INSIDE THIS ISSUE

Bubble, Bubble, Toil and Trouble

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There is so much discussion and investor angst about the stock market bubble we are in. Are we in a bubble? First, let's look at what a stock market bubble actually feels like. In a true stock market bubble, stocks inflate to the point where they become overvalued and, at some point, the bubble bursts and the market drops precipitously.

The last true bubble that burst was in 2000 and quickly brought end to a 13-year bull market run. In that period leading up to 2000 the Standard & Poor 500 tech sector gained 1,325% (source: USA Today). In the current bull run that same market sector has gained only 400%. That prior

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period, the Nasdaq composite was trading at an astonishing 107 times earnings. Currently, Nasdaq is trading at 18.66 times earnings (source: Nasdaq.com). By this measure, at least, we are not yet deep in bubble territory.

Because the financial media typically employs a “hair-on-fire” approach to covering the stock market, I think it’s time to remind ourselves of a few pertinent facts:

- There is no such thing as a “market guru”. In fact, studies of market forecasts made by “market experts” are laughably inaccurate in both directions. Consider two of my favorites:

    1. "There is no cause to worry. The high tide of prosperity will continue." - Andrew W. Mellon, Secretary of the Treasury. (September 1929)

    2. And who can forget Ravi Batra’s insightful #1 New York Times Best Selling book, The Great Depression of 1990.

       Of course, there was no great depression of 1990. Far from it. The entire decade of the ‘90s was virtually unsurpassed in its prosperity with the Dow Jones Industrial average climbing from just under 3,000 at the beginning of the decade to just under 12,000 at the end (source: Wordpress.com) Interestingly, this nearly 4-fold growth rate occurred despite some particularly jarring geo political events along the way: The Gulf War, U.S.S.R Breaking apart, WTC bombing, U.S. debt reaching a new high (4 trillion), Russian default, NATO bombing Yugoslavia and Boris Yeltsin resigning as Russia’s president! By any measure that was one tumultuous decade.

       While the market had multiple deep reversals during the 90’s, it recovered every time, managing to put a record-breaking performance on the books. Current events still making you feel that things are “different this time”? It always seems that way, but when we look back things weren’t so different after all.

- The Dow didn’t get to 22,000 without passing 10,000, 15,000, and 20,000 along the way. Stocks must, by definition, hit new market highs as they rise, and stocks tend to rise over time. It’s arithmetic. Relax.

- Jumping in and out of markets to avoid anticipated downturns is a strategy that has failed miserably. Stocks go up and down. Deal with it by remembering that losses are temporary. You have an investment plan. Adjust it periodically, but don’t toss it in the trash the minute the market gets indigestion. Think long-term, invest long-term, act long-term.

- Cash, actually, isn’t king. A Nerd Wallet study found that a 25-year-old who puts 15% of their earnings in a savings account vs. a 25-year-old who puts the same percent of their income in stocks had $3.3million less net worth at age 65. That dollar differential amount between them would be enough to fund a comfortable retirement on its own. Invest conservatively? Of course, but invest!

- If we are not in a stock market bubble currently, we will be in the future. Bubbles happen. And, like all bubbles, they burst at some point. This is inevitable. We are in the second longest running bull market ever and we really haven’t had a correction (temporary loss of +10%) since February of 2016. So, if we get our correction or if the bubble loses some air or even bursts, roll with it. Use a market downturn to your advantage and consider investing some of your cash into the market when it does pull back.

- Finally, when things get bumpy, take a deep breath and trust your investment plan. We got this.

Financial Synergies New Email Newsletter

You’ve probably been receiving our new weekly newsletter, in which we curate content (with the help of cool software of course!) from various sources that we think might interest you. We hope you find some of the articles on the economy, markets, or personal finance, helpful and informative. This is a complimentary service meant to enhance our other communications with you, such as the blog and quarterly newsletter.

Lessons for the Next Crisis

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

It will soon be the 10-year anniversary of the Global Financial Crisis when, in early October 2007, the S&P 500 Index hit what was its highest point before losing more than half its value over the next year and a half.

Over the coming weeks and months, as other anniversaries of major crisis-related events pass (for example, 10 years since the bank run on Northern Rock or 10 years since the collapse of Lehman Brothers), there will likely be a steady stream of retrospectives on what happened as well as opinions on how the environment today may be similar or different from the period leading up to the crisis. It is difficult to draw useful conclusions based on such observations; financial markets have a habit of behaving unpredictably in the short run. There are, however, important lessons that investors might be well-served to remember: Capital markets have rewarded investors over the long term, and having an investment approach you can stick with – especially during tough times – may better prepare you for the next crisis and its aftermath.

BENEFITS OF HINDSIGHT

In 2008, the stock market dropped in value by almost half. Being a decade removed from the crisis may make it easier to take the past in stride. The eventual rebound and subsequent years of double-digit gains have also likely helped in this regard. While the events of the crisis were unfolding, however, a future of this sort looked anything but certain. Headlines such as "Worst Crisis Since '30s, With No End Yet in Sight," "Markets in Disarray as Lending Locks Up," and "For Stocks, Worst Single-Day Drop in Two Decades," were common front page news. Reading the news, opening up quarterly statements, or going online to check an account balance were, for many, stomach-churning experiences.

While being an investor today (or during any period, for that matter, is by no means a worry-free experience, the feelings of panic and dread felt by many during the financial crisis were distinctly acute. Many investors reacted emotionally to these developments. In the heat of the moment, some decided it was more than they could stomach, so they sold out of stocks. On the other hand, many who were able to stay the course and stick to their approach recovered from the crisis and benefited from the subsequent rebound in markets.

It is important to remember that this crisis and the subsequent recovery in financial markets was certainly not the first time in history that periods of substantial volatility have occurred. **Exhibit 1** helps illustrate this point. The exhibit shows the performance of a balanced investment strategy following several crises, including the bankruptcy of Lehman Brothers in September of 2008, which took place in the middle of the financial crisis. Each event is labeled with the month and year that it occurred or peaked.

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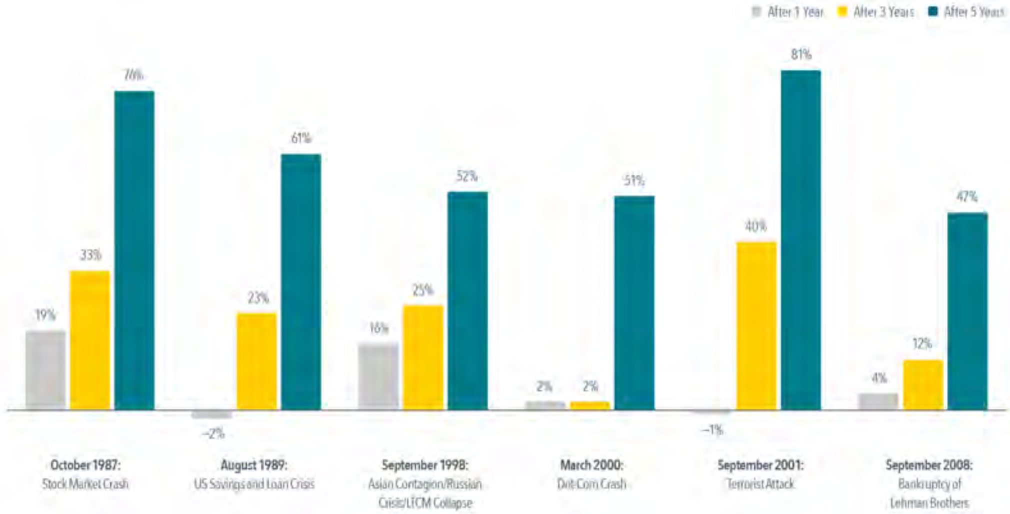
Exhibit 1. The Market's Response to Crisis

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)**



Although a globally diversified balanced investment strategy invested at the time of each event would have suffered losses immediately following most of these events, financial markets did recover, as can be seen by the three and five-year cumulative returns shown in the exhibit. In advance of such periods of discomfort, having a long-term perspective, appropriate diversification, and an asset allocation that aligns with their risk tolerance and goals can help investors remain disciplined enough to ride out the storm.

CONCLUSION

In the mind of some investors, there is always a "crisis of the day," or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, is a difficult exercise. It is important to understand, however, that market volatility is a part of investing. To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is being able to stay with your investment philosophy, even during tough times. A well-thought-out, transparent investment approach can help people be better prepared to face uncertainty, and may improve their ability to stick with their plan and ultimately capture the long-term returns of capital markets.

****Exhibit 1 Disclosure**: In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index,12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission, © 2017 by Citigroup. Bloomberg Barclays data provided by Bloomberg. For illustrative purposes only. Dimensional indices use CRSP and Compustat data. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Rebalanced monthly. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

Source: Dimensional Fund Advisors

Common Questions Regarding 529 Plans

WILL GOODSON, CFP® | FINANCIAL ADVISOR

Saving for higher education expenses is one of the most common goals shared by our clients. The rising cost of education is daunting and many parents and grandparents have questions about the best way to approach this need. We typically recommend the use of a 529 plan for these education goals. The benefits are many but we often receive common questions about them as well. This article's purpose is to answer many of these recurring questions.

What is the maximum contribution each year?

There is no annual maximum contribution amount but we advise keeping under the annual gift tax limit, which is currently $14,000 per person. This means parents can contribute up $28,000/year for each child. There is also a 5-year rule that allows individuals to contribute a $60,000 lump sum to the account. Of course, no other contributions can be made in the following 5 years without triggering gift taxes. This may be an option for family members or grandparents who want to help jump start a child's account.

What happens if my child decides not to go to college?

If you have saved in a 529 plan and your child decides not to go to college, there are several options on how the funds may be used. You can change the beneficiary to another child or qualifying family member. You can use it for your own education such as an MBA or education required to pursue a new career opportunity. You can even cash in the account to use the funds for another purpose. It's important to realize that you will pay taxes on the growth plus a 10% penalty. After-tax contributions are not taxed or penalized. Some parents are concerned that their 529 account would be forfeited if used for non-educational reasons but that is not the case.

What happens if my child gets a scholarship?

If your child receives a tax-free scholarship, many 529 plans allow amounts equal to the scholarship to be distributed from the account without penalty. You will still owe ordinary income taxes on the growth. You could also use the 529 funds to cover graduate school costs if your child's undergraduate expenses are paid for by a scholarship.

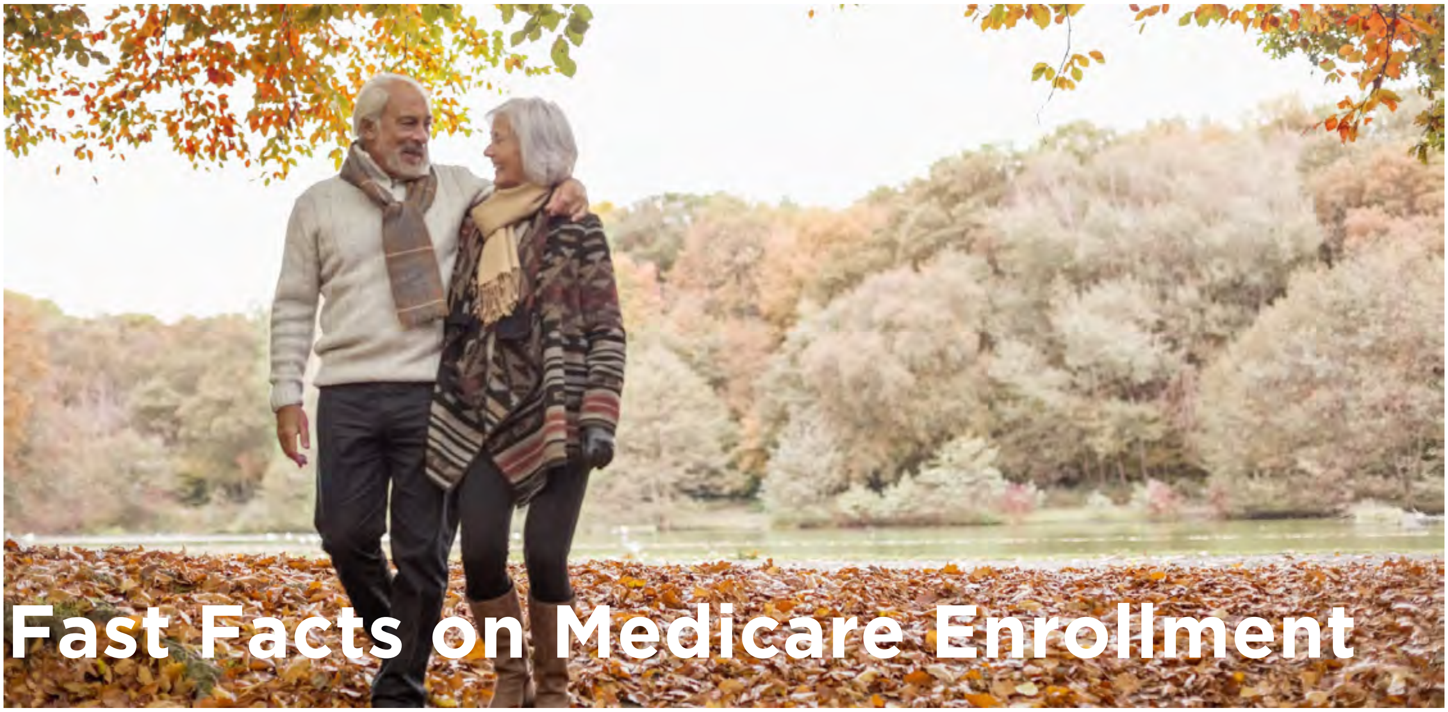
Can I use a 529 plan for education costs other than college?

They cannot be used for primary or secondary education, but they are accepted for vocational or trade school expenses.

What other options do I have for college education savings besides a 529 plan?

Coverdell Education Savings Accounts are an option for college savings. They also can be used for primary or secondary education expenses. However, there are annual limits on contributions along with income phase-outs. The Unified Transfer/Gift to Minor's Act (UTMA and UGMA, respectively) accounts were a popular option prior to the creation of 529 plans; however, their use has become less common. Contributions are non-revocable and the beneficiary child has 100% control over how the assets are used when they reach the age of majority (typically 18 or 21 years old). Thus, there is no guarantee that the funds will be used for college. Another option is saving in a brokerage account. You will not receive any tax-free benefits when using the funds for qualified education expenses, but you can avoid paying a penalty if the funds are not used to pay for college.

Ultimately, 529 plans remain one of the best options for saving for college expenses. However, these are just a few of the many questions we receive regarding education planning. If you would like to discuss these goals in more detail, we would be happy to visit with you at your convenience.



Fast Facts on Medicare Enrollment

KEVIN NELSON, CFP®, CDFA™ | FINANCIAL ADVISOR

As many of our clients know it's enrollment time for Medicare! If you are on Medicare, you know the drill, but we still encourage everyone to make sure to look at your plan each year to see if it is still the most cost effective one for you. Many plans will change the coverage levels, drug costs (formularies), doctors, and even the premium itself.

These Medicare plans remind me of the old inertia sales tactic; like your electricity bill, cable bill, and property casualty insurance they can change the initial (teaser) rate! When speaking to a Medicare expert earlier this month, she said that 13% of plan beneficiaries change their Part D (prescription drug) coverage and insurance companies aware of this, so it's important to make an informed decision each year. Below are some common questions about Medicare, and some resources to help.

What can you do during this enrollment period?

- You can switch from Original Medicare to Medicare Advantage, or vice versa.
- You can also switch from one Medicare Advantage plan to another, or from one Medicare Part D plan to another.
- And if you didn't enroll in a Medicare Part D plan when you were first eligible, you can do so during the general open enrollment, although a late enrollment penalty may apply.

When do Changes take effect?

- Changes take effect January 1st.

How should I prepare for enrollment?

- Review "Annual Notice of Changes" for your current plan
- Start to look at new plans on Medicare.gov and their Plan Finder tool

How do I switch?

- Enroll in the new plan with your insurance agent or most applications can be completed online.
- Once enrolled in a new plan your old plan will automatically be canceled.

Feel free to reach out to us if you would like help signing up for the first time or to look at your options on switching plans.

Sell Your Stocks and Prepare for Inevitable Doom!

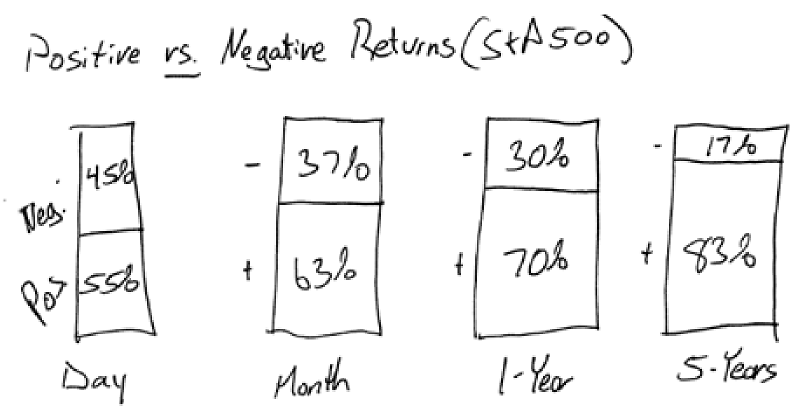
HEATH HIGHTOWER, CFP® | SHAREHOLDER, FINANCIAL ADVISOR

Of course, I'm kidding. We are not selling our stocks and we are not preparing for doomsday. But, did my sensational title get your attention? It thought it might! The financial media is really good at grabbing our attention by using fear to entice more people to read their articles. So, I thought I'd try my hand at it too. I must admit, it's kind of fun...

In all seriousness, you may have noticed the media has given more attention to the Dow Jones Industrial Average index as it hit record highs. When the Dow Jones broke through 20,000 in January it was the lead story on virtually every news network. With the market hitting new highs virtually each month, news outlets have pounced on the opportunity to warn investors of the looming downturn.

So, I thought it would be interesting to go back and see what I was writing about in January. Sure enough, my Q1 newsletter in January was inspired by a potential client who was having concerns about investing in the currently "over-valued" market. (The article is entitled "When should you invest?" from the Q1 2017 Newsletter.)

If you're a client of ours, you've probably heard us preach about why markets can't be timed or predicted. (If, by chance, you think that markets can be timed, read this article on our website to see a short video produced by our friends at Dimensional Funds about market timing.) Last week I attended a CEinar and stumbled across some statistical information that I quickly scribbled down on my note pad. Unfortunately, I don't have the actual slide to share with you so I thought I'd humbly share my hand-written notes with you. I hope you'll excuse my artistic inability.



This chart compares negative returns and positive returns in the S&P 500 over various time periods. For instance, in any given day the market has a 55% chance of being up. So, if you're trying to pick one day over another day to invest in the stock market, it's essentially the flip of a coin. However, over longer periods of time, the chances of experiencing a positive return greatly improve. Historically speaking, if you put money in the market for 5 years or longer, you had an 83% likelihood of experiencing positive returns.

So, the question that I posed in my previous article still stands... When is a good time to invest? But, based on the above information, the timing of when to get into the market isn't really all that important.

I think the more appropriate question to ask is, "How long should I be invested in the market?" If we consider the amount of time spent in the market, we can answer the question with much more certainty. The more time an investor spends in the market, the more likely they are to experience a positive return.

Source: Apollo Lupescu, PhD, Vice President of Dimensional Fund Advisors' Effective Communication workshop on September 23, 2017