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The Omen Revisited, Bogle, Bonds and The New Website

JIM'S JOURNAL

In my August 2012 newsletter, The Hindenburg Omen was discussed at considerable length. To refresh your memory, the Omen is a combination of technical factors that attempt to measure the health of the New York Stock Exchange and, in turn, the stock market as a whole.

The Omen is devised by monitoring the number of stocks that form new 52-week highs and new 52-week lows. If a certain percentage (2.8%) of stock market highs and lows are reached on the same day along with other specified criteria, the Omen is triggered. The "other specified criteria" can vary somewhat depending on the market technician applying it. However, the core idea of the Omen is that under "normal" market conditions, a substantial number of stocks may set either new highs or new lows on a given day, but not on the same day. Stable and healthy markets possess a degree of uniformity, either up or down, but setting new highs and lows should not happen at the same time. A

simultaneous up-down split is a potential sign of trouble.

The Hindenburg Omen is more correctly referred to as an "omen" or warning than as an immediate call to action. It warns of potential trouble but does not guarantee trouble. There have been times when the Omen was triggered with little downside movement in the market. Last summer/fall was one of those times. According to one of the analysts that I have read for several years now, there were 4 Omens generated in May-June of this year and 6 Omens already generated in August. This pattern is similar to what we saw in 2007 before the market crash of 2008. It should be repeated that the Omen does not guarantee a market crash, but no market crash in the past 30 years has occurred without the Omen appearing. Even though we have not had an extreme downturn over the last two years, the risk factors have been there and have caused me to remain more conservative despite the upward movement of the market. If the massive stimulus packages of the Federal Reserve had not been in place, perhaps the Omen would have been the harbinger it has shown to be in the past. In my opinion, this is still a market to be extremely cautious about.

On the subject of market crashes, I came across some very interesting reading in the last couple of weeks. Many people would probably recognize the name Vanguard Funds. Vanguard specializes in index funds and is one of the largest fund companies in the world. John (Jack) Bogle is the founder and senior chairman of Vanguard. To many, he is known as the godfather of index funds. In April of this year, Bogle was interviewed on CNBC and made a very amazing statement. He predicted that in the next ten years there would be not one, but two stock market corrections of up to 50%. It is not hard to find opinions and future predictions on what will happen in the stock market over time. And, many of those predictions will prove to be wrong. However, when someone of the stature of John Bogle makes this type of prediction, I do pay attention. This potential scary scenario calls for money management and downside risk protection, especially if you are a retiree or pre-retiree. The Haas Financial Money Management Program has evolved to meet this need for you.

In last month's Second Quarter Look Back article I wrote extensively about the downturn in the bond market which began almost four months ago. Stocks and bonds initially sold off together. With a little help from the Fed, the stock market surged to a new high and bonds stabilized somewhat. The stock market has now come under renewed selling pressure and bonds have resumed their downward trend. The Fed may yet come to the rescue again but at some point the well will likely run dry. At that point we may have to deal with the Bogle prediction and the Hindenburg Omen.

We are extremely pleased to announce the unveiling of our new web site. It was a long time in coming but certainly gives a better flavor for what we are doing now. Please pay a visit to: www.haasfsi.com. Take a look and let us know what you think. Finally, our guest article will be a continuation of *Medicaid Myths: A Grain of Truth, but Mostly Myth* from last month's newsletter. The final part will run in September. Take good care!!!



NEW
Website

Check
it
Out

<http://haasfsi.com> for complete web page!

MEDICAID MYTHS;

A Grain of Truth, but Mostly Myth

Part II of III — Continued from July Newsletter

8. Myth: "If I enter a nursing home as a private pay resident, I must use up my assets before I can get Medicaid."

FACT: You are not required to use your assets to private pay for the nursing home care. However, some nursing homes might try to make you believe that you do have to do this. They are paid less under the Medicaid program than they collect from private pay patients. People should seek advice from an elder law attorney to find out how they can become Medicaid eligible before having spent a significant part of their assets on the private pay rate. Average monthly private pay in Michigan is \$7,631/month!

9. Myth: "I can only 'spend-down' my assets on medical or nursing home bills."

FACT: Nursing homes may tell you that you have to spend your savings on the private pay rate, before applying for Medicaid, but this is not true. In fact, it's against the law for them to tell you this! See # 7 above. Most nursing home administrators and finance persons, while probably well intentioned, are not attorneys and cannot offer legal advice. Again, it is always a good idea to consult an elder law attorney.

10. Myth: "My power-of-attorney automatically has the power to take property out of my name, if I ever need Medicaid." ,

FACT: Your best tool to be able to plan for Medicaid eligibility, should you ever need it, is to sign a comprehensive, general durable power of attorney that includes a "gifting" power. Your agent under the power of attorney will only be able to re-title your assets if your power of attorney contains a "power to make gifts." Most powers of attorney do not contain gifting and/or self-dealing powers, and those that do are often limited in scope and do not provide the gifting power necessary.

The court procedures to transfer assets without a "gifting power" can be expensive and time-consuming, and may not allow the type of asset protection that many people would like to accomplish. Without a "gifting power" your agent is generally limited to spending your money on your bills and selling your assets to generate cash, to pay your bills. A "gifting power" is recommended for people who want to become eligible for Medicaid and should not be limited to the "non-countable" assets allowed under that program. Some powers of attorney may contain "gifting" provisions, but limit such gifting to the annual gift exclusion; \$13,000 in 2012. This figure is too limited to do effective Medicaid planning, and is related to a completely different type of legal issue. (See #12 below, about the federal gift and estate tax.) To protect you, you should require your agent under your power of attorney to consult with an attorney experienced in Medicaid law before making any gifts or asset transfers.

11. Myth: "All property transfers will cause me to be disqualified from Medicaid."

FACT: Not all transfers of property will cause a person to become ineligible for Medicaid. See #2 .

12. Myth: "I can give away \$10,000 per year under Medicaid rules without penalty."

FACT: This is a rule under federal gift tax law, not under Medicaid law. (Actually, the amount has increased to \$14,000 in 2013, but many people are familiar with the \$10,000 figure.) Right now, Michigan Medicaid law disqualifies a person from getting Medicaid for one month for every \$7,631 given away, in most circumstances. This disqualification starts when an otherwise Medicaid eligible person makes application and is then applied on a forward basis for all divestments in the five years prior to the date of application. So, if my grandmother gives me \$14,000 in May, she will be ineligible for approximately 1.83 months beginning with the date of her application, not the date of the gift as in the past, assuming she is otherwise eligible.

13. Myth: "If my income exceeds a certain amount, I will not be eligible for Medicaid."

FACT: This is only partially true. Michigan is one of a majority of states that does not have an income cap. However, from a practical stand point income is not a barrier to Medicaid eligibility. When an individual's income exceeds the income cap, they simply need to create a special kind of trust called a Qualified Income Trust (also known as a Miller Trust in many states).

Once created, the individual's income will flow through the trust and then be paid either to the spouse or to the nursing home, depending on the unique circumstances of each case.

There are two very important items to remember when it comes to income and Medicaid eligibility. First, if your income does exceed the income cap, you will not be eligible for Medicaid benefits until you establish and fund (deposit your income into) the Qualified Income Trust. So, if you apply for benefits in May, but don't establish and/or fund the trust until June, your Medicaid benefits will be denied without exception for the month of May, even if you were otherwise qualified for benefits.

Second, it is important to understand who can create a Qualified Income Trust. The Medicaid Applicant, if competent, can obviously sign the trust. If the Applicant is not competent, his or her spouse can sign the trust on their behalf. However, if the Applicant is not competent and is not married, only an agent under a durable power of attorney (See #14, below) or the Court can create the trust. The Court process, as you can imagine, can be expensive and time-consuming.

Part II: 8 - 13 — Part III (To follow in September Newsletter)

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