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"When Our Clients Talk... We Listen"

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WEALTH PLANNING FOR LIFE

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Helping Our Clients Pursue Their Goals Since 1982

PLANNING PERSPECTIVES

BY KRISTY MOTTA, CFP®

DESIGNING YOUR HOME AND FINANCES

There is a lot of buzz around home renovation. Of course, there has also been a huge trend around reboots. These trends collide in the return of one of my favorite shows of all time, Trading Spaces. Don't get me wrong, the thought of letting my neighbor design any part of my home terrifies me, but that is the joy of the show. There is the potential for the proverbial train wreck. Also, the HGTV hit, Fixer Upper, recently aired its last episode. These home design shows are often hugely popular. You don't see the same kind of shows related to financial planning. We think there should be an FPTV, Financial Planning TV, network. We actually see a lot of similarities between home design and financial planning.

When you are working with a financial planner, like us, you are turning over the financial design of your life to someone else. There are some key benefits to working with a financial planner, like a home designer.

A home designer may advise on when to use bold colors or when more neutral tones may be appropriate. A financial planner will decide when to take risk and when to back off. For example, when the index of leading economic indicators is climbing, it may be appropriate to increase exposure to the equity markets. On the flip side, if the yield curve has inverted, it may be timely to reduce equity exposure. We like to think that we help reduce the emotional responses that tend to drive investment decisions by keeping the focus on the fundamentals in the economy. For example, currently the index of leading economic indicators has been trending upward, and while the yield curve is flattening, it has not inverted. Therefore, we are not seeing clear indicators of a pending recession at this time. Some risk is acceptable today.

You would also lean on a good home designer to make sure that you are not removing a load-bearing wall. Similarly, we want to make sure that you have a well allocated portfolio. While diversification does not protect against loss, it can help minimize the impact of a significant down equity market. For example, if the US stock market is experiencing volatility to the downside, we may be experiencing positive returns in emerging market equities. That was the actual result in the first quarter of 2018. The S&P 500 was down 0.8% year to date as of March 31, 2018. By contrast, the MSCI Emerging Markets Index was up 1.4% over the same time frame.

Inside This Issue:

Kristy A. Motta, CFP®
Editor-in-Chief

A good designer will also help you avoid integrating overly trendy fashions into your home. As financial planners, we are cautious of the "hot stocks". For example, the "FANG" stocks, Facebook, Amazon, Netflix and Google have been among the best performing stocks for the last few years. With the recent security concerns surrounding Facebook, that stock has experienced declines in share value. What has always concerned us, as financial advisors, is when clients come to us with a hot stock pick they heard about on CNBC or from a colleague. One of the hardest lessons to learn in smart investing is understanding what your buying, and having a sense of its value. We prefer to focus on the fundamentals of a particular stock or fund prior to investing. We want to understand what is driving the investment results and if it is sustainable.

A good home designer will make sure that your home fits your needs. The same should be true in your relationship with a financial planner. If you are already a client of ours, we have made some assumptions around the rate of return you need to achieve on your various investments in order to meet your long term objectives. We like to think of it as "running your own race." If you know that you need your investments to earn 5% annualized, for example, and your portfolio return is 7% this year, you are on track to meet your objectives, and potentially have a cushion should you experience a downturn in future years.

While there is no FPTV, *yet*, you can find your own financial design show with the help of a good financial planner. If you already work with us, please lean on us to help you make those good design choices that can help you continue on the path to financial independence.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Investing in foreign and emerging markets securities involves special additional risks. These risks include currency risk, geopolitical risk, and risk associated with varying accounting standards. Past performance is no guarantee of future results. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation does not protect against market risk. The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

News You Can Use

FIRST THREE MONTHS- The S&P 500 lost 0.8% (total return) in the first quarter 2018, breaking the index's streak of nine consecutive positive quarters. The loss was just its second down quarter in the last five years (source: BTN Research).

DOWN THEN UP - The last time that the S&P 500 was down on a total return basis for the 1st quarter yet finished up for the full calendar year was in 2009 when the index lost 11.0% during the first 3 months of the year but was up +26.5% for the entire year (source: BTN Research).

A GAIN THIS YEAR - 40% of the stocks in the S&P 500 were trading at a price as of the close of business on Thursday 3/29/18 that was higher than where the stocks ended 2017 (source: BTN Research).

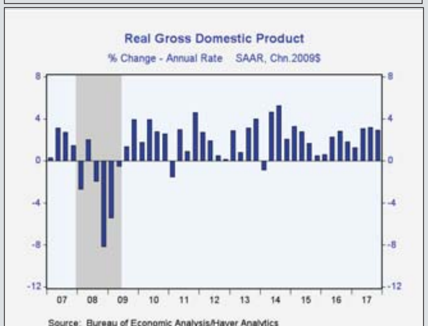
TENFOLD - The US bond market (including treasury, municipal, corporate, mortgage and asset-backed debt) was worth $40.8 trillion as of 12/31/17. The US bond market was worth $4.1 trillion as of 12/31/85 (source: Securities Industry and Financial Markets Association).

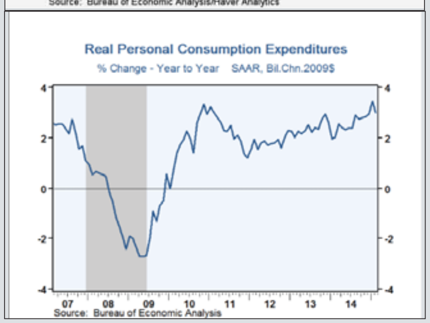
WHAT ARE BOND BUYERS TELLING US - The yield spread is the difference between the yields on the 10-year Treasury note and the 2-year Treasury note. That spread fell to just 0.47 percentage points last Thursday 3/29/18, i.e., 2.74% less 2.27%. The yield spread hasn't been that low since 10/15/07 (source: BTN Research).

MORE WITH LESS - After adjusting for inflation, manufacturing output in the United States is up +62% over the last 30 years, i.e., 12/31/87 to 12/31/17. However, the number of manufacturing jobs in the United States have declined 29% over the same 30 years, falling from 17.8 million to 12.6 million (source: Department of Labor).

THE ART OF THE DEAL - 6 days after President Trump announced steel and aluminum tariffs on 3/01/18, the White House released plans to exempt Mexico and Canada from those tariffs. By the time the tariffs became effective on Friday 3/23/18, 32 additional countries had been added to the growing exception list, including all 28 European Union (EU) countries plus Argentina, Australia, Brazil and South Korea. Further exemptions are expected over the next month (source: White House).

Key Economic Charts As of March, 2018





"If opportunity doesn't knock, build a door."

– Milton Berle

Analyst's Angle

by Chris Scott, CFA

Bonds, James Bonds... Shaken, Not Stirred

As we close the books on the first quarter of 2018, the stock and bond markets reminded us that volatility never went away, it was just hibernating. When it finally woke up, it announced its presence with authority. After peaking at the end of January, the S&P 500 declined into correction territory in just nine days, one of the fastest peak to correction moves on record. The U.S. 10-year Treasury, a global benchmark for interest rates, went from yielding 2.40% at the start of the year to 2.95% by early February.

One thesis that seems to be appearing so far in the young year is that interest rates are set to move higher. The Federal Reserve (Fed) should continue to raise rates, the Treasury is set to issue more debt to fund the fiscal deficit, and the Fed is letting bonds on their balance sheet run off by not reinvesting the proceeds.

The early numbers have certainly seen this play out, with the 10-year Treasury up about 0.4% since the start of the year and bonds, as gauged by the Bloomberg Barclays Aggregate (Agg), down 1.46% in the first quarter. The first quarter of 2018 finished as one of the worst quarters for bonds in the last 25 years.

So should we jettison bonds and find alternatives, or invest more in equities to avoid possibly low or negative bond returns? Think about that last data point on bonds having one of the worst quarters in the last 25 years, finishing down 1.46%. Put that into context of the equity market and the worst quarter in the last 25 years, with the S&P 500 finishing down 22.56% in the fourth quarter of 2008. That's a significant difference.

Now, let's look back in the not so distant past, and see how bonds performed during the most recent S&P 500 correction period from this year. From January 26 to February 8, 2018, the S&P 500 was down 10.10%, while the Agg was only down 1.01%. After retracing much of its correction losses in February, the S&P 500 moved back lower in March. From March 9 to March 23, 2018, the S&P 500 was down 7.06%, while the Agg was up 0.25%

Bonds, used as equity diversifiers and income generators, have the potential to add value to your overall portfolio in our opinion, and the most recent equity market correction showed that. Run your own race and focus on your goals, not financial media noise.

What's Happening at CFM

by Tami Powers

Kristy Motta Attended LPL's Alternative Investments Symposium

This event is carefully designed to showcase current industry trends with a specific focus on alternative products. At this invitation only event, she heard about the latest insights and updates from experienced subject-matter experts and industry-leading firms about investing opportunities and practice tools that have the potential to positively impact the financial lives of our clients. In addition, she had the opportunity to engage with other financial advisors, home office leadership, and dedicated investment partners to discuss timely topics and concepts significant to your investments.