Quarterly Newsletter - October 2017

October 15, 2017

Dear Client,

The stock markets continue to do well. This can be seen from the asset class returns on your Portfolio Overview report. As with last quarter, so now. All equity asset classes, both U.S. and international, with the exception of REITs, have continued to post double digit annual returns. Your portfolio has therefore done very nicely.

The current market, dated from the market bottom in February 2009, is now one of the largest bull markets since 1927. The 2007 ? 2009 crash frightened many investors, both individual and professional. Fear has caused many to not carry their full desired allocation in equity. This has meant that they have generally underperformed both the markets and also their own desired portfolio benchmarks. Memories of the 2007-2009 crash remain fresh. These memories have made many people jumpy ? selling whenever the markets begin to decline.

Think of the phrase ?The Easy Money Has Already Been Made?. One hears this quite often about the current equity markets. Looking backwards it all seems so easy. But it has not been easy at all. From the market bottom till the end of last month the S&P 500 index has risen from 734 to 2519 ? more than tripling in value. It has set a new high more than one hundred and sixty times. But please try to remember what this has been like. In 2007 and 2008 there were literally fears that we were facing a world-wide depression, possibly greater than 1931.Then the fear that Europe would collapse ? starting with Greece and then France and Italy. In 2013 the Cyprus banking system collapsed. In 2014 oil prices declined drastically ? leading to concern about general deflation and possibly sovereign bankruptcies. In 2015 the concern shifted from deflation to inflation. When would inflation show up in wages and when would the Fed therefore have to begin raising rates ? and how will both and bond and the stock markets do in the face of the rising rates. Fear fear fear ? and each one an excuse to sell.

Equity investing is always risky. And now we have these same valuation worries and rising interest rate worries and also concerns about the Trump administration. It is no easier or harder now to own equities than during or after the 2007-2009 crash. But the risk carries rewards, very large rewards. From the market bottom in 2009 cash or CDs have done basically nothing. Consider the difference. Equities have meant a tripling of account values while CDs have been near zero. For many people the 2009 crash meant a near destruction of their retirement hopes. Not so for those who stuck it out.

To illustrate this, you may recall in our October 2014 letter we wrote about a firm called Asset Risk Consultants (ARC). In brief, ARC has created indexes that measure the performance of professionally managed money. Their benchmarks are created from actual performance data (self-reported by participating firms) rather than a market based index such as the S&P 500. The ARC indexes are thus a direct measure of the performance of a large set of portfolio managers, people such as ourselves. They have data on more than 50,000 managed accounts, accounts managed by very large and famous firms. These are fully discretionary accounts. The managers can buy whatever they want ? individual stocks or bonds, gold, other commodities, private equity, whatever else. They can buy and/or sell whenever they might want to do so.

The ARC data begins 12/31/2003. To judge the results of our method we can send you a graph of your portfolio compared to the ARC data. You will see that our performance has been quite good, very much better than the ARC index in most cases. This is not because we have some clever and complex investment approach. It is rather due to the poor behavior of most investors. We remained invested all through the crash and after the crash. Many other managers did not. That is really all it takes.

The bottom line is that equity risk must be accepted to be rewarded. There are always problems in the world ? reasons to sell. At some point the markets will fall. They cannot go up forever. When they do we will, as usual, remain invested, rebalance, and wait it out. If you would like to review this process, and risk in general, as it relates to your portfolio allocation, give us a call or come in so we can discuss your allocation in the context of your overall financial plan.

Now we would like to talk to you a bit more about the recent data breach from Equifax. If you have not taken steps to protect your personal information at the major credit agencies we strongly encourage you to do so. This involves establishing credit alerts or the more secure option ? freezing your accounts. This breach is a reminder of how much personal information is out there and at risk to being hacked. It is imperative that you be diligent and take steps to protect yourself.

Schwab has put many safeguards in place to protect your accounts. They are described on Schwab's website - Schwab.com or you can do a web search for the phrase Schwabsafe. We will send you the link by email if you wish. If your account is compromised Schwab has the Schwab Security Guarantee which states they will cover 100% of any losses in your account due to unauthorized activities. You should still change your account password on a regular basis along with all your online passwords. And if you receive an email apparently from Schwab but that looks suspicious call us and we can help determine if it is legitimate or part of a phishing scam.

We at Pinney & Scofield also go to great lengths to assure your information is protected including on-going risk assessments of our systems and practices. We attend seminars discussing cybersecurity to learn about the latest threats and trends in fraud activity and we work closely with our vendors such as Schwab to adhere to data security standards. We employee a third-party IT consulting firm that monitors our firewall to detect possible outside intrusion and we require all third-party vendors to sign confidentiality and non-disclosure agreements. And we also use a secure client portal to send you forms with sensitive data. If you have not used the portal and would like to learn how contact us and we can walk you through the process.

Jim John Richard & Ryan