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Investment Directions

SPRING 2017

How do you choose to see the World?

Recently the S&P 500[1] reached another all-time high. Knowing that, do you see reason to fear or hope?

Perspective from the past might add clarity: "Analysis of the S&P 500 Index indicates that from the date of any given all-time high, the index has historically hit another all-time high within one month 92% of the time. Extending this time frame to three months increases those odds to over 97% and extending to one year the odds approach 99%."[2] Based on those odds, I side with hope rather than fear.

These are statistics and as Mark Twain famously said: "There are three kinds of lies: lies, damned lies and statistics."[3] That said, a longer-term investment horizon may indeed be helpful.

An old Wall Street adage says, "It is time in the market, not timing the market that counts." For longer-term investors, natural ups and downs feel more temporary and less dramatic.

In my opinion, now is a great time to invest. I have seldom seen a bad time to invest if you are a long-term investor.

Early in my career the stock market enjoyed a prolonged climb to new all-time highs. The Federal Reserve Board chairman at the time, Alan Greenspan, made headlines by describing the market as experiencing "irrational exuberance"[4] He meant the market looked like a bubble to him – one that might soon pop. The date was December 5, 1996; the Dow Jones Industrial Average closed that day at 6,437[5].

In the years following we did indeed experience dramatic downturns: the painful dot-com bubble of 2000, the "great recession" of 2008 and numerous smaller dips. Despite these events, the Dow Jones Industrial Average has risen over the years from around 6,000 to above 20,000.

The future may not resemble the past but Burt White, the Chief Investment Officer at LPL Financial, is hopeful: "We believe the current economic expansion has the potential to continue for at least the next 12 to 18 months based on our analysis of the leading indicators."[6] I encourage you to think long-term, weather the volatility and overcome the fear that all-time highs sometimes provoke.

CHART
✦
NAVIGATE
✦
ARRIVE

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[1] *Neither the S&P 500, an index of 500 large U.S. companies, nor the Dow Jones Industrial Average, an index of 30 large U.S. companies, accommodate direct investment.*

[2] *LPL Research, Weekly market commentary May 8, 2017*

[3] *Mark Twain's own autobiography: The Chapters from the North American Review*

[4] *The Challenge of Central Banking in a Democratic Society 12/5/1996*

[5] *www.google.com/finance indexdjx:dji*

[6] *LPL Research, Weekly market commentary May 8, 2017*

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Kids Say
The Darndest Things

What are the qualities of a woman's ideal man?

A man that provides a lot of money, loves horses, will let you have 22 kids, and doesn't put up a fight.

Who was George Washington's wife?

Miss America

Brian has 50 slices of cake. He eats 48. What has he now?

Diabetes. Brian has diabetes.

Briefly explain what hard water is.

Ice.

Imagine that you lived at the same time as Abraham Lincoln. What would you say to him or ask him?

I'd tell him not to go to a play ever.

What do we call the science of classifying living things?

Racism.

What did Mahatma Gandhi and Genghis Khan have in common?

Unusual names.

What are three things you want to do in the future?

Get a girlfriend.
Kiss her.
Rule the world.

Kids Say the Darndest Things source: PoliticalHumor.About.com
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SOCIAL SECURITY BASICS

Social Security

The Social Security program was established to provide the base of financial protection for working people and their families when earnings are lost due to retirement, disability, or death. In addition to worker's benefits, Social Security benefits may be paid to the spouses and children of workers. Benefits are an earned right, and they maintain their value with automatic cost-of-living increases.

How to qualify for benefits

Social Security is the largest source of income for the majority of people age 65 and over. To qualify for retirement benefits, you must be fully insured, which means you've earned the required number of Social Security credits. For most workers, that means you need 40 credits or about 10 years of work(at four quarters each year) to qualify for rretirement benefits. Through the years, the way you earn credits has changed. In 2017, one credit is recorded for every $1,300 you earn in a year.

How your benefit amount is calculated

Nearly all Americans participate in Social Security and Medicare by paying taxes while working and having those taxes matched by their employers. Your retirement benefit is not based on the amount of tax you paid in but determined by your average indexed monthly earnings (AIME). This number is based on your lifetime earnings history; these earnings are "indexed" to account for average wage changes since the year they were received.

If you were born after 1929, your AIME is based on your highest 35 years of indexed earnings. (If you have not worked a total of 35 years, some of your highest earnings years could be zero.) Using your AIME, Social Security calculates your primary insurance amount (PIA).

Your actual Social Security benefit can b e different from your PIA. If you take benefits prior to your full retirement age, your benefit will be reduced. If you take benefits after you reach your full retirement age, your benefit will be greater.

Benefits for a nonworking individual

If you have never worked, or have not worked enough to be eligible for your own Social Security retirement benefits, you may be eligible for spousal or survivor benefits based you your spouse's earnings history.

When eligibility begins

The age you retire will affect your Social Security benefit. Full retirement age (FRA) is the age at which a person may first become entitled to full or unreduced retirement benefits. For those born in 1943 through 1954, FRA will be age 66. For those born after 1954, FRA will be greater than age 66. You are eligible to collect Social Security as early as age 62, although your benefit will be reduced based on your year of birth.

When to start benefits

It is important to consider when to start benefits, since the decision will impact how much you collect from Social Security during your lifetime. Depending on your health and life expectancy (which is often impacted by your lifestyle and genetics), you might opt to delay benefits. Obviously, if you are in poor health, starting at an earlier age may make sense.

Source: "Social Security retirement benefits" published by Allianz Life Insurance Company of North America

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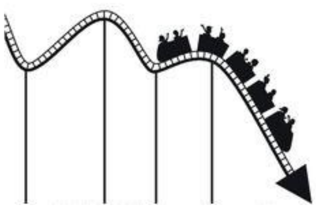
New Tools for New Times

Putting volatility in perspective

On October 19, 1987, later referred to as Black Monday, the S&P 500 experienced a fall of 20.5%. This is still the worst day for the stock market on record. While days like Black Monday have occurred throughout history, they are rare and unpredictable. In fact, because Black Monday was a result of trading behavior and not market or economic fundamentals, the S&P 500 still finished the year with a slight gain.



Volatility is unavoidable in investing. Having the fortitude to stay invested during these periods requires discipline that has often been rewarded.

Keep an eye on the long-term horizon

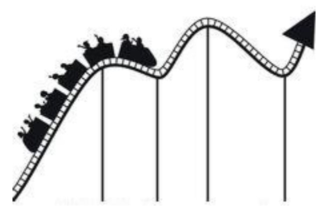
Volatility is a reason for investors to maintain a long-term perspective. After all, your sensitivity to market volatility is largely determined by your investment time horizon, and U.S. equity markets have often rewarded those who have stayed invested over longer periods of time.

Broad market returns behave differently over daily, monthly and annual periods. In fact, since it can often take a long time for prices to climb higher, yet prices can drop quickly, we consider market volatility to be asymmetric. In other words, negative days are often worse than positive days are good. They certainly feel like that.

Invest Longer-Term

Any given day or month or even year is hard to predict because investment markets are driven by individual behaviors which can be more emotional than logical. As a result, shorter time periods tend to be full of surprises.

There are fewer periods when a five-year portfolio is underwater, and the periods that do occur are generally related to broad market cycles. In other words, these periods are less idiosyncratic, with stretches of positive performance lasting decades or longer. For example, successive five-year holding periods beginning in 1937 through 1965, a 28-year span, resulted in positive returns. Also, gains overshadow losses compared with the one-year holding period portfolios. This is why strategies that invest over a market cycle, such as dollar-cost averaging and dividend reinvestment, are powerful.



A 10-year window only performed poorly during the Great Depression and the Great Recession. Stock returns over 10-year holding periods beginning in 1936 to 2003, a 67-year stretch, were positive. In addition, the returns generated are far larger over the longer horizon due to compounding.

Clearly, investors who can see beyond short-term market volatility by expanding their time horizons can benefit from broad market and economic cycles.

Source: James C. Liu, CFA: Investing with composure in volatile markets, published by JP Morgan Asset Management