Wealth Management, LLC

Fee-Only Financial Planning and Asset Management

Larry R. Glaze, CPA, CFP®
Michael A. Blanchard, CPA/ABV

Mark W. Vermillion, CFP®
Jennika G. Lee, CPA

Fourth Quarter Update
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The rough start the markets are having so far this year reminds us a lot of the volatile stretch we went through last August and September – both in depth (the Dow Jones Industrial Average reached a low for that downturn of 15,666 on 8/25/15 compared to today's closing price of Dow 15,767 (source: quotes.wsj.com)) - as well as some similar causes (China, falling oil prices). You might think all the positive green arrows on the 4th quarter chart below look out of place, and we would agree! The overall decent results last quarter on the heels of the last downturn, however, also reminds us that the markets always have rebounded in the past. While we can't predict the depth or length, we believe that the markets will eventually recover this time as well.

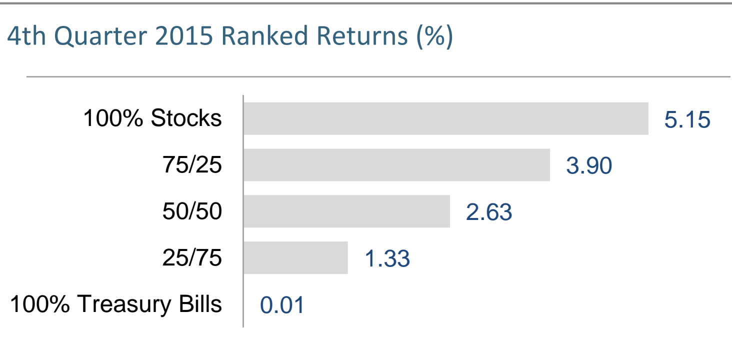
4Q 2015	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	6.27%	3.91%	0.66%	4.89%	-0.57%	0.58%
Since Jan. 2001						
Avg. Quarterly Return	1.7%	1.4%	2.9%	2.8%	1.2%	1.1%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	5.5% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-2.4% **Q2 2004**	-3.2% **Q2 2015**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2016, all rights reserved. MSCI data © MSCI 2016, all rights reserved. Barclay's data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

We trust you find the new "Since Jan. 2001" section our friends at Dimensional added to the quarterly broad market index chart helpful as we do, since it helps us all compare recent and current market performance to long term numbers. Note that like the best and worst quarter sections, the average returns are by quarter rather than annual - and they're all positive!

Looking closer at the 4th quarter broad market indices, the US equity market again outperformed both international and emerging markets. Real estate showed overall strong results, with US REITs leading the way again like last quarter. Interest rates across the US fixed income markets increased, resulting in slightly negative performance for the quarter. International bonds, on the other hand, were slightly positive.

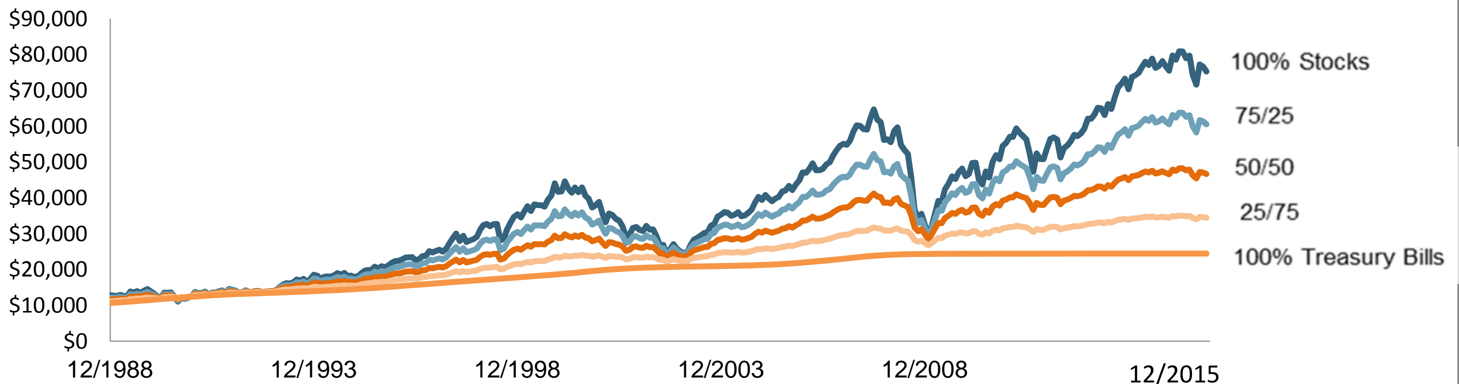
Similar to prior quarters, these portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time. While this illustration is helpful to compare risk and return of various mixes, note that the indexes utilized are not nearly as broadly allocated as our portfolios, especially when it comes to fixed income, emerging market stocks, and small company stocks, which is why the returns do not track identically to our portfolios.



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	-1.84	8.26	6.66	5.31
75/25	-1.22	6.25	5.13	4.54
50/50	-0.70	4.21	3.51	3.58
25/75	-0.29	2.13	1.81	2.44
100% Treasury Bills	0.02	0.02	0.03	1.13



Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2015, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

To say that 2015 was a difficult year for investors would be putting it mildly. It was a lousy year. We are glad to get out of it with minor losses in the wake of a global rout in commodities, currencies, and Chinese stocks. Some markets fell 20% or more; Chinese stocks fell as much as 48% at one point in late summer. That decline reverberated throughout emerging markets and oil fell to a new multi-year low, dropping from $47 to $36 during the year. Things were a little better in the United States, where the Standard & Poor's 500 Index lost about 1% and the Dow Jones Industrial Average lost 2%. We think The Global Dow Index is a better stock market gauge for a diversified portfolio: It fell 7% for the year. Fortunately, our stock market losses did not wreck our portfolios because we were able to make money on bonds, real estate and small international stocks.

3085 River Road North ⬩ Salem, OR 97303 ⬩ **phone:** 503.304.9248 ⬩ **fax:** 503.390.0812 ⬩ www.jgcwealth.com

If you want to feel better about your portfolio's performance in 2015, compare it to where a lot of the supposedly "smart" money was invested last year: in some of the most popular hedge funds, where rich investors pay large fees for access to the "brightest" minds in the investment community. Those fees weren't worth it. Well-known hedge funds such as Pershing Square, Greenlight Capital and Glenview Capital Management racked up losses ranging from 17% to 20%.

2016: Ten Predictions to Count On – Article by Jim Parker

The New Year is a customary time to speculate. In a digital age, when past forecasts are available online, market and media professionals find it harder to hide their blushes when their financial predictions go awry. But there are ways around that.

The ignominy that goes with making bold forecasts was highlighted in a recent newspaper article, which listed many bad calls US economists had made about 2015. These included getting the timing of the Federal Reserve's interest rate increase wrong, incorrectly calling for a rise in long-term bond yields, and assuming an end to the commodity rout.[1] For the broad US equity market, 22 strategists polled by the Wall Street Journal[2] estimated an average increase for the S&P 500 of 8.2% for 2015. The most optimistic individual forecast was for a rise of 14%. The least optimistic was 2%. No one picked a fall. As it turned out, the benchmark ended marginally lower for the year.

In the UK, a poll of 49 fund managers, traders, and strategists published in early January 2015 forecast that the FTSE 100 index would be at 6,800 by midyear and 7,000 points by year-end. As it turned out, the FTSE surpassed that year-end target by late April to hit a record high of 7,103 before retracing to 6,242 by year-end.[3] Australian economists were little better. The consensus view, according to a January 2015 Fairfax Media poll, was that local official interest rates would stay on hold all year. The Reserve Bank of Australia proved that wrong a month later, before cutting rates again in May. It shouldn't be a surprise that if economists can't get the broad variables right, it must be tough for stock analysts to pick winners. Even a stock like Apple, which for so many years surprised on the upside, disappointed some forecasters last year with a 4.6% decline.[4]

It should be evident by now that setting your investment course based on someone's stock picks or expectations for interest rates, the economy, or currencies is not a viable way of building wealth in the long term. Markets have a way of confounding your expectations. So a better option is to stay broadly diversified and, with the help of an advisor, set an asset allocation that matches your own risk appetite, goals, and circumstances.

Of course, this approach doesn't stop you or anyone else from having or expressing an opinion about the future. We are all free to speculate about what might happen in the economy and markets. The danger comes when you base your investment strategy on such opinions. In the meantime, if you insist on following forecasts, here is a list of 10 predictions you can count on coming true in 2016:

1. Markets will go up some of the time and down some of the time.
2. There will be unexpected news. Some of this will move prices.
3. Acres of newsprint will be devoted to the likely path of interest rates.
4. Acres more will speculate on China's growth outlook.
5. TV pundits will frequently and loudly debate short-term market direction.
6. Some economies will strengthen. Others will weaken. These change year to year.
7. Some companies will prosper. Others will falter. These change year to year.

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8. Parts of your portfolio will do better than other parts. We don't know which.
9. A new book will say the rules no longer work and everything has changed.
10. Another new book will say nothing has really changed and the old rules still apply.

You can see from that list that if forecasts are so hard to get right, you are better off keeping them as generic as possible. The future is always uncertain. There are always unexpected events. Some will turn out worse than you expect; others will turn out better. The only sustainable approach to that uncertainty is to focus on what you can control.

References: 1) Malcolm Maiden, "The Year Market Economists Failed to See Coming," SMH, December 30, 2015. 2) "Strategists Expect Stocks to Keep Climbing in 2015," Wall Street Journal, January 2, 2015. 3) "Five Fund Strategies to Ride Rising Markets," The Times, January 3, 2015. 4) "Seven Stocks to Buy for 2015," CNN Money, December 31, 2014. Adapted from "2016: 10 Predictions to Count On" by Jim Parker, Outside the Flags column, January 2016. Dimensional Fund Advisors LP ("Dimensional") is an investment advisor registered with the Securities and Exchange Commission. Diversification does not eliminate the risk of market loss. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. This content is provided for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

How to Deal With the Future

Jim Parker's article articulates it well, and we've also said time and again that past market fluctuations tell us nothing about the future. Whether markets (and which markets) will rise or fall in 2016 depends on events that haven't yet occurred and news that cannot be predicted. The first trading day of the year - and the volatility we've experienced these last couple weeks - tells us nothing useful about what comes next. We remain confident in the academic investment research that shows a diversified portfolio will give you a real return after inflation over a period of years. It may not do so next month or this year, but your investment goals are not that short. Most of us need to fund long-term goals, like college, or a new house, or a long retirement. To achieve those goals you need to get positive returns over long periods of time, and to avoid suffering any permanent loss of capital. Instead of focusing on 2015 losses, look at your investment return over the last five years. Consumer inflation averaged 1.74% per year during that period. If your return was better, you had a real profit. If you had your money in the bank over the last five years at a rate of less than 1.74%, you actually lost money in real terms.

Rather than worry about daily market fluctuations, there are positive steps you can take to influence your long-term financial success: maintain an emergency fund, properly fund your short and mid-term cash reserves, buy insurance to protect against catastrophic losses, save regularly if you are working, and control your expenses. Do what you can - within reason - to minimize your income taxes. We stand ready to help you in all of those areas.

We've always liked to "make lemonade out of lemons," so consider making your 2015 and/or 2016 retirement plan contributions, doing a Roth conversion, or reallocate taxable accounts while the market is lower since that typically makes great sense both from a tax and from an investment perspective. We can help you evaluate whether one or more of these strategies applies to you.

Practice News & Closing Comments

We have been working hard on our new website, so watch for an email soon letting you know when we've launched it. We hope you like it and will find the added features, tools, and information useful.

Please give us a call if you would like to discuss your portfolio(s) or any other financial issues that are top of mind.

We truly appreciate your business and wish you good health, happiness and prosperity in 2016!

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