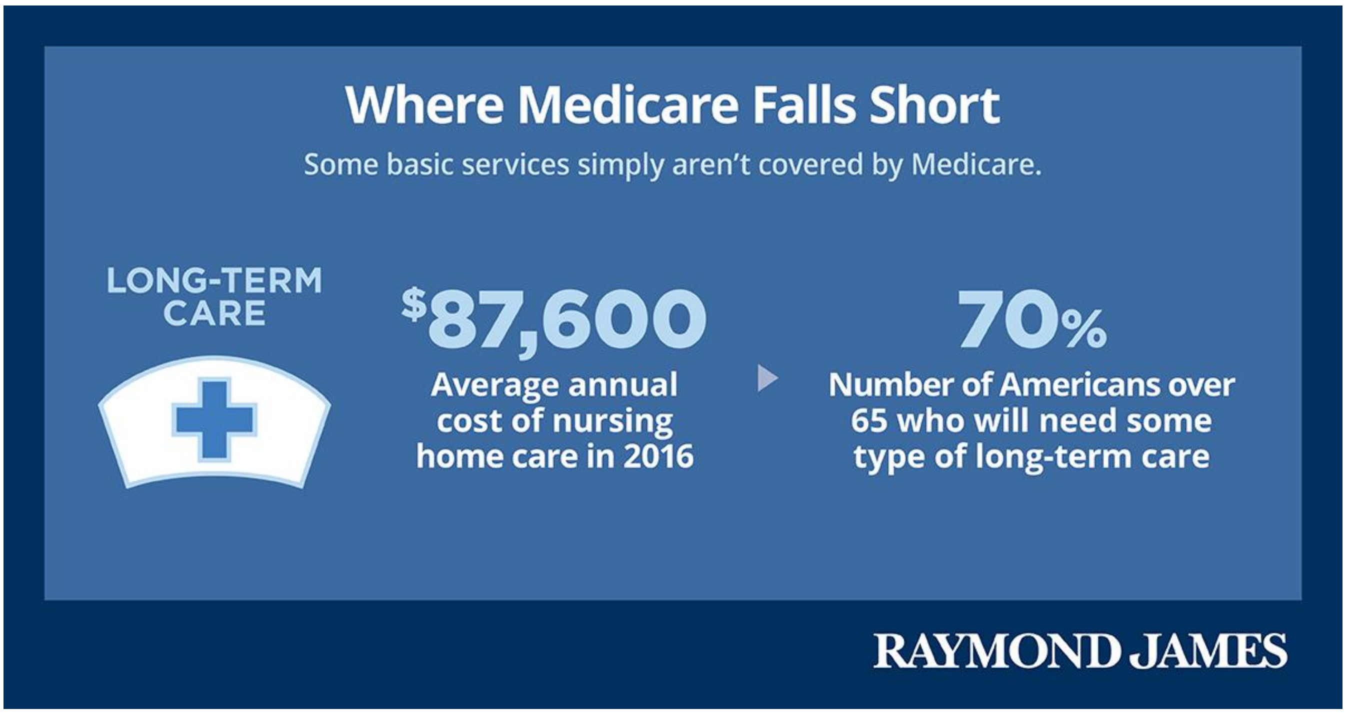
Far too many retirees struggle with finding a sense of purpose when they transition into retirement. Creating a new identity and life for yourself may be difficult, and that could manifest as depression, anxiety or stress. Unfortunately, Medicare may not provide enough support. Part B allows for an annual health screening and therapy should you receive an official diagnosis. However, Medicare covers 80% of the cost after you meet your deductible. You'll be responsible for the other 20%, which can range from $50 to $250 an hour with an approved provider.

Coverage Abroad

Like to travel overseas? You might be under-covered. Traditional Medicare generally does not provide coverage for hospital or medical costs outside the United States. Residents of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Northern Mariana Islands are covered, and in some cases, inpatient hospital services in Canada or Mexico may also be covered. If your wanderlust takes you further abroad, consider short-term travel insurance or a Medigap policy that covers foreign emergencies, such as plans C through J. Just be aware that the coverage applies for a limited time and doesn't cover all expenses. A deductible and lifetime maximum apply.

Long-term Care

Here's the real doozy. Medicare, for the most part, doesn't cover long-term or custodial care for help with everyday tasks like dressing or bathing. However, some 70% of us will need some form of long-term care either in a specialized facility or at home. To put that in perspective, nursing home care averaged $87,600 a year in 2016, according to the U.S. Department of Health and Human Services. A home health aide can cost more than $240 a day. Long-term care insurance can help you manage this risk by covering a range of nursing, social and rehabilitative services for people who need ongoing assistance due to a chronic illness or disability. Talk to your advisor about when it makes sense to invest in a policy, what coverage you might need for skilled, intermediate and custodial care, and whether it makes sense to pay your LTC premiums from a health savings account (HSA). Of course, supplemental insurance might help in many cases, but even that comes at a cost, and the premiums are subject to inflation over time.



Covering Your Bases

So now that we've got an understanding of where we may be exposed when it comes to healthcare, how can we cover our bases? Budgeting becomes crucial to laying the groundwork to pay for those necessary expenses. Ideally, we want to maintain or improve our quality of life in retirement, and that means having ready access to excellent healthcare and preferred providers.

The good news is you'll have several options. A broad approach may be allocating a lump sum of money to cover the average lifetime healthcare costs; however not everyone is able to set aside hundreds of thousands of dollars, even if done over time, in a cash reserve to fund future healthcare needs. Even if you are able to do so, it may take away from your general retirement savings, leaving you with a smaller pool of assets to fund the lifestyle you've worked so hard for.

A more practical approach may be to estimate your and your spouse's projected health needs based on your family history and state of health. For example, if you are healthier, your healthcare costs may be lower than average. You and your advisor can start with a baseline for a person your age and estimate up or down from there depending on how conservative you wish to be. Keep in mind, the longer you expect to live, the higher your costs could be, so you may want to use the more aggressive numbers in your calculations. That way the money will be there should you need it – say in the event that you develop a chronic condition – and turn into a nice financial cushion if you don't.

Still others take a hybrid approach, estimating their costs, buying enough insurance to cover most of their anticipated needs and then setting aside a smaller cash reserve for the unexpected.

Other options include taking advantage of health savings accounts (HSAs) while you can. HSAs are associated with high-deductible health insurance plans, and the money saved within them can be used for many of the costs outlined above as well as other qualifying health expenses. Distributions taken to cover qualified medical expenses are also tax-exempt. The catch here is you can no longer contribute once you're enrolled in Medicare, even if you're still working. However, you can use any HSA funds you already have and roll over unused amounts, so keep that in mind in the months before you enroll.

You may also want to consider how life insurance could play a role. Most permanent life insurance policies allow partial withdrawals or loans for healthcare expenses. The caveat here is that any unpaid loan amounts will reduce the future benefit to your heirs.

If you're still working, you may be covered by an employer-sponsored plan, but you'll need to determine how your benefits work with Medicare and what your spouse may be entitled to. And some previous employers extend insurance benefits to retirees.

To Your Health

As you look forward to retirement, remember that health and access to healthcare are key components to your quality of life. It pays to understand what you can and cannot expect from Medicare, so that you and your loved ones are prepared and so that unexpected medical expenses don't eat into your retirement savings. Rely on your advisor to help clarify issues, add in contingency plans to your retirement income strategy and point you toward resources that will help.

Sources: Centers for Medicare & Medicaid Services; medicare.gov; aarp.com; time.com/money; kiplinger.com; "How Much Does Therapy or Counseling Cost?" Depression RSS2, March 29, 2016; costhelper.com

Quote of the Month: "As, summer, what you have to make us suffer and like it." - Russel Baker

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