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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 1st Quarter of 2018

The Markets Update

The 4th quarter saw strong returns for most asset classes and for the year the equity markets had its best year since 2013. 2017 ended the multi-year out-performance for the U.S. markets as the foreign and emerging equity markets outperformed the U.S. markets significantly for the first time since 2010.

Bonds continue to earn their low coupons but will serve their purpose in protecting our capital. Short-term interest rates continue their slow rise with long-term rates holding pretty steady.

While commodities and natural resource stocks had a pretty poor year, they did have a big rebound in the 4th quarter.

Asset Class Returns- Ending 12/30/17

Asset Class	4th Qtr 2017	YTD
US Large Cap Stock	7.1	22.8
US Small Cap Stock	3.0	15.7
Foreign -Developed Mkts Stock	4.5	25.2
Emerging Mkts Stock	8.1	34.0
US Intermediate-Term Bond	0.1	3.3
Emerging Markets Local Bond	2.5	17.3
High Yield Bond	-0.2	6.1
Inflation-Protected Bond (TIPS)	1.1	2.6
Cash	0.3	1.0
US Real Estate	1.2	4.6
Natural Resource Stocks	11.4	1.7
Commodities	9.2	5.3

New Tax Law Takes Affect

On December 18 I put out a letter detailing many of the important tax law changes. Most of the changes took affect January 1st with one notable exception being the individual mandate to get health insurance under ObamaCare is repealed starting January 1, 2019.

This year we will be a big year to advise our clients concerning the new tax law after our financial planning system has been updated. Let me know when I can help.

Buying Individual Bonds vs. Bond Funds

I read an interesting book last year by a fellow financial advisor, Matt Hall. His book “Odds On, The Making of An Evidence-Based Investor” describes his journey thru first working for a broker-dealer then later starting his own investment advisory firm. Matt dropped out of law school in the mid-90s and really did not know what to do next. He decided to apply for a job at a local brokerage firm in his hometown of St. Louis. The way he describes his experience reminded me of the movie “Wolf of Wall Street”. Most of the brokers were extremely aggressive and Matt was soon becoming disillusioned by their attitude toward their clients. However, there was one broker in the office who seemed to be different from the others. He was polite, unassuming and at least seemed to be acting in a professional manner. This broker also despite his differences, still managed to consistently be one of the top producers in the office.

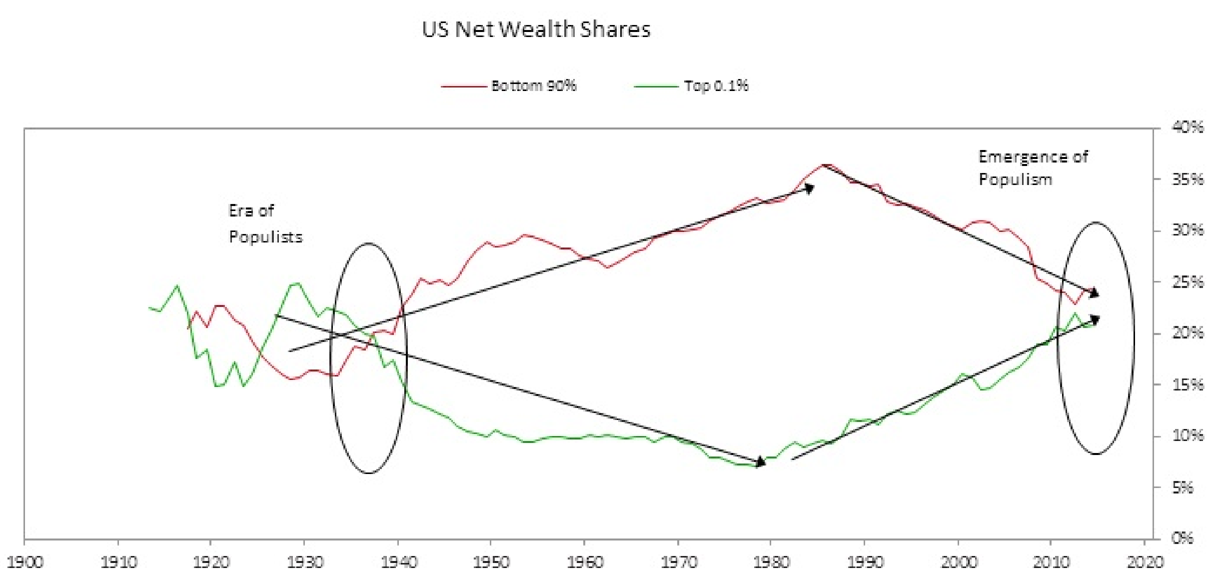
Wanting to find someone he could look up to and help him get into the business and be his mentor, Matt asked him to tell him his secret to success. Here is his answer.

> "You really want to know? I'll tell you. Just become a fixed-income expert and sell bonds to big institutions and wealthy individuals. There is no way you can fail. Clients want bonds and we have bonds to sell. But since they don't know how much we pay for those bonds, they don't know how much we mark the prices up when we sell them. Our clients don't know what we're charging them, so no one ever complains."

A client who buys individual bonds, especially with face values of only $10,000 or $20,000 will likely have no idea how much they paid in compensation to the broker. Spreads are very wide and the cost of buying and selling are eating away a big portion of the yield in today's low yield market. Using bond funds that buy and sell in large quantities and who do not mark up prices is much better than an individual buying individual bonds thru a broker.

The Two Economies
Ray Dalio is a well-known investment fund manager (founder of Bridgewater Associated) who posted a great piece on LinkedIn on October 23 last year titled "The Two Economies: The Top 40% and the Bottom 60%". He argues that looking at averages of income, wealth and other economic measures are not very useful in understand the economy because of the growing wealth gap in the U.S. The chart below summarizes what has happened over the last century.

Currently the wealth of the top one-tenth of 1% of the population is about equal to that of the bottom 90% of the population, similar to that during the 1920s and 1930s. Starting in the late 1930s the wealth gap decreased for the next 40 years. For over 40 years since then the wealth gap has been increasing.



Here are some of the facts Dalio states about differences between the top 40% and the bottom 60% in this country.

- Real incomes (after inflation) have been flat to down slightly for the bottom 60% since 1980 while they have been up for the top 40%.
- Only about a third of the bottom 60% saves any of its income.
- The percent of 30-year olds who earn more than their parents has dropped from 90% in 1970 to 50% today.
- The rates of income and wealth changes of the middle class have been worse than those changes in any of the other groups (top or bottom), once one accounts for the social safety net (Social Security, Medicaid and other government benefits) and taxes.

These changes are having big impacts on our society, hitting the middle class especially hard. Ray goes into a lot of detail here and it is an important read. He makes the case that the growing wealth gap goes a long way to explaining the growing polarization of our political system, reduced trust in government (and politicians), financial institutions and the media.

My CFP Designation

If you want to become a financial planner the best way to do it is to get the Certified Financial Planner (CFP) designation. To do so you have to go thru an approved educational program, passing a series of exams, them pass the CFP Board 8 hour examination. Doing all of this at the beginning of my career 14 years ago enabled me to get the basic training I needed to get into the profession.

I recently decided to drop my CFP certification for several reasons. The financial services profession has been headed toward adopting a fiduciary standard, meaning we are required legally to act in our client's best interest at all times. You would think the CFP Board would be leading the way in this effort. The problem is most of their over 80,000 members are not really financial planners. Rather, they are sales professionals doing (or pretending) to do some financial planning. So the CFP Board is pretending to adopt a fiduciary standard for their members but really just enabling the same activities that continue to harm the public.

My membership in the National Association of Financial Planners (NAPFA) has always required me to be a fiduciary for all my clients, to be strictly fee-only and has a higher standard of conduct and continuing education than holding the CFP. So you will understand why the CFP marks have been removed from all my materials.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, Inc.
Registered Investment Advisor
NAPFA Registered Financial Advisor