# The Navigator

Fall 2016

## CLIENT 1ST MANAGEMENT ADDITION

### Introducing Morgan Mabry
### *Operations Manager*

Morgan joined the Client 1st team this summer after graduating from The University of Southern Mississippi with honors in Economics and also a degree in Interdisciplinary Studies with concentrations in Mandarin Chinese and Business.

She is working from the Clearwater office on both investment management and technology solutions. She enjoys running and being outside. She just finished her first marathon. ●

## CLIENT 1ST ANNOUNCES BNY / MELLON PARTNERSHIP

We are delighted to announce that Client 1st has been selected by Bank of New York/Mellon, the recognized leader in the trust business, to offer their fiduciary and investment management services to our clients throughout the country.

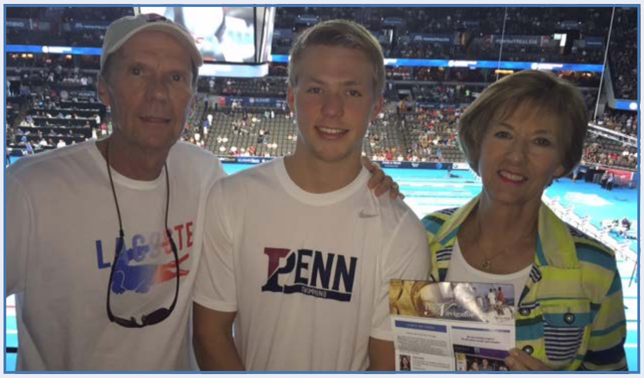
We now have the BNY/Mellon team of dedicated, full-time trust professionals with over a century of fiduciary experience available for our clients.

Through this partnership, the scope and depth of expertise we have available is greatly enhanced to help our clients with complex wealth challenges. We now offer family office services, charitable giving structures, trust real estate management as well as the ability to serve as trustee and executor in almost every state.

We are looking forward to serving our clients' fiduciary and estate planning needs in partnership with what we consider the foremost name in the U.S., if not the world. ●

## *THE NAVIGATOR* AROUND THE WORLD

***Be sure to bring a copy of* The Navigator *on your next vacation!***




***Taylor Uselis with parents Tony and Paula at the Olympic Trials.***

Each quarter we award a $100 Bonefish Grill/ Outback gift certificate or an AMX Gift Card to the client who sends in the best picture of themselves on vacation holding a copy of ***The Navigator***.

This quarter's winners are the ***Uselis family of Oldsmar, FL*** who submitted this great shot from their experience at the U.S. Olympic Swimming Trials this past June.

Their son Taylor competed in the 1500 meter freestyle where he achieved a personal best time. He swims for the University of Pennsylvania where he is a junior at the Wharton Business School. He attended Palm Harbor University High School where he was a member of two Florida High School state championship swim teams.

If Taylor's picture looks familiar, he has been our summer intern for the past two years and he was featured in the Summer, 2015 issue of *The Navigator.*

Tony and Paula are clients of the firm. ●

# WHO ARE COMPREHENSIVE PLANNERS AND WHAT DO THEY DO?

*– Part 2 –*

## Encouraging Consistent Investment

Out of our general fear, even if and when we invest, we often don't stay invested. But volatility – drawdown risk, really – is the price we pay for the higher expected returns provided by equities.

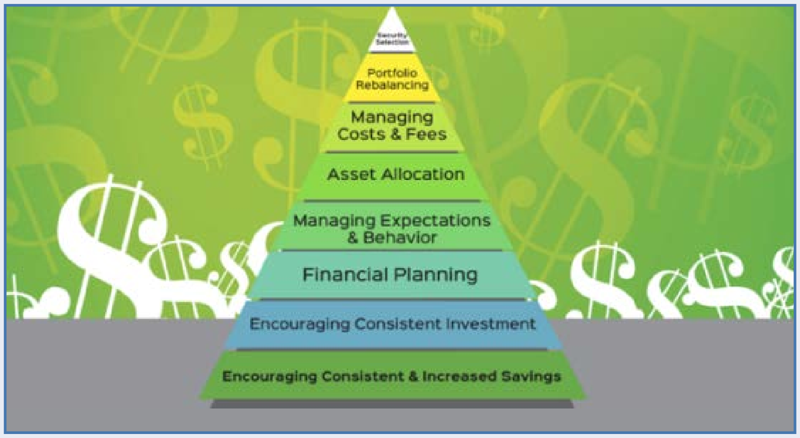
If we have the wherewithal to keep our composure during difficult markets, we will almost surely be rewarded for it.

As long as people have babies, capital depreciates, technology evolves, and tastes and preferences change, there is a powerful underlying impetus for growth that is almost certain to reveal itself in any reasonably well-managed economy. Numerous studies have shown that those who trade the most earn the lowest returns. Remember Pascal's wisdom: "All man's miseries derive from not being able to sit in a quiet room alone." Overtrading is indeed a big killer of returns. As finance researchers Brad Barber and Terry Odean show in a landmark 2000 paper, "trading is hazardous to your wealth." Yet our instinctive reaction to every market correction or downturn is to change something and almost always to sell something.

As David Rosenberg explains, "Corrections are part and parcel of the investment process, they come and go, and it is imperative to take a deep breath and realize that what is most important for building wealth is not 'timing' the market but rather 'time in' the market." It pays to stay invested. So please listen to Wesley Gray: "You can lead an investor to a winning strategy, but you can't make them stick with it when the going gets tough. Unfortunately, success comes at a steep price. You need to be willing to sit through periods of downright dreadful performance. No risk, no reward. It really is that simple."

However, since the mid-90's Client 1st has been successfully lowering overall portfolio volatility while providing strong risk-adjusted returns through a meaningful allocation to assets that are not correlated to the stock and bond markets that are there to rise sharply in times of poor stock market returns. We call this "crisis alpha" and kept our clients relatively calm during the 2000-2002 and 2008 market crashes.

### A Hierarchy of ADVISOR VALUE




## Financial Planning

In our experience, individual investors have a great deal of trouble establishing appropriate, realistic and manageable goals. Often they don't even know what they should be concerned with or what they should include as part of a list outlining what they want or need to accomplish. A good advisor will.

Moreover, good comprehensive financial planning is imperative for good financial health. Yet consumers often mistake investment management with financial planning. Financial planning is much broader, involving far more than the managing of investments. It involves budgeting, goals, appropriate insurance, comprehensive planning for lifestyle, retirement and legacy. Social Security planning, broad and granular risk management, asset allocation, withdrawal planning, tax efficiency, tax planning and more. It also involves crisis prevention and management. Great investment management can be undone in a hurry by poor financial planning. A good advisor – a good financial planner – can work to help individuals formulate, monitor, adjust and meet their personal and financial goals. Real expertise is required to do so.

Another crucial thing a good financial planner can do is to help to protect aging clients from the impact of inevitable cognitive decline. Research confirms what most of us have seen among our families and friends. The ability to make effective financial decisions declines with age. Thus those age 60 and up unnecessarily lose nearly $3 billion to fraud annually. To put it starkly, research shows that financial literacy declines by about 2% each year after age 60. Despite that decline, our self-confidence in our financial abilities remains undiminished (or even increases) as we age. That's a scary combination that a good advisor can guard against.

Ultimately, a good advisor can and will influence and even change client behavior. In a world where personal financial issues have become increasingly and often unnecessarily complex, a good advisor can help clients figure out what is true and what isn't, what works, what matters, what is useful, and what can go wrong. There are few enough people with the expertise sufficient to begin to do that for themselves. Nobody can do it objectively. That's why good advisors are an absolute necessity.

*To Be Continued Next Quarter*

# LOOKING BACK...
# LOOKING AHEAD

## The Bull Continues...

100 days after the Brexit scare, three quarters of a year after the most recent Fed rate hike, the markets once again confounded the instincts of nervous investors and went up instead of down. Late last month, Fed Chairperson Janet Yellen told the world that the U.S. economy is healthy enough to weather a rise in interest rates, but the Fed governors met and declined to serve up the first rate hike since last December 15. That was reassuring news to the Wall Street traders, and investors generally, helping to provide yet another quarter of positive returns in U.S. stocks.

The Wilshire 5000 Total Market Index – the broadest measure of U.S. equities – gained 4.5% for the third quarter, and is now up 8.4% for the first three quarters of the year.

Larger companies posted the lowest gains. The widely-quoted S&P 500 index of large company stocks posted a gain of 3.9% including reinvested dividends in the third quarter, and is up 7.8% for the year so far.

Meanwhile, mid-caps (Wilshire U.S. Mid-Cap index) were up 4.3% for the quarter, and 11.3% for the year. Small cap stocks (Wilshire U.S. Small-Cap index) likewise returned 4.5% for the quarter and 10.3% for the year.

Looking abroad, the U.S. remains a haven of stability in a very messy global investment scene. The broad-based EAFE index of companies in developed foreign economies gained 6.5% in dollar terms for the quarter but is only up 2.2% year to date. European stocks have lost 2.7% so far in 2016.

Real estate (Real Estate Investment Trusts) was down 1.2% for the third quarter but still up almost 10% year to date. Commodities lost 4.1% for the third quarter but are still sitting on gains of 5.3% for the year so far.

On the bond side, the interest rate story is essentially unchanged: rates are still low, once again confounding all the experts who have been expecting significant rate rises for more than a decade now. 10-year U.S. government bonds are yielding 1.6%, 3-month 0.3% and 12-month bonds are paying just under 0.6%. You have to go out 30 years to get a 2.3% annual coupon yield!

So what is keeping stock prices high while sentiment appears to be – let's call it "restrained?" Nobody knows the answer, but a deeper look at the U.S. economy suggests that the economic picture isn't nearly as gloomy as it is sometimes reported in the press. Economic growth for the second quarter has been revised upwards from 1.1% to 1.4%. America's trade deficit shrank in August. Consumer spending, which is more than two-thirds of U.S. economic activity, rose a robust 4.3% for the quarter, perhaps partly due to higher take-home wages this year.

Corporate profits have been on a long-term upswing, even if the rise has been choppy since 2008. Will this long-term trend continue. Who knows?

You might be wondering why bother with foreign stocks? A recent Forbes column suggested the answer: historically, since 1970, foreign stocks have outperformed domestic stocks almost exactly 50% of the time, meaning the long trend we've become accustomed to could reverse itself at any time.

It is certainly possible that the U.S. and global economies are weaker than they appear. But the slow, steady growth we've experienced since 2008 is showing no visible signs of ending, and it's hard to find the usual euphoria and reckless investing that normally accompanies a market top and subsequent collapse of share prices. At the current pace, we might look back on 2016 as another pretty good year to be invested, which is really all we can ask for. ●

# SO, WILL THE ELECTION SINK MY PORTFOLIO?

We are less than a month away from the election and there has been no shortage of drama. The comedians have had a field day. Unfortunately, so have so-called financial experts who have predicted doom and gloom for the stock market and the economy unless their favorite candidate is elected.

Influential Swiss investor Marc Faber said in an interview, "I think in general investors will prefer Hillary Clinton. I disagree, and think she will be a disaster." However, billionaire entrepreneur Mark Cuban has said a Trump presidency would be terrible for the market. He predicted losses could exceed 20% if Trump is elected.

The fact is, the stock market's course is rarely determined in the voting booth. What's more, since 1950 only two presidents have left office with the stock market in worse shape than it was when their terms began: Richard Nixon and George W. Bush. The true risk to your portfolio is not that the

*(continued on page 4)*

# MARKET REVIEW

The following table shows market index returns for the 3rd Quarter 2016 (including reinvested dividends):[1]

| Index | Q3 | YTD | Description |
|---|---|---|---|
| S&P 500 Index | 3.9% | 7.8% | Large Cap Stocks |
| Nasdaq Comp. | 10.0% | 7.1% | Tech Stocks |
| EAFE | 6.5% | 2.2% | Int'l. Stocks |
| Barclays U.S. Agg. | 0.5% | 5.8% | U.S. Govt. Bonds |
| Barclay BTOP 50 | -2.4% | -1.7% | Managed Futures |

## SO, WILL THE ELECTION SINK MY PORTFOLIO?

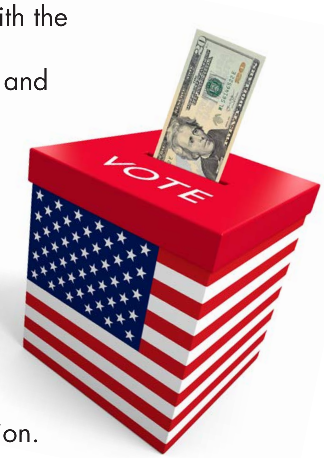
*(continued from page 3)*

"wrong" person wins the Presidency, but that you overreact to the election.

This may be one of the most emotional and unusual election seasons you will ever see, and it's outcome will likely cause strong feelings.

As a prudent investor, however, you know that it's hard to escape the influence of emotions on your investment decisions – and yet, it's essential. Investment decisions should be made in the context of your life goals, or in the case of our clients, their Financial Plan. The smartest way to prevent yourself from sabotaging those goals is to plan to limit reactive, emotional moves – if you make them at all.

The President must work with Congress to promote economic growth, regardless of the promises they make on the campaign trail. While the President proposes the budget, Congress enacts it and appropriates funds. Rarely can the budget get through Congress without cooperation between Democrats and Republicans. Either candidate will have to reach across the aisle and work with the leaders from both parties.




In 2003, Columbia economist and Bill Clinton advisor Joseph Stiglitz declared that George W. Bush's tax cuts would be reckless and ineffectual especially for new-economy companies. Those who followed his advice lost out on major gains as over the next four years the value of tech stocks doubled.

On November 9, you may feel disappointment or jubilation. But neither feeling is a reason to change your long-term plans. While the talking heads make their sensational predictions – that is their business, after all – resist the urge to react. If you have any questions or concerns, all of us at Client 1st are here to help.

## Gold Up, Gold Down

The enduring popularity of gold as an investment has to do with its tangible nature. Unlike a stock or a bond, you can feel and touch golden coins and larger ingots. The problem with such tangible assets, of course, is that there is nothing alive about them; that is, there is no claim on the fruits produced by the labor of thousands of workers, in the form of dividends or growth of the enterprise. As Warren Buffett famously pointed out, if you owned all the world's gold, you could mainly polish it and admire it in your front yard.

Even so, with all the uncertainty in the Middle East, Brexit and the tumultuous U.S. election, investors piled into gold this year, and have been rewarded with roughly 18% returns so far. Alas, they are now learning that gold is one of the most volatile of all assets. Prices have fallen dramatically in the last month, including a 4.5% drop in one week alone.

Experts are saying that if the Federal Reserve Board raises interest rates, that could trigger a further plunge, since investors could park their money in relatively safe investments which (unlike the recent past) paid returns. Gold was competitive with bonds when bonds (like gold) were paying nothing. We may be about to see what happens when there's a difference in yield.

### SOURCES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http://www.tradingeconomics.com/united-states/government-debt-to-gdp


***Note: This commentary is a service of***
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[1] *Sources: Wall Street Journal, July 1, 2016 Investment Advisor Online March 4, 2016.*

[2] *Your results would vary from the historical returns shown, which do not include the effects of fees, charges or taxes that would apply to a real investment. It is not possible to invest in an index and past performance is no guarantee of future results. Investing involves risk, fluctuating returns and the possibility of loss.*