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

July 11th, 2016

Here is our newsletter for the 3rd Quarter of 2016.

**The Markets**

The first quarter was a good one for most asset classes with the exception of European stocks. The real winners were natural resource and commodities. One small but significant change has been the small uptick in yields from cash.

Over the last year ½ of the asset classes are still in negative territory. The laggards have been developed and emerging markets equities and commodities. The standouts have been the REIT market and the U.S. bond market with the continued drop in interest rates. Over the last year the 10 Year Treasury Bond yield has gone from 2.4% to under 1.4%, setting an all-time low.

**Asset Class Returns- Ending 6/30/16**

| Asset Class | 2nd Qtr 2016 | One Year |
|---|---|---|
| US Large Cap Stock | 2.4 | 3.9 |
| US Small Cap Stock | 4.3 | -6.6 |
| Foreign -Developed Mkts Stock | -0.3 | -10.2 |
| Emerging Mkts Stock | 3.6 | -11.5 |
| US Intermediate-Term Bond | 1.7 | 5.9 |
| Emerging Markets Local Bond | 4.1 | 1.0 |
| High Yield Bond | 4.5 | -2.0 |
| Inflation-Protected Bond (TIPS) | 1.2 | 4.2 |
| Cash | 0.11 | 0.3 |
| US Real Estate | 6 | 23.9 |
| Natural Resource Stocks | 13.7 | -8.8 |
| Commodities | 17.4 | -15.1 |

**Highlights from the Annual Financial Planning Conference**

I write every year about the annual fee-only planning conference as there is a wealth of knowledge there to be had and shared. I also got to go out to dinner with some of the members in my study group, a 6 member group of solo advisors across the country with whom I can share ideas and experiences. The conference was in Phoenix in May and here are a few highlights.

<u>Cybersecurity</u>

This is a big concern for all, especially for business owners. Bryan Bass head of risk control and security with TD Ameritrade shared many of his ideas of his best practices for advisors. Here are some which are applicable for you as an individual and a client.

- Email hacking is one of the biggest threats. If you get an email that <u>appears</u> like it is from me, TD Ameritrade or anyone else do not act on any instructions in that email if they are asking you to reveal any personal information (SS number, account numbers, etc.) or to send any money. I will never ask you to send any funds. Talk to a person via phone before you do anything. Also, gmail is the easiest system for hackers.
- Hackers live on social media and free WiFi. Be careful what you share on Facebook and other sites. Do not use public WiFi networks from hotels or other.

- Free phone apps.  Does your flashlight app really need access to your Contacts?
- Buying a new router for your home network?  Be wary of 50% off, slightly used deals. Hackers use them to steal everything you have.

Creating a Long-term Care PLAN
This is not about buying Long-term Care insurance.  Carolyn McClanahan, a planner who specializes in health and elderly care has some great resources for retirees who want to understand their changing needs concerning where they live, how they get around, getting help with their finances and providing for their health care.  70% of us will eventually need some kind of help.

Here is a great resource from her on how to improve the livability and safety of your home as you age.
**http://www.mayoclinic.org/healthy-lifestyle/caregivers/in-depth/home-safety-tips/art-20046785.**

Cash Value Life Insurance as an Asset Class
With record low interest rates, earning a decent rate of return on any fixed-income investment is a big challenge going forward.  Using cash value life insurance may be one way to earn a relatively safe rate of return guaranteed by the life insurance company.

Most of my clients have term life insurance where the insurance is good for a set death benefit for a minimum number of years.  This makes sense for most as your need for insurance typically goes away when the kids are on their own.  Also, premiums are much lower compared to cash value policies.

An option that may be worthwhile for a conservative investor who is close or in their retirement years is to put cash into a single premium Universal Life policy.  These types of policies enable you to vary the premiums which vary the death benefit and cash values.  The idea is to design a policy that will generate cash values which you can withdraw while you are still living.  This could generate decent rates of return which are tax-deferred until taken out in retirement.  Think of this as another asset class you can use vs. the bond market where rates are a record lows.

Endowment Investment Model
Investment managers have long wanted to find a way to invest like the large University Endowment funds such as Harvard, Yale and Stanford.  A new type of fund called an "Interval Fund" is providing a vehicle to do so.  The main difference between an Interval Fund and traditional vehicles such as mutual funds and ETFs is they have limited liquidity. The Wildermuth Endowment Strategy Fund has been in operation for over a year now and is on our watch list.  The fund allows for maximum quarterly withdrawals of 5%.  This enables the fund to invest in less liquid investments such as real estate and private equity investments. These alternative investments enable the fund to reduce the use of traditional fixed income investments in the portfolio to more like 10% of the fund.  In a time where fixed income investing is so challenging this may be a good option to consider.

Reverse Mortgages
A fellow advisor from Denver put on a great presentation on the many uses of these for retirees looking for more income. I have talked about these in the past and will leave this discussion with simply saving giving me a call if you want more information.

**Can Anyone Forecast Returns in the Markets?**
Jeremy Grantham and the other folks at GMO have a pretty good record of forecasting relative and absolute returns for major asset classes. While we do not hold these forecasts to be certain they do guide our active asset allocation strategy for our portfolios.

I mentioned GMO last quarter we added one of their funds to our lineup (Wells Fargo Absolute Return Fund). The first two charts on the last page of this letter show the actual returns (annual average) and those forecasted by GMO back in 2000. Understand the 2nd chart shows real returns after inflation, so you have to add about 2.4% to the values in the chart to get nominal returns as shown in the 1st chart.

You will note GMO forecasted very low returns in the U.S. and developed world stock markets, and that is what we got. At the same time they also forecasted returns in the emerging market equity (MCSCI-EM) and real estate (REIT) markets at just over 10% per year, and that is also what we got.

The last chart shows their current forecast over the next 7 years. Please note over ½ of the asset classes are forecasted to not even keep up with inflation. You should also note the highest returns are forecasted to be in the emerging equity and bond markets. U.S. equities forecasted returns are even lower than they were back in 2000.

**John Oliver video on 401(k) plans**
The following video on YouTube is bound to win an Oscar for "Best Foreign Documentary on a Financial Subject". I know the competition in this category is not great but it really is funny. It probably should be rated "R" for the many f*** and other words but it is a good waste of 20 minutes.
https://www.youtube.com/watch?v=gvZSpET11ZY&feature=youtu.be

He talks about the extremely high fees, low service and conflicts of interest in the company retirement plan space (401(k) plans and similar). Your advisor has been managing several 401(k), 403(b) and other retirement plans for over 8 years now. If you know anyone who is looking for a better plan have them go to my website at http://www.compfinancial.com/401k-plans.html for more information.

Sincerely,

Stan Johnson, CFP(R)
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Registered Investment Advisor
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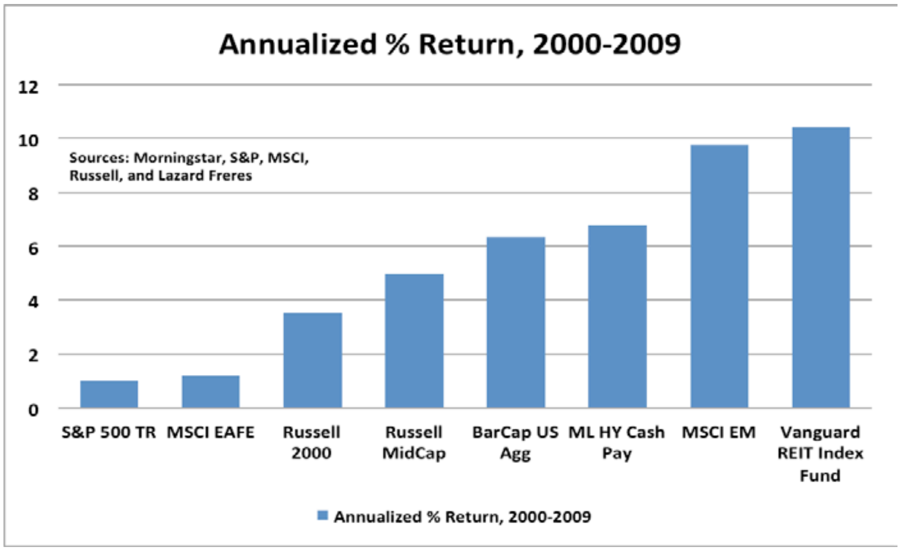
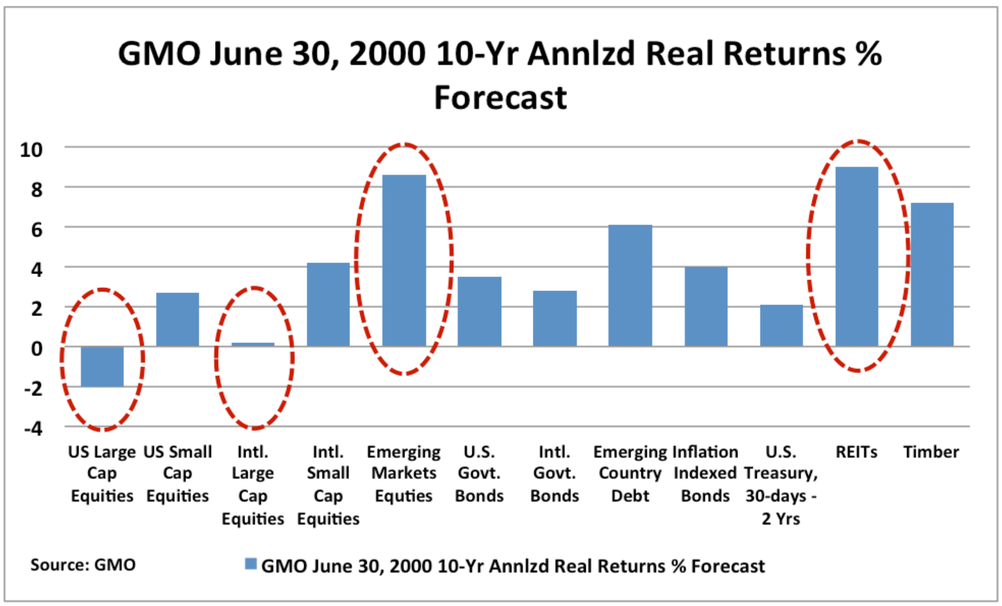
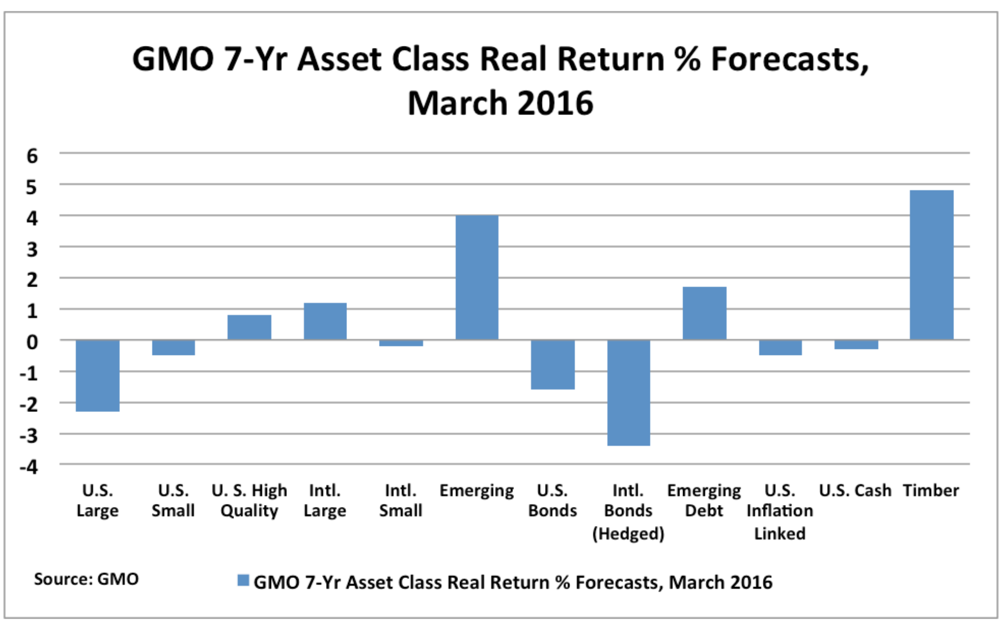

Annualized % Return, 2000-2009
12
10
8
6
4
2
0
Sources: Morningstar, S&P, MSCI, Russell, and Lazard Freres
S&P 500 TR
MSCI EAFE
Russell 2000
Russell MidCap
BarCap US Agg
ML HY Cash Pay
MSCI EM
Vanguard REIT Index Fund
Annualized % Return, 2000-2009


GMO June 30, 2000 10-Yr Annlzd Real Returns % Forecast
10
8
6
4
2
0
-2
-4
US Large Cap Equities
US Small Cap Equities
Intl. Large Cap Equities
Intl. Small Cap Equities
Emerging Markets Equties
U.S. Govt. Bonds
Intl. Govt. Bonds
Emerging Country Debt
Inflation Indexed Bonds
U.S. Treasury, 30-days - 2 Yrs
REITs
Timber
Source: GMO
GMO June 30, 2000 10-Yr Annlzd Real Returns % Forecast


GMO 7-Yr Asset Class Real Return % Forecasts, March 2016
6
5
4
3
2
1
0
-1
-2
-3
-4
U.S. Large
U.S. Small
U. S. High Quality
Intl. Large
Intl. Small
Emerging
U.S. Bonds
Intl. Bonds (Hedged)
Emerging Debt
U.S. Inflation Linked
U.S. Cash
Timber
Source: GMO
GMO 7-Yr Asset Class Real Return % Forecasts, March 2016