FINANCIAL SYNERGIES®
ASSET MANAGEMENT

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INSIDE THIS ISSUE

Market Update

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What an interesting quarter we've had. After getting accustomed and quite comfortable with our stock market marching onward and upward with virtually no drama, then, BOOM! drama in the form of unexpected volatility. It has been worrisome to investors, particularly new investors, as it seems the markets become unhinged. Even seasoned investors can get nervous when markets decline, but most long-term investors like a situation where shares of good companies become available at much cheaper prices. This is known as opportunity and its healthy...more on that later.

Even with the recent decline, there hasn't been much to get excited about because valuations still remain rich. One indication: despite the first quarter decline, stocks are still trading at 23.5 times 2017's reported earnings, and 22 percent above the 50-year average of 19.2 times earnings.

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No surprise here because stocks have surrendered merely a tenth of their value. Stocks and stock funds are just one part of our overall net worth. In addition, we may also have bonds, cash investments like savings accounts and certificates of deposit, our future Social Security benefits, any traditional pension plan we're entitled to, our home and our income-earning ability. Add it all up, and you'll likely find your net worth has barely declined over the past three months.

But when markets tumble, our emotional time horizon often shrinks, and we obsess over every rise and fall in the market averages. As a client of Financial Synergies, whether drawing income from your portfolio or adding money to it, in all likelihood, there is absolutely no pressing need to sell the stock positions in your portfolio while they are experiencing a minor downturn. Most investment advisors will tell you that after the run the markets have had since the election in 2016, a pullback that we have had is a healthy occurrence for long-term stability in the our markets and our investment plan. Volatility tends to wash out the short-term focused investors and, as a wise investment advisor named Nick Murray once said, "In times of market downturns, stocks are returned to their rightful owners."

We are pleased and excited to welcome our new employee, Lottie Hensley, to the team as our new front-of-house Client Concierge. She will be the person to greet you when you come into the office, and you'll hear her on the end of the line when you call. Lottie comes to us from administrative and event planning roles at Tudor Pickering Holt, and the Center for Houston's Future. A Houston native, Lottie is involved with many local charities and volunteer organizations, enjoys hiking, biking, and traveling, and frequents the parks around her house in Midtown with her two dogs.

Bill & Marta Marko help launch the Tulane Brain Institute

Congratulations to our clients, Bill & Marta Marko who provided a lead gift to help launch the Brain Institute at Tulane University, Bill's alma mater.

The Brain Institute was created as a trans-disciplinary entity across Tulane to coordinate and oversee neuroscience-related endeavors.

Pictured above are Marta and Bill being honored at the opening ceremony on October 1, 2016 by Dr. Laura Levy, VP Research, accompanied by Mike Fitts, President; Robin Forman, Provost; Dr. Stacy Drury, Assistant Director of the Brain Institute; and Dr. Jill Daniel, Director of the Brain Institute.

"We hope our contributions can help create additional momentum for the initiative and that it provides a physical space and sense of place for the initiatives., but more importantly we hope our gifts propel all those working as part of the Brain Institute to be role models for interdisciplinary cooperation in order to achieve breakthroughs that could not be accomplished in silos.", Bill Marko said.

"Tulane owes much gratitude to Bill and Marta Marko for their generous support of the Brain Institute.", Tulane President Mike Fitts said.

Tariffs, Technology, Rates, and Volatility!

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

In a nutshell, the 1st quarter was defined by tariffs, technology, rates, and volatility. All the while the global economic engine kept chugging, and remains fundamentally strong. The market was shot out of a cannon to start 2018, but as various pressures and perhaps an overly exuberant investing public took hold, the party came to an end in late January.

Although the market entered into a technical "correction," the major indices managed to avoid major declines for the 1st quarter. The S&P 500 and Dow Jones declined -0.76% and -1.97% respectively. And, the NASDAQ was actually in positive territory for the quarter at 2.59%, which is surprising given its tech-heavy composition. More on technology later.

Let's break down each of the major themes of 2018 so far: Tariffs, Technology, Rates, and Volatility.

Tariffs and Trade Wars

Trade policy is a key political issue for the Trump administration. Last year, the U.S. ran a trade deficit of over half a trillion dollars. Our trade with China alone added $337 billion to this deficit. This has naturally led to concerns that we are being taken advantage of, resulting in trade tariffs to support those industries that have been disrupted by globalization. Whether you agree with this or not, there are workers that have been left behind, fueling age-old political and populist forces.

Many U.S. workers have faced tremendous difficulty as technology has made many jobs obsolete and globalization has moved jobs overseas. The administration's goal of protecting domestic industries taps into this unrest.

China and Mexico are easy scapegoats for the loss of U.S. industrial jobs over the past several decades. However, from an economic perspective, these are symptoms of the unstoppable forces of technology and globalization. The joke, attributed to Warren Bennis, is that **"the factory of the future will have only two employees, a man and a dog. The man will be there to feed the dog. The dog will be there to keep the man from touching the equipment."** Promoting American industries may temporarily stanch the flow, but can't reverse it. It appears that most industries oppose tariffs since globalization has brought more benefits than costs.

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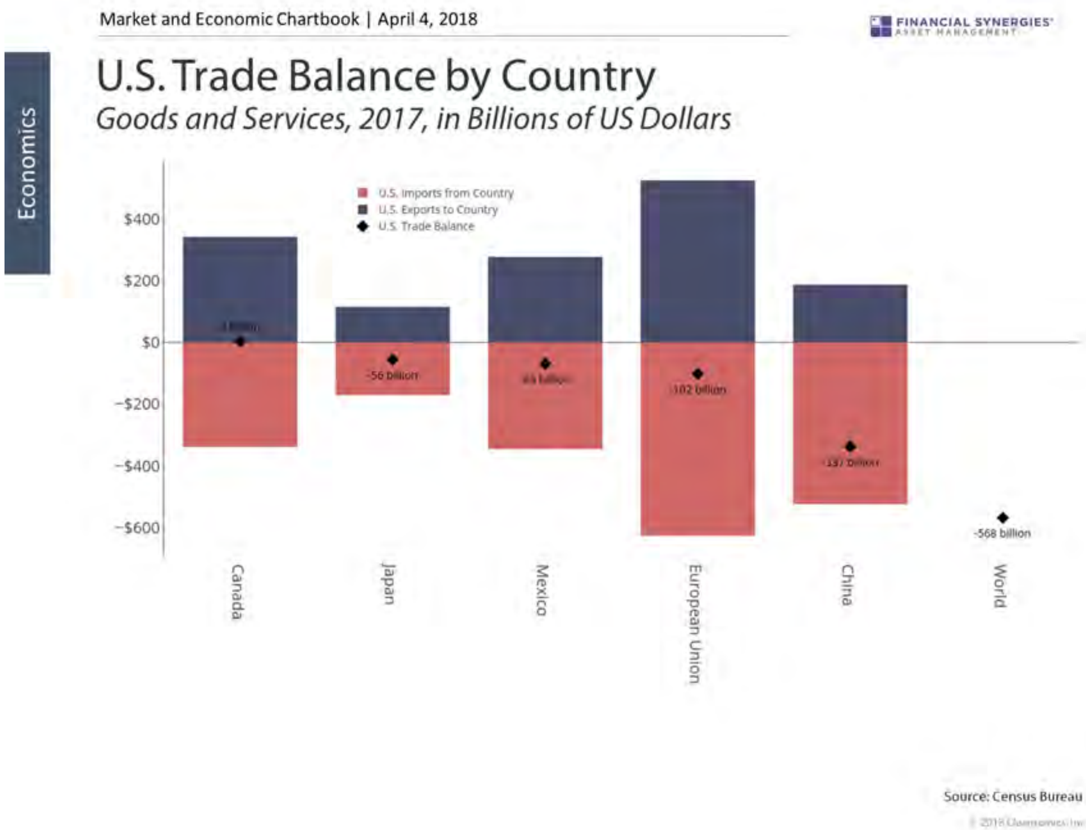
U.S. Trade Balance by Country



The chart above shows the U.S. trade balance across major trading partners. In 2017, the total U.S. trade deficit reached $568 billion. Countries such as China and Mexico are easy political targets due to our sizable imbalances with these trading partners. However, the U.S. ran significant trade deficits with our other allies as well, including the European Union and Japan.

The potential for a trade war with countries such as China is worrying markets. This is a legitimate concern since free trade disproportionately benefits U.S. consumers and companies, even if some industries do lose out. The best hope for global trade is that cooler heads prevail, allowing the U.S. to reach trade agreements with its major partners.

Whether trade deficits are inherently bad is a matter of academic debate. In theory, by importing more than we export, we are "borrowing" from the rest of the world. The IOU's we issue to do this are U.S. dollars, which in theory should lose value as we "borrow" more. Thus, the question is whether we gain more than we lose via trade. The fact that most consumers and industries benefit from lower cost goods and services is one reason the trade deficit is unlikely to be closed by policymakers.

Technology

Investors were also worried about technology stocks in the first quarter, driven by a number of stock-specific concerns. This has become an important issue due to the outsized performance of the sector and the growing market caps of its largest players (often referred to as the FANG stocks). In fact, there have been many periods over this cycle when FANG stocks drove overall market performance.

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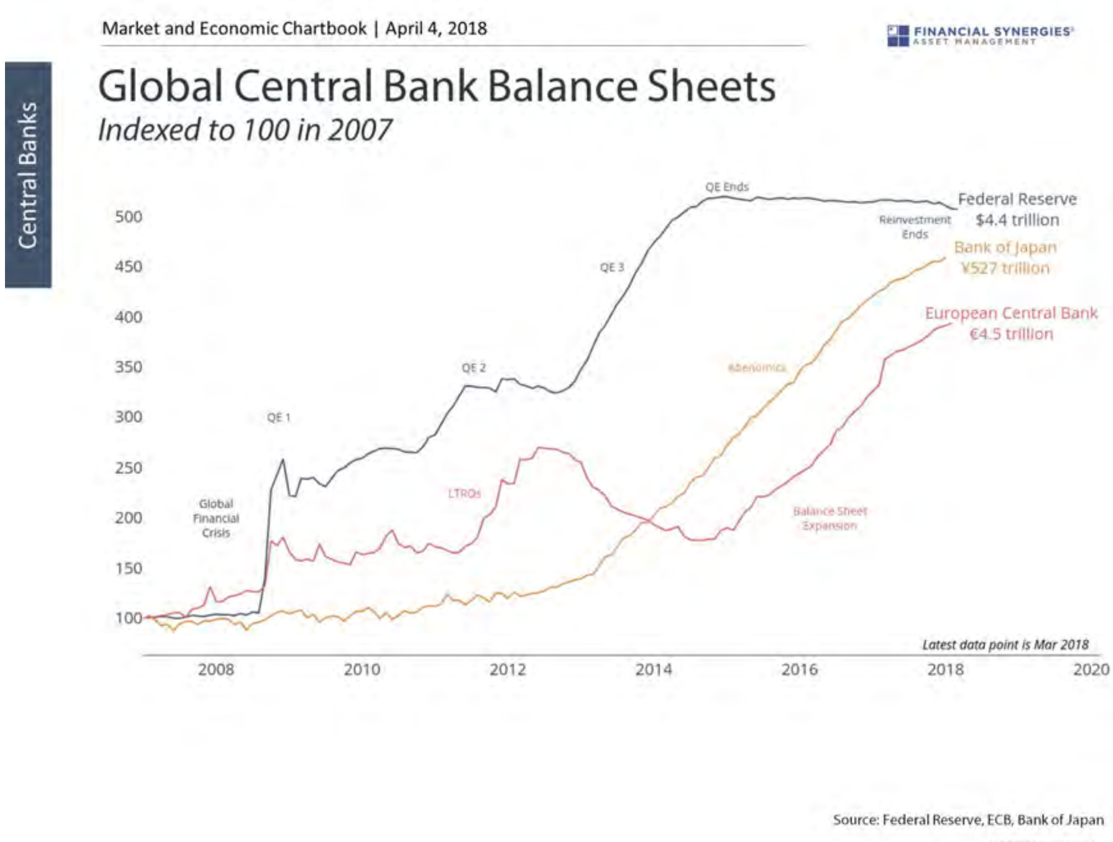
Technology, continued...

As shown in the chart, despite recent troubles, the technology sector has still gained over 24% over the past 12 months.

Additionally, the goal of long-term investors is to diversify across not just asset classes, but sectors as well. Not only have many other sectors outperformed over this period, but the earnings outlooks for ten of the eleven sectors is still positive. Thus, while the technology sector may be impacting the broader market today, properly diversified investors should be less concerned.

Rates

The Fed raised the federal funds rate in March in response to a healthy U.S. economy. In its updated economic projections, it emphasized that unemployment can fall much lower than in past cycles without stoking inflation. This suggests that while we may see four interest rate hikes this year, the Fed is not yet concerned about having to tighten too quickly.



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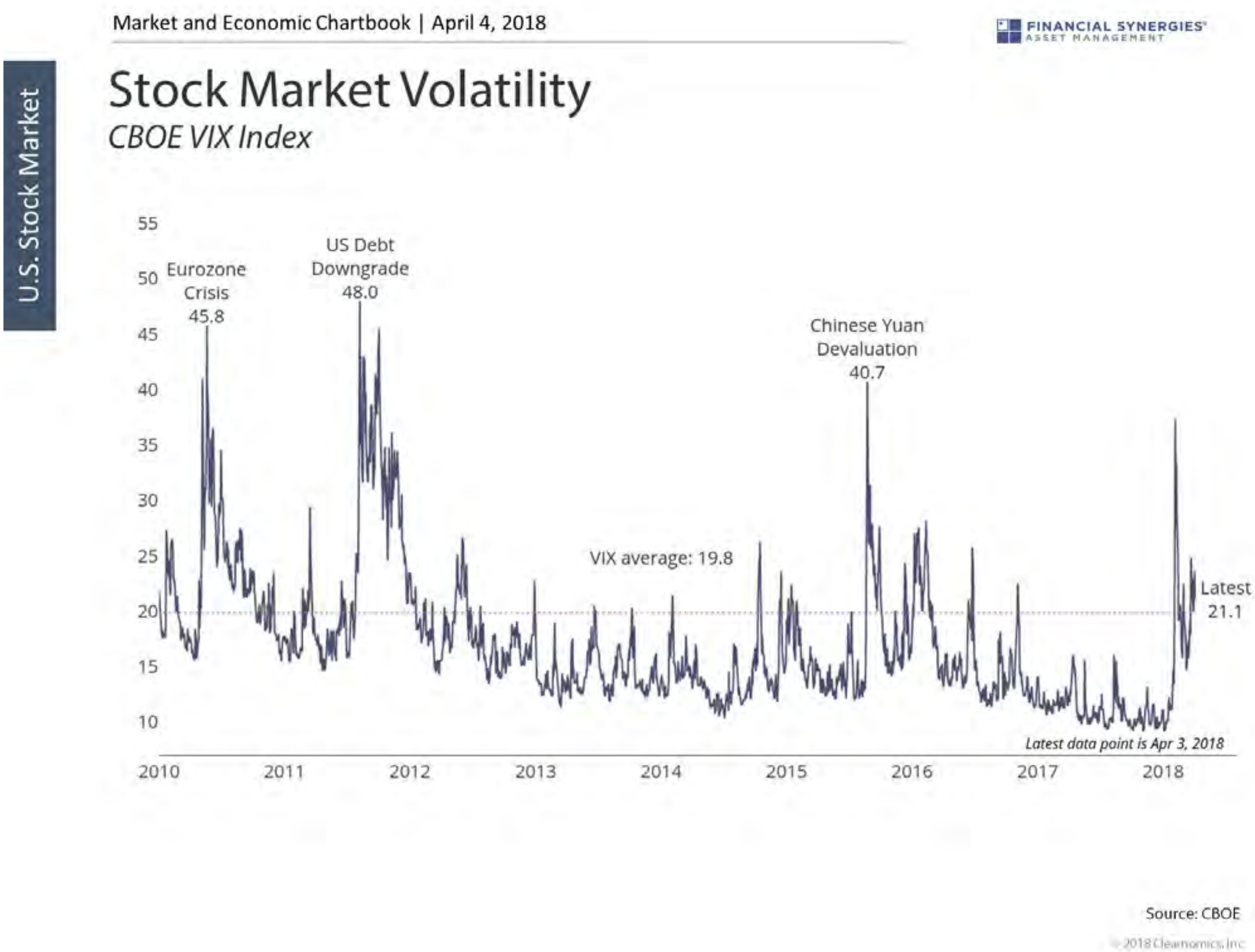
Rates, continued...

From a global perspective, central banks have entered a new phase. The Fed has been reducing stimulus and tightening policy since late 2013. Other central banks are now beginning to follow suit by reducing their asset purchases, paving the way for eventual monetary tightening.

At the moment, they are doing so because economic growth is healthy. Thus, this is still good news for global stocks.

Volatility

And of course, all these issues have led to an increase in volatility. Volatility rose in the first quarter after an extremely quiet 2017. The VIX index of volatility reached 37, its highest level since 2015. So far in 2018, the worst market pullback has been 10%.



Still, this is below the historical average of 13.5% since World War II. Despite these market pullbacks, most years end in positive territory, averaging 9% gains – this is why stocks have historically been great long-run investments, despite short-term volatility.

Unfortunately, volatility is the norm and can only be managed by investing over long time horizons and via diversification, not by trading in and out of the market.

Long-Term Care Insurance

HEATH HIGHTOWER, CFP® | SHAREHOLDER, FINANCIAL ADVISOR

Over the past few years, the topic of long-term care is finding its way into our financial planning conversations more and more. Retirees seem especially interested in long-term care insurance, but they often don't fully understand what long-term care insurance is, or know if they even need the coverage at all.

According to a recent life expectancy study by JP Morgan, a newly retired couple has about a 49 percent chance of one spouse (or both) living past the age of 90. As you might expect, the longer we live the more likely we are to need long-term care assistance. The average American life expectancy increases almost every year, and this has changed the medical needs of those in the advanced stages of life. For instance, 25 years ago very few of us had ever heard of Alzheimer's disease. But today, it's the leading cause for long-term care services.

What is long-term care insurance? Long-term care (LTC) is defined as the need for assistance with your activities of daily living, such as bathing, dressing, eating, getting in and out of bed or chair, going to the restroom, and maintaining continence. Most insurance policies require the insured to be unable to perform two of these activities before they begin to pay benefits on a policy. The policy proceeds are typically used to pay for qualified expenses for the care, services, and housing of the insured.

Do you really need long-term care insurance? Broadly speaking, there are only three ways that most American's pay for long-term care expenses: self-funding, Medicaid, and long-term care insurance policies. Although each of these options can be appropriate for certain financial situations, the discussion usually revolves around self-funding versus buying a LTC insurance policy. To answer this question, there are several factors that need to be carefully considered before you can make the decision, and it should be made with a trusted financial advisor. Some of the items that may impact your decision are health, age, income, premium cost, your family support system, your savings & investments, preexisting conditions, et cetera.

According to the American Association for Long-Term Care Insurance, the best age to apply for coverage is typically in your mid-50s. Even then, it is important to seek the guidance of a professional who can help you sift through all the options available in the various LTC policies. Different policies have different coverage amounts, limitations, exclusions and waiting periods. It is important to make an informed decision, in advance, as to how best to fund an extended health care need and then to communicate that decision to your family effectively. The emotional challenges of a health care crisis are easier to handle when the financial challenges have already been planned for.

Financial Synergies does not sell nor provide long-term care insurance. However, we recognize long-term care planning as a critical component of an overall financial plan. Sometimes, finding a qualified insurance specialist can be difficult, so we have a handful of highly qualified & trustworthy insurance professionals that we work alongside to deliver the best long-term care advice to each of our clients. Feel free to give us a call if you'd like to explore which route is best for you.

Adding a Trusted Contact Person to Your Account

MARIE VILLARD | DIRECTOR OF OPERATIONS

To coincide with new FINRA rules enacted in February of this year, Schwab has added an account addendum allowing individuals to add a "Trusted Contact Person" (TCP) to their accounts. These changes address the ever-changing landscape of financial exploitation of seniors and vulnerable adults, and was designed to protect these investors.

To add a TCP to your account, all you have to do is fill out a quick two-page form with your information and your trusted contact's information (you can have up to two TCPs on file). Adding the TCPs to your account will give Schwab and Financial Synergies the authorization to contact those named individuals if we or Schwab believe that there is a reason to be concerned about any behavior on your accounts. It will allow us to obtain from and disclose to any necessary information about you including contact information, health status, identity of guardians, relatives, executors, power of attorneys, and any other information for your financial well-being.

The Trusted Contact Person (TCP) is different from a Power of Attorney (POA). The TCP can only give and receive information as mentioned above, and cannot give any instructions or make changes on your behalf. A POA has the ability to act on your behalf and make any changes they are authorized to on your accounts. As a rule of thumb, a TCP should be someone who is different from your POA. This should be someone who knows you and your family and your situation.

Both Trusted Contact Persons and Powers of Attorney should be reviewed annually, and we will make sure to bring these up when you meet with us during your update meetings.

If you have any questions about TCPs, POAs, or would like to set one up, feel free to reach out to any member of our team and we will get the ball rolling.

Congratulations to Jonathan Garcia on his Olympic Success!

Our client, Joseph Garcia, recently shared a wonderful story about his son's, Jonathan Garcia's, successes in the PyeongChang Winter Games as a speed skater representing the USA in the 500 meter event!

Jonathan Garcia, 31 of Katy, has lived his life on the road for the last ten years training as part of the US Olympic speed skating team. After being on skates since 1994 and spending ten years as an inline skater (and made the US World Championship team in that sport three times), he was recruited by the US Olympic Committee as part of the first group of inline skaters to switch to ice skating in 2006 and 2007.

Jonathan also represented the USA for speed skating in the 1,000 meter event in Sochi in 2014.

We all wish the best for our children and hope their hard work pays off! In this case we are so proud to celebrate the success of Jonathan Garcia’s Speed Skating Olympic runs!