



July 9, 2018

Here is our newsletter for the 3rd Quarter of 2018

## The Markets Update

The biggest change in the markets this quarter was the rollover of emerging market stocks and bonds with losses of 9.9% and 11.1% respectively. Developed markets were also down some. For the first time in over a year the U.S. stock market outperformed non-U.S with positive gains. Natural resource stocks had the best gains for the quarter, making up for losses earlier in the year.

U.S. Intermediate-term bonds were down slightly with year-to-date losses of 1.6% as interest rates continue to drift up.

The markets seem to be convinced a trade war will hurt the U.S. less than the rest of the world. This short-term move has not changed our commitment to investing around the world.

## Asset Class Returns- Ending 6/30/18

Asset Class	2nd Qtr	
	2018	YTD
US Large Cap Stock	3.4	2.5
US Small Cap Stock	7.7	7.7
Foreign -Developed Mkts Stock	-1.6	-2.8
Emerging Mkts Stock	-9.9	-7.3
US Intermediate-Term Bond	-0.2	-1.6
Emerging Markets Local Bond	-11.1	-7.3
High Yield Bond	1.3	-1.2
Inflation-Protected Bond (TIPS)	0.8	0.0
Cash	0.5	0.8
US Real Estate	8.8	0.0
Natural Resource Stocks	10.9	3.8
Commodities	4.4	6.4

## Dealing with Disaster

On June 1 a forest fire broke out about 4 miles north of our home in the Animas Valley north of Durango. Four days later we were evacuated from our home, along with many others (including readers of this letter). The fire got within ¼ mile of our home and the neighborhood only survived due to the great work of the firefighters. Despite burning over 50,000 acres the fire did not claim any homes.

Our home and the neighbor is fine now and even the smoke has dissipated. An event like this is a good reminder about making sure you are doing everything you can to minimize the chances of a disaster and having good insurance in place if you are impacted. For us, USAA insurance did a great job of assisting us through the fire. Several years ago they came out to our house and made recommendations on removing and trimming trees and other fuels around the house and some other details that few would realize could make a difference. After the fire broke out they bought a crew to the house, set up a water tank in our driveway and installed a pump, hose and sprinkler system around our house and sprayed water for several days while we were evacuated. I have not heard of any other insurance company going to that level to help.

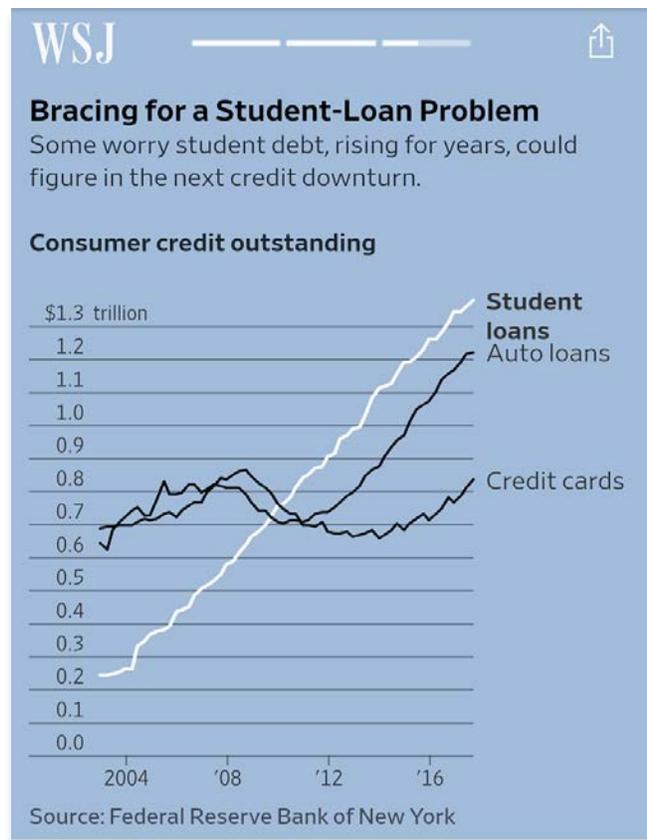
In a similar vein, I have been updating my business disaster recovery plan. Ten years ago I set up a plan with two firms to help my clients in case something happened to me and we have recently updated our agreements. Both are small, independent, fee-only firms like mine but have several employees to serve clients. One firm is based in the Denver area and has clients mostly in the front-range, but also has clients in the Phoenix area among elsewhere. The second firm is based in Durango, but again can serve clients from afar. So if anything happens to me there is a plan in place to help my clients.

### Dealing with Debt

I have written about managing debt many times and helping clients make smart decisions concerning all the choices is a big part of my service. I won't bore you with information about the Federal national debt. Just have to say that it is big, getting bigger and in the future we and our kids will have to pay for it, probably with lower growth and higher inflation in the future.

I will talk about debt we can control. The chart shows the growth of consumer debt outstanding from 2002 to the present. Auto loans have increased a lot over the last few years. That is not necessarily a problem but here are a couple of mistakes you should avoid. First, make sure you pay a big down payment, at least 30% by saving beforehand. Second, if you are offered a zero percent interest loan make sure that does not prevent you from getting a fair price for the car. If you are offered a free loan still bargain for the best price. I tell people you have to walk away at least twice. Also, don't take out a loan with a term longer than 4 years. Many are using 7-8 year loans and they are going to pay way too much interest for a depreciating asset.

Student loans to pay for college are becoming a problem for many. Over 20% of loans are in some form of default. There are many ways to avoid, or at least minimize having to use debt to pay for college. I have written about some of these in previous newsletters. The most obvious is to save for it using college savings plans, so called 529 plans. Another is to be realistic about how much you can afford and look for public universities or community colleges. Last but not least, have the student get skin some in the game by helping pay for some of the cost. I just think one should avoid using debt unless the student is getting a degree where you know high paying jobs are waiting after graduation. It's just too much of a burden for young people to deal with starting out on their own.



**Office Move**

I relocated my office in June. It is only 3 1/2 blocks south on Main from my previous location. The address is 530 Main Avenue, Suite A, close to the train station. It is located in a building that is in the National Historic Preservation program. My door is between Nini's Taqueria and the Overland store on the East side of Main. Go up the stairs, make a U turn and by office is straight ahead.

Parking should be easier here. I have two parking spaces on the East side of the building which you can use if we coordinate. There is parking on Main for 75 cents per hour and also a parking lot just south of the building for \$1 per hour, both which are easier than you might think to get, especially in the morning.

I did try to find an office at street level but it just did not work out. For those who need to meet elsewhere, the Starbucks or the space at the Rochester Hotel could be used.

**NAPFA Conference in Phoenix**

In May I attended the annual conference of the fee-only national organization and I usually write about it this time of year. Not that there were not some good sessions, but most were a rehash of previous ones I have attended and written about in the past. One question: if you have a topic you would like to see me write about, let me know.

Sincerely,

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