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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 4th Quarter of 2016.

The Markets

The first quarter was a good one for most asset classes with the exception of Commodities, U.S. Intermediate-Term bonds and Real Estate. For the first quarter in several years the overseas stock markets outperformed the U.S. large cap market.

Over the last year the markets have had a nice rebound from the weakness that occurred in late 2015 and earlier this year. While we did make some changes at the beginning of the year buying some cheap assets, most of the markets are richly priced and we continue to emphasize downside protection and be satisfied with modest, positive returns.

Asset Class Returns- Ending 9/30/16

Asset Class	3rd Qtr	One
	2016	Year
US Large Cap Stock	3.8	15.4
US Small Cap Stock	9.0	15.6
Foreign -Developed Mkts Stock	6.4	6.5
Emerging Mkts Stock	7.8	15.8
US Intermediate-Term Bond	0.4	5.1
Emerging Markets Local Bond	3.5	16.2
High Yield Bond	5.2	9.5
Inflation-Protected Bond (TIPS)	1.0	6.5
Cash	0.1	0.4
US Real Estate	-1.5	19.7
Natural Resource Stocks	8.0	22.9
Commodities	-1.8	-0.3

Tax Planning Season

In the 4th quarter every year I offer to discuss opportunities that may exist to delay and minimize my client's taxes. One has to keep a keen eye on Congress, as they have a habit of enacting changes at the end of the year. There should not be as many changes at the end of this year as they extended many so-called temporary tax breaks thru 2017.

For high income earners, looking to delay income or accelerate deductions might be easier than you think. Make sure you have contributed the maximum to your retirement plans and IRAs. If you have kids in college don't forget the numerous above the line tax deductions. Roth IRA conversions are also a great tool if your income is lower this year than normal. Clean out the closets and give clothes and other property to the local non-profit: just remember if you value them at over

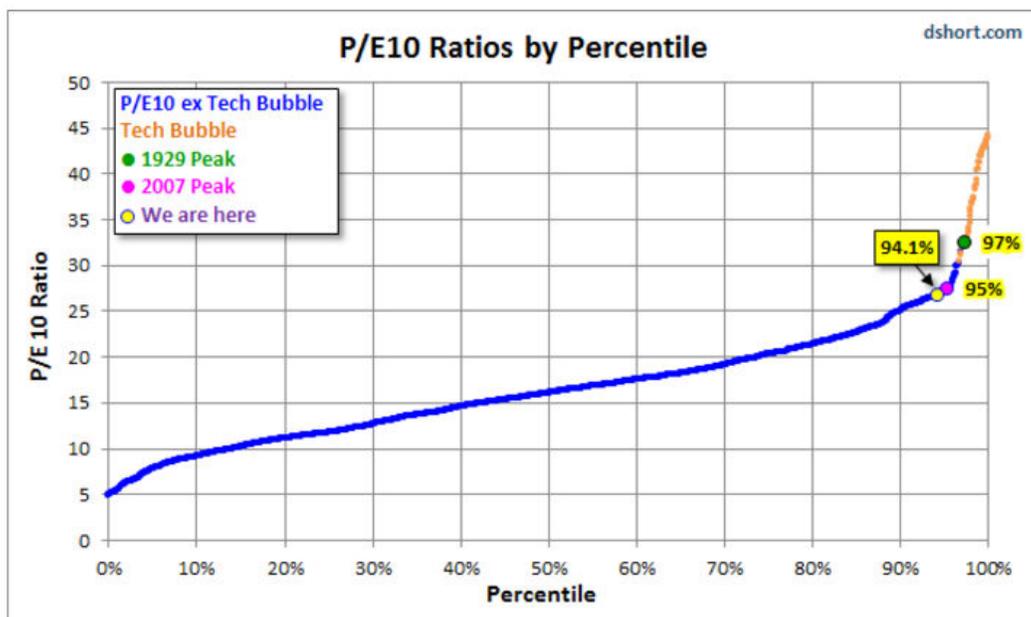
\$500 you will need to file an additional form. Also, get the valuation guide from the IRS (<https://www.irs.gov/pub/irs-pdf/f8283.pdf>) and keep all receipts.

For those that are in retirement, making charitable contributions thru your IRA is a great way to give and maximize the tax benefit. Also make sure you have taken your Required Minimum Distributions from your retirement accounts to avoid tax penalties.

Everyone is different so give me a call to discuss your situation.

Current U.S. Equity Valuations

The chart below shows the distributions of Price to Earnings Ratios (P/E) of the U.S. large cap stock market based upon the S&P 500 average using the Shiller P/E ratio. Recall I detailed Shiller and his work in our April 2015 newsletter. Over the last almost 100 years the current P/E of 25.9 has only been exceeded about 6% of the time, and most of those occurrences were in the late 90s Tech Bubble and in 1929.



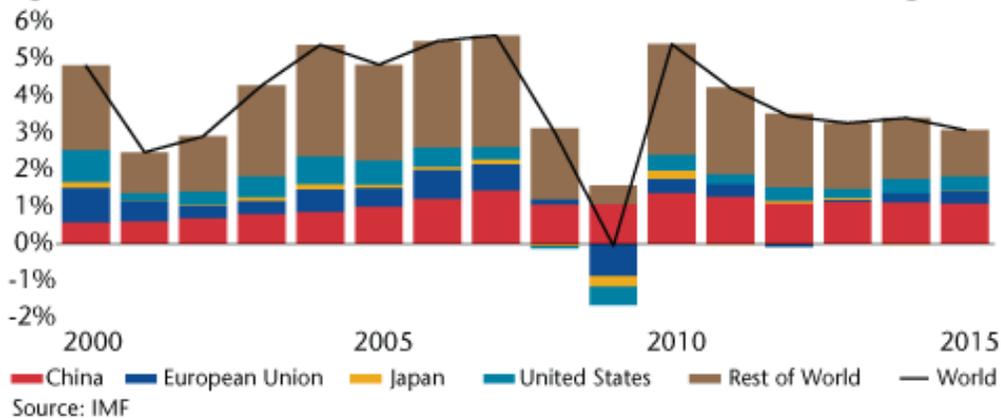
What does this tell us about returns over the coming 10 years? According to Ned Davis Research the probable returns based on historical returns is 2.2% per year over the coming 10 years, probably not even keeping up with inflation. The good news is there are higher return prospects outside the U.S. and we will continue to invest around the world for our clients to take advantage of those opportunities.

The World In Slow Growth Mode.

You have heard me talk about the prospects for slow growth over the last 6 or more years, and that has pretty much come true. The International Monetary Fund data below shows where that growth has come from. The most interesting point illustrated is the fact that most of that growth has come from China and the rest of the world vs. the U.S., Japan and European Union. As Thomas Freeman

put it in his book, *The World is Flat*. By this he means the rest of the world is catching up to the U.S., Europe and Japan.

Figure 2. CONTRIBUTION TO GLOBAL GDP GROWTH (Percentage Points)



The Last Words of Steve Jobs

Here is what the Apple Computer founder said from his death bed (abbreviated version). Food for thought.

“Only now do I understand that once you accumulate enough money for the rest of your life, you have to pursue objectives that are not related to wealth. It should be something more important: For example, stories of love, art, dreams of my childhood. No, stop pursuing wealth, it can only make a person into a twisted being, just like me.”

God has made us one way, we can feel the love in the heart of each of us, and not illusions built by fame or money, like I made in my life. I cannot take them with me. I can only take with me the memories that were strengthened by love.

This is the true wealth that will follow you; will accompany you, He will give strength and light to go ahead. Love can travel thousands of miles and so life has no limits. Move to where you want to go. Strive to reach the goals you want to achieve. Everything is in your heart and in your hands.

Whatever stage of life where we are right now, at the end we will have to face the day when the curtain falls. Please treasure your family love, love for your spouse, love for your friends. Treat everyone well and stay friendly with your neighbors.”

Here is hoping the best for you and yours.

Sincerely,

Stan Johnson, CFP(R)

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