360INSIGHTS

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Talk to Your Advisor

By J William G Chettle, VP, Marketing, Loring Ward

In addition to the usual resolutions, the new year is a great time to talk to your financial advisor, revisit your goals and your long-term plan, and discuss any changes in your life or circumstances. This way, you can make sure that your plan accurately reflects where you are now and where you want to be.

A great place to start is the Financial LifeMap below. Your financial advisor — working in close partnership with other experts, such as your accountant and estate attorney — can help you address these areas.

You've probably already worked on many of them together. But perhaps there are some you haven't previously considered or others you would soon like to focus on. Have you planned for how to help aging parents, for example? Or do you want to start saving for your grandchildren's education? Or perhaps this is the year you start thinking about buying a second home, or downsizing?

FINANCIAL LIFEMAP

CLARIFY VISION & FUTURE	BALANCE WORK & LIFE	CREATE FINANCIAL COMFORT	HELP & PROTECT FAMILY	BUILD A LEGACY
Plan for the Future Financial Planning Retirement Income Estate Planning Business Succession	**Meet Needs** Income Planning Expense/Budgeting Social Security Corporate Benefits	**Simplify Finances** Investment & Savings Home & Assets Automate Aggregate	**Help Children** Allowance & Savings Loans & Gifting Special Needs Learning About Money	**Execute Intentions** Wills & Trusts Power of Attorney Medical Directives Protect Heirs
Ease Life's Transitions Marriage/Divorce Birth/Death Leaving My Home Career & Profession	**Enhance Lifestyle** Vacation Home Family Trips & Events Hobbies & Leisure Lease vs. Buy	**Reduce Taxes** Tax-Loss Harvesting Asset Location Stock Options Strategies	**Assist Parents** Long-Term Care Eldercare Counseling Medical & Housing	**Help Beneficiaries** Designations Special Needs Trusts & Trustees Valuation/Projections
Live My Values Clarify My Mission Give to Community Volunteer My Time Align Investments	**Manage Health** Medicare/Supplemental Long-Term Care Care Concierge Wellness & Nutrition	**Protect Assets** Insurance Liquidity Business Continuity Corporate Structure	**Fund Education** Savings & Investments Pre-Paid Tuition Student/Parent Loans Grants/Scholarships	**Give to Charities** Planning Strategies Tax-Advantaged Gifts Low-Basis Assets

Your advisor can help you think through all the areas that are relevant to you and determine any necessary next steps.

You may also want to discuss regulatory or tax changes that might impact you financially. In 2019, for example, new retirees could collect up to $3,770 per month from Social Security. There will also be sizable cost-of-living adjustments and other changes that could affect your retirement.

In addition, 401k and IRA contribution limits will increase in 2019. You will be able to contribute $6,000 to individual retirement accounts (up from the $5,500 level in place since 2013). And if you participate in a company-sponsored retirement plan, such as a 401(k) plan, you will be able to set aside up to $19,000 before taxes, up from $18,500. If you are age 50 or over, the catch-up contribution limit will stay the same as in 2018 at $6,000.

The IRS also announced several other inflation-adjusted limits and income thresholds that apply to retirement, taxes, and savings. As relevant, these will be factored into your plan by your advisor.

Good advice is a dynamic process that reflects your life and the changes around you and adjusts as necessary. Together, you and your financial advisor will look at all your options and come up with the best course of action for you.

What's on Your Mind?
Addressing Three Common Investor Questions

By Jonathan Scheid, CFA, AIF®, VP, Portfolio Strategy & Education, Loring Ward

In 2017, global markets moved up most of the year, but that surely wasn't the case in 2018. In fact, we haven't seen that type of volatility in U.S. markets for some time. In this article, we'll address three of the most common questions we've heard from investors curious about how their investment strategy is performing.

1 Will rising interest rates hurt my bond investments?

When the Federal Reserve increases the Fed Funds rates, which they did four times last year, the interest rates we receive on our short-term bonds typically rise. Yet, rising interest rates are a double-edged sword. Higher interest rates mean that our bond investments will generate more income, but also that the existing bonds in our portfolio will likely fall in price. This is where investors typically have concerns about their bonds and rising interest rates.

Long-term bonds typically will decline more than short-term bonds when interest rates rise because long-term bonds are more sensitive to changes in interest rates.

We prefer using short-term bonds since we want our bonds to be the ballast of our investment ship, and long-term bonds may introduce additional risks (e.g., interest rate risk). Consider that the broad bond market index, which has a wide range of bond maturities including many with over 20 years, declined -1.8% from January 1 to November 30, 2018. However, shorter-term bonds, those with maturities between one and three years, gained 0.9% in that period.[1]

While we can never know for certain, our use of short-term bonds seems set to do well versus the current interest rate increases the Fed is considering this year. These bonds are not as sensitive to changes in interest rates versus the entire bond market, and given that interest rates have increased over the last three years, we are now earning a reasonable level of interest income from our bonds. This should be sufficient to offset potential price declines from the estimated Federal Reserve interest rate increases.

Finally, since our bonds are generally shorter-term than the average bond investment, that means our bond investments mature faster. As those bonds mature, we get to reinvest in the new, higher-yielding bonds when they come out. So, gradual rising rates could continue to be a beneficial trend for our bond investments.

2 Why don't we just invest in the U.S.?

The numbers don't lie. U.S. stocks outperformed non-U.S. stocks in 2018. Taking an even longer view, U.S. stocks outperformed non-U.S. stocks over the last three- and five-year periods. It is understandable that investors may want to stick with the better-performing market. So then, why should we invest outside the U.S.? Opportunity. As much as we believe America is home to the entrepreneur, innovation and new business ideas exist all around the world. Consider that 45% of the world's stock market capitalization, 75% of the world's gross domestic product, and 73% of all tradable companies are outside the U.S.[2]

There is value overseas, as non-U.S. companies

[1] Source: Morningstar Direct. Broad bond market index refers to Bloomberg Barclays U.S. Aggregate Bond Index. Short-term bonds refer to ICE BofAML 1-3 Year U.S. Corporate & Government Bond Index.
[2] Source: MSCI. As of October 31, 2018, MSCI ACWI IMI Index had a market cap of $49,711,263.6 million and 8,853 constituents. Conversely, MSCI USA IMI Index had a market cap of $27,418,789.59 million and 2,406 constituents.

are more reasonably priced than U.S. companies. StarCapital Research, a German asset manager, compiles and publishes global stock market valuations scores on 40 countries based on a collection of fundamental and technical measures. In its latest ranking, the U.S. stock market scored 34 on the list of 40. That means 33 countries have more attractive valuations than the U.S.

This doesn't mean that we should abandon our U.S. stocks, and it doesn't guarantee that the countries that are more reasonably priced will do better. But, it does show that combining stocks from the U.S. and non-U.S. opens the door to additional opportunities.

In fact, if we look decade by decade since the inception of the MSCI EAFE Index, an index of developed non-U.S. stocks, we can see that non-U.S. and U.S. stocks have flip-flopped in terms of outperformance (see chart below). U.S. stocks beat non-U.S. stocks in two decades, and non-U.S. stocks beat U.S. stocks in three decades.[3] There is a diversification benefit to having both type of stocks in our portfolios.

3 When will we receive value from our value investing strategy?

While value stocks have had their moments from time to time, growth companies have been delivering impressive results over the past few years.

The Russell 1000 Value Index, which measures the performance of U.S. large cap value companies, returned an annualized 12.5% for the 10 years ending 11/30/2018. The Russell 1000 Growth Index, which measures the performance of U.S. large-cap growth companies, returned an annualized 16.5% for the 10 years ending 11/30/2018. That means that growth stocks outperformed value stocks by 4.0% every year.

This typically isn't the case. History has shown us that value stocks tend to outperform growth stocks. But, while we expect value stocks to outperform growth stocks on a regular basis, the returns we receive from value stocks may not always be superior to growth stocks. In fact, we could go for an extended period of time before we see value stocks outperform growth.

To get an idea of how long we might have to wait to realize a value premium, researchers from the University of Chicago and Dartmouth College ran the numbers. Using a simulation technique where they use actual historical data to generate future probabilities, Eugene Fama and Ken French found that it isn't uncommon for investors to have to wait more than 10 years to see value stocks outperform growth stocks (their simulation found that any given 10-year period could have a negative return premium 15.6% of the time).[4]

This isn't the only time we've seen value struggle versus growth. We saw growth stocks significantly outperform value stocks in the 1990s in the U.S. However, it didn't take long for value stocks to come back and outperform growth stocks. (continued on page 4)

INVESTING THROUGH THE DECADES

	U.S. Stocks	Non-U.S. Stocks
1970s	5.9%	8.8%
1980s	17.5%	22.0%
1990s	18.2%	7.0%
2000s	-0.9%	1.2%
2010s*	13.03%	4.43%

**2010s is from 1/1/2010 to 11/30/2018*

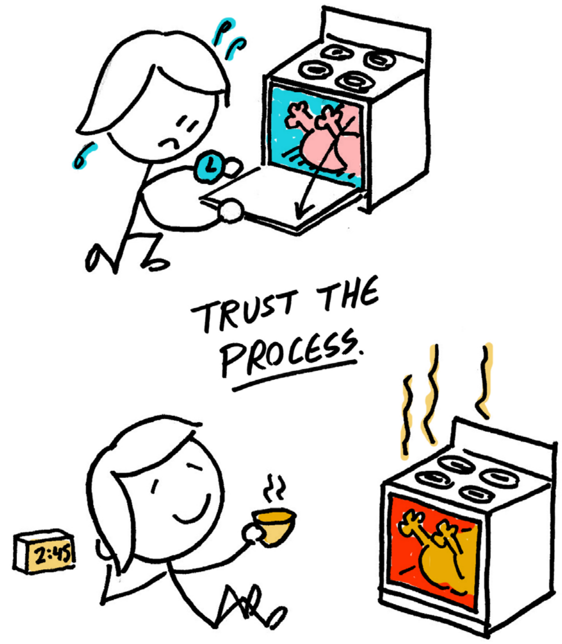
Diversification neither assures a profit nor guarantees against loss in a declining market.

[3] U.S. stocks represented by S&P 500 Index. Non-U.S. stocks represented by MSCI EAFE Index NR.

[4] Fama, E. F. & French, K. R. (2018) Volatility Lessons. Financial Analysts Journal, Vol. 74, No. 3: 42

Invest for the Long Term

Over the last 9 decades, the U.S. experienced 9 bear markets and 15 recessions or depressions, World War II and Vietnam, and any number of crises big and small. Yet $1 invested in 1927 could have grown to more than $6,229 by the end of 2017.[5]



Markets have shown a remarkable ability to reward patient, long-term investors for staying invested. This is important, since most of us are investing for the long term.

For a 65-year-old couple, there is a good chance that one of them will live to at least 95 years old.

We must keep this long time horizon in perspective when judging the success of our portfolio and the financial plan it supports. It is like cooking a turkey for the holidays. Because a 20-pound turkey requires 4 to 5 hours to cook, we do not measure success by opening the oven every 2 to 3 minutes to see how things are going. Instead, we give the oven time to work, checking only periodically to make sure everything is on track (and to make any necessary adjustments).

When it comes to your portfolio, don't judge success on a quarterly or even annual basis. Instead, focus on how you are progressing toward your goals, including any life changes that may impact those goals. This helps you to stay focused and not let short-term market fluctuations affect your emotions and compromise your future. Trust the process and your plan, and don't open the oven all the time. That way, there is only one turkey involved.

This article is an excerpt from a new book, "27 Principles Every Investor Should Know," with sketches by well-known illustrator Dan Roam, coming out in early 2019.

(What's on Your Mind? Addressing Three Common Investor Questions, continued from page 3) While we don't know when, or even if, value stocks will outperform growth stocks again, we do know that we've seen this before and that history has supported our investment approach.

THE COMMON THREAD BETWEEN THE QUESTIONS

There are no givens when it comes to investing. The best we can do is try to manage the uncertainty — which is why we use a time-tested, evidence-based approach focused on pursuing opportunities that are based on sound theory and real results. We believe we align our investments with risks that are worth taking and try to avoid or minimize areas of the market where we don't feel properly compensated for the risk we may take.

[5]Source: DFA Returns 2.0

All investing involves risk, principal loss is possible. Implementing an asset class investing strategy cannot guarantee a gain or protect against a loss. Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.