

★ Quarterly ★ Newsletter



INSIDE THIS ISSUE

01. How High is Too High?
02. The World Survived 2016. Now What?
03. Election Night Investing Lessons
04. Philanthropy
05. Small Cap Stocks Jump

How High is Too High?

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As some of you may know, my wife, Pat, and I are moving to a new home in Houston. So, for the past several weeks we have loaded up our SUV with boxes full of personal items that needed to be moved, donated, or just

plain tossed out. For most of the last two months, it has been my daily morning ritual of taking those items

Continued on the next page...

How High, continued from page 1....

we will be keeping, dropping them off at the new location and then head to the office. The movers come later this month.

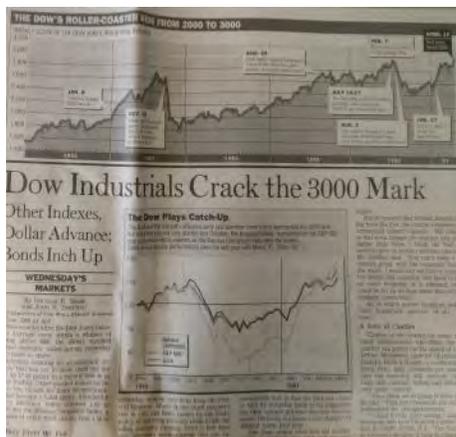
As we have dug ever deeper into the inner sanctums of our guest bedroom closets, we have found many items that usually fall into two basic categories: 1) those we have no memory of whatsoever, or 2) those that cause long dormant memories to come rushing into our consciousness. For example, it turns out that we have saved nearly every piece of paper that we have ever touched. And in the deep recesses of one guest room closet, we found a 35 pound Packard Bell computer, complete with a floppy drive. Suffice to say, we have tossed out an amazing volume of stuff discovered on our deep dives into areas long ignored.

But, on rare forays into these forgotten corners of our home, I have found some dusty jewels. Some of them I want to write about today because they are so relevant to where we sit here in 2017. As the Dow Jones Industrial Average flirts with the 20,000-point level, I am frequently asked by clients “Is the market just too high right now?” or “Should I wait to invest until things *look better*?”. I always answer with a question – “Exactly how high is *too high*?”

On one of my expeditions in search of new items to clean out, I came upon copies of *The Wall Street Journal* that I had saved. One was from January 9, 1987. I had been a financial advisor for a couple of years and I will never forget the shock and euphoria of that day. The Dow hit 2,000 for the first time. I didn’t have nearly as many clients as I do today, but my phone was ringing off the wall. Clients were saying that this new level that the Dow had hit was “unjustifiable” and “ridiculously overpriced”. “How high is too high?”, I asked. Indeed. From that moment through August of that same year, the Dow would tack on an amazing 700 more points.

The next copy I found was the front page of the *WSJ* from April 17, 1991. The Dow had just hit 3,000. I had many more clients at this point and it seemed like every one of them called me that day: “How can this pace keep up?” and “Should I sell out to cash and wait for stocks to not be so pricey?”. None of us knew it at the time, but the Dow was just getting warmed up.

The third and final copy of the *Journal* I discovered was dated February 24, 1995. Holy moley, the Dow just hit 4,000! I remember headlines from every financial outlet telling investors that they better watch out, the Dow is in the stratosphere and was soon to come crashing down. The gurus screamed in unison “Take some of those profits off the table because the 4,000 level is completely unsustainable. Hold onto your cash until the Dow came back down to reasonable levels. BEWARE!”



By the way, the Dow went on to hit 5,000 in November of that same year, 6,000 in October of 1996, 7,000 in early 1997...well, you get the idea. (FYI, in 1886, the Dow Jones closed at 62.76.)

Soon, maybe this year or maybe not, I will be saving another copy of the *Wall Street Journal*. It will say that the Dow Jones has hit the 20,000 level. I will get calls from clients and they will be concerned about this new milestone the Dow has posted and will ask if I think it is too high? And I will courteously reply, “Exactly how high is *too high*?”

The World Survived 2016. Now What?

HEATH HIGHTOWER, CFP® | SHAREHOLDER, FINANCIAL ADVISOR



In the second quarter of 2016 I wrote an article called “The Annual End of the World”. I wrote the article just a few days after the British voted to exit the European Union (known as “The Brexit”). At the time, global markets were down and there was a feeling of hopelessness as if the world were about to end. Luckily, we survived!

Despite the doom & gloom headlines of 2016, the S&P 500 made 11.96% for the year. Markets across the globe have soared to new highs. It’s true that the world faces many challenges in 2017, but we should also remember the endless possibilities our future holds. Advances in technology, science, and healthcare have quickly ushered in new realities that were thought to be science fiction just a few years ago.

So this year, I’d like to shake things up a bit by highlighting some of the more interesting technologies that I think have amazing potential for our future economy and way of life.

1. **NASA is going to Mars.** The US has set forth a plan to send humans to Mars in the 2030s with the goal to colonize the planet and become “earth independent”. The project has already begun.¹
2. **3D Printed Food.** 3D printing has already taken the world by storm, but a German company, Biozoon, is harnessing the technology to print food on demand.²
3. **Prosthetics with a sense of touch.** A group of European engineers have developed a prosthetic hand that can connect directly to remaining nerves in a patient’s wrist or arm.²
4. **Virtual Reality is a reality.** Scientists, engineers, and artists can now become fully immersed in their research by creating a “hybrid reality environment”. A company called Mechdyne has developed technology to immerse users into any environment. Whether it’s the human body or planets in the solar system, you can now visit them both from your own living room.²
5. **Self-Driving Cars.** Waymo, previously known as the Google self-driving car project, is the leading autonomous car developer. Waymo plans to make self-driving cars available to the public in 2020.³

The headlines of 2017 will most likely not focus on any of these things. Headlines will continue to focus on politics, war zones, and celebrities. But, my hope in writing this newsletter is that you will be encouraged by the tremendous opportunity for growth and development over the next several decades.

¹NASA: <https://www.nasa.gov/content/nasas-journey-to-mars>

²Future Technology Website: <http://www.hongkiat.com/blog/future-technology-coming-true-soon/>

³Self-Driving Cars: <https://waymo.com/>



Election Night Investing Lessons

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At the outset, I cannot stress strongly enough that my intent with this article is not to make a political point. Regardless of political views or feelings about the election result, there's a fascinating case study on stock market behavior here, and it is worth unpacking what happened purely from an investment perspective.

Leading up to the election, global stock markets clearly priced in a Clinton victory, but as

Trump won key battleground states like Ohio, Florida and Pennsylvania, global stock and currency markets plunged. While the U.S. stock market was closed, the futures market was hemorrhaging. At one point, Dow Jones futures were down some 800 points. Pundits and experts were brought on the networks to help explain the selloff. The reason was really pretty simple. The market wasn't expecting Trump to win, and now that his victory seemed imminent, there was uncertainty about what a Trump presidency would mean.

Like many of you, I watched the election results and market reaction late into the night. I remember going to bed thinking about how we might be able to take advantage of the selloff the following day. After all, you build wealth by buying when others are selling.

That is where it gets interesting.

The following morning, the Dow opened at 18,317, *only 16 points (or 0.09%) below its previous close of 18,333*. By the end of the day, the Dow closed at 18,589, *up 256 points above the previous close*. Any plans that investors, myself included, had the night of the election that they would somehow take advantage of the dip had been eliminated by the time the market opened.

Now maybe I'm just a colossal geek, but I find that to be fascinating. The market was rocked by the uncertainty associated with an unanticipated Trump victory, but by the time you or I could do anything about this news, the market had taken that opportunity away. If this isn't proof positive that you cannot outwit the stock market, I really don't know what is. That's Lesson #1. The collective ability of all investors (the market) to distill the news and arrive at a new projection about the future prospects of corporate earnings is light years ahead of our individual ability to do the same thing.

The second lesson is that our political views shape our investment approach, at times to our great detriment. Roughly half of the investing public was unhappy, even distraught, at the results of the election. This led some investors to either sell stocks or to continue holding cash which really should have been invested for longer-term growth. But the market is politically agnostic. After the election, global stock markets have gone on to record-breaking highs. Investors who allowed political frustrations to get in the way of longer-term goals missed the first leg of an historic bull run.

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Election, continued from page 4...

And that leads us to Lesson #3. Many investors who have been “waiting to get back in” find that the merry-go-round is spinning too fast. I spoke with three people (none of them clients) during the week after the election who told me that they would have made buys if the markets had remained depressed as they were the night of the election. However, after those losses had been erased overnight, they felt that it was “too late to get in” and that they “need to wait for another dip.” But as we know, the markets have been on a virtually uninterrupted increase since that night. In fact, only three times since November 4th has the Dow Jones Industrial Average seen back-to-back down days. If this rally continues, it makes it even harder for investors who are on the sidelines to take a long-term view.

I have no idea what 2017 has in store for investors or what a Trump presidency will bring. No one really does. However, we have an opportunity to learn from this election if we choose to, whether we’re pleased with its result or not.

Source: *Wall Street Journal*

Philanthropy



Financial Synergies started a new tradition this year, where we sponsored a family through Adopt-a-Family for the holidays.

We were lucky enough to meet Cynthia, her mother, and her two adopted daughters in their home, and celebrate some holiday cheer with them!



Small Cap Stocks Jump

MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER



In the investing world things can turn on a dime. Small-cap stocks have certainly turned it around in 2016, and in a swift and dramatic fashion.

Over the last few years, small-caps have struggled relative to their large-cap stock counterparts. But the tables were turned following the U.S. presidential election on November 8th. The broad markets rose and the small-cap premium, as measured by the return difference between the Russell 2000 (small-caps) and the Russell 1000 (large-caps), was 8 percentage points as of November 30th.

This upward move, in a very short period of time, catapulted small-cap stocks to an 8% lead over large-cap stocks for 2016, and for a full one-year period by 4 percentage points.

Total Return through October 31, 2016		
	Year-to-Date	1 Year
Russell 1000 Index	5.82%	4.26%
Russell 2000 Index	6.16%	4.11%
Size Premium	0.34%	-0.15%

Total Return through November 30, 2016		
	Year-to-Date	1 Year
Russell 1000 Index	9.99%	8.01%
Russell 2000 Index	18.00%	12.08%
Size Premium	8.01%	4.07%

The size premium is determined by calculating the difference between the Russell 2000 Index, which represents small company stocks, and the Russell 1000 Index, which represents large company stocks. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Small company stocks have historically outperformed large company stocks, when looking at average returns over the long-term. But that long-term size premium will include periods of both strong and weak relative performance.

It may be tempting to try and enhance returns by timing when small-caps are going to outperform. But the most beneficial results usually occur in a swift and unpredictable manner.

We tilt our stock portfolios to capture the premiums associated with the size, value, and profitability dimensions of expected returns. We understand that there is no guarantee that these premiums will always be positive, but by maintaining constant exposure to the dimensions we increase our odds of enhancing returns over the long-term.

Source: Dimensional Fund Advisors