

Quarterly Newsletter - October 2016

October 15, 2016

Dear Client,

Well now ? that was quick.

In our last quarterly report to you the performance for the previous twelve months (then 6/30/2015 through 6/30/2016) was not especially good. It was either very low single digits or else negative. International stocks and emerging markets stood out as poor performers, reducing your overall return. So what did we do? We did what we always do ? buy the underperformers with the idea that they will eventually do better. If you look the twelve-month asset class performance report we are sending with this letter (now 09/30/2015 through 09/30/2016) you will see that things have reversed unusually quickly and quite dramatically. Your return over the last twelve months is either high single digits or double digits. The small and small value stocks, both domestic and international, and large domestic value have done much better, and the emerging markets and Real Estate Investment Trusts are off to the races. In fact, many of the rebalancing trades we are now doing involve taking gains in REITs and emerging markets. We bought these shares at lower prices when other investors were scared, and now we are selling those shares, perhaps to those same investors, at a premium.

What's behind the sharp turnaround? We believe part of the answer is that it is a result of the Fed not raising interest rates. Over the last several letters we have criticized the Fed for being too tight. They have been tight not so much in terms of what they were doing as in terms of what they were saying. There was this constant threat to raise interest rates. In the past twelve months there have been two instances in which they threatened to raise rates and then backed down. The markets worldwide fell sharply when the threat was made and did very much better when the threat was subsequently not acted on. We believe this not acting on it should continue and the Fed should be willing to accept somewhat higher inflation. After the banking crisis, unemployment was over ten percent and inflationary expectations collapsed. The markets were expecting outright deflation. Unemployment has improved but not wage levels, especially at the low end. Rising wages (wage inflation) is the best cure there could be for the income and wealth gaps plaguing the country. Let the economy run hot for a bit. The Fed has delayed a rate increase for the moment, though very reluctantly. We strongly believe they should keep right at it. Things have improved a bit. Some optimism has appeared in the markets. Let's spread that to the citizens of the nation as a whole.

But if the Fed does increase rates we will keep right on keeping on. Our disciplined method has been rewarded and we will stick with it whatever actions the Fed may choose to make.

Now for some administrative matters.

We want to talk to you first about the Schwab Alliance website (www.schwaballiance.com). This is a separate website Schwab provides to clients of advisors. It is a great time saver and resource. Many of our clients use it, but not all. If you have not enrolled on Alliance we would like to strongly urge you to do so. Here are some of the things you can do:

- Check all your accounts in one place including recent transactions, positions and cash balances.
- Transfer funds in or out of your Schwab account(s) to linked bank accounts(s). (You should have cash in the account before making a distribution so call us at least a day ahead of time so we can make sure the cash is available.)
- Take the required minimum distribution from your IRA(s) and send it either to your bank, a Schwab brokerage account, or your home by check.
- Send wires and journal money to third parties using Schwab's new electronic approvals process. This eliminates the need to sign and send paper documents.
- Set up or change a regular monthly distribution to your bank from your Schwab account. (Let us know if you do this so we can make sure sufficient cash is available each month.)
- Check the beneficiaries on your IRA accounts.

- Check your realized capital gains and income for tax planning.
- Download tax documents and monthly statements for any of the past ten years.
- Inform Schwab of changes to your email address, mailing address, or phone numbers.

If you need help navigating the website call us and if there is something we do not know how to do already, we'll conference Schwab in to get the answer.

Now about financial planning. We are, as you know, financial planners as well as asset managers. We believe financial planning sets the course and therefore intelligent asset management can only be done in the context of a good financial plan. It is our wish to guide you on required savings before retirement and on sustainable distributions afterwards. We can do only this if you keep us informed about large changes in your financial life or financial questions you are confronting. Please call us with any questions or just to say hello. You will not be bothering us. Financial planning is the business we are in. If you have not seen us in a while give a thought to coming in. And if getting here has become a burden we will come to you if we can. Just give us a call.

All the best to you and yours.

Jim John Richard and Ryan