Quarterly Newsletter

With the quarter behind us, we are looking forward to year-end with joy and cheer for the holidays and for a prosperous new year to come. Ramping up for 2016, we've hired a new Client Service Specialist (CSS), Annette Gibson, and promoted Candace to CSS as well. We're hoping all of you can celebrate the year with us on December 10 at the Hobby Center, for hors d'oeuvres and the off-Broadway production of *A Christmas Story*—please check your mail for the formal invitation. To help you plan for the year-end, check out Will's article on "Your Year-End Financial To-Do List."

SPECIAL ANNOUNCEMENTS

We would like to welcome Annette Gibson to the Financial Synergies Team! Annette is our new Client Service Specialist and will be helping our clients with day-to-day requests, reception and scheduling of meetings. Annette moved to Houston a little over a year ago, joined by her fiancé, Scott, and 16 year-old son, Seth, who attends Cy-Creek and runs track. Congratulations, Annette!

And congratulations to Candace Cunningham! She was promoted to Client Service Specialist in September and will be helping clients with their day-to-day requests as well.

INSIDE THIS ISSUE

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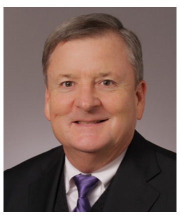
The Warrior Investor

MIKE BOOKER, CFP®, ChFC®, CFS® | SENIOR PARTNER AND PRESIDENT



It's been a while since the market has had such a dismal quarter and year-to-date performance like this past quarter and year. In Q3, the Dow Jones Industrial Average lost 6.98% and is down 6.95% through September 30.[1] Some of our clients are wondering if this recent downturn is a precursor to another 2008 meltdown, and I suppose no one really knows. I certainly do not.

The reason we spread your money around into so many divergent asset classes is precisely because no one knows which asset class is going to be the next big winner, nor the next big loser.

I wish there was a way that we could put all of your money in the next big winner and then get you out of it right when it was about to run out of gas, moving you on to the next hottest asset class. However, it doesn't work that way.

For example, who do you think is the greatest investment mind of the last 50 years? If you said Warren Buffett, you would have a lot of people agree with you. Believe it or not, Berkshire Hathaway (BRK.B), the famous stock that Mr. Buffett uses as an investment tool to buy companies he deems worthy, lost a whopping 32.14% in 2008.[2] Mr. Buffett wasn't able to get out of the way of 2008, and neither did anyone else.

Since 1980, at some point during every given calendar year, the market suffers a temporary average loss of 14.2%, peak-to-trough.[3] For example, in 1998, the S&P made a January—December return of 27%, but during that same year it actually suffered an intra-year decline of 19%! During that temporary period of 19% decline, some investors may have bailed out and taken their stock positions to cash.

When there is a decline like that, selling to cash is usually a big mistake. A pullback such as that is usually driven by panic or the lack of a plan. I think it is panic *due* to a lack of a plan. Those who bailed in '98 missed out on a truly epic year of performance by the stock market, just because of a hefty, but passing, decline during the year.

So let's come back to the here and now: 2015. Where do things stand? What's going to happen? Here is what I know:

Successful investors have a warrior mentality. Like a warrior going into battle, they have a worthy cause, a reason to fight and a plan of attack. If they stray from the plan in the middle of the battle, at that very poignant moment, confusion ensues and the battle is lost.

As our clients, you have a cause, a reason and a plan. The vital cause is financial independence, and the reason is the freedom that independence brings to your life. Your plan is the one we have drawn up together, the one we review periodically and the one that is executed every single day by your trusted advisors at Financial Synergies.

As a warrior investor, you are committed to that plan. You know that losses are temporary, and you know there is no reason to waste energy or resources listening to the scare tactics of the financial media. As a warrior investor, you have a steady grasp on the market as it goes up and down, and you have the strength to know that your plan is solid and in place, and that your cause is in mind at all times.

Sources: 1. Tamarac; 2. Morningstar; 3. J.P. Morgan Asset Management.

Your Year-End Financial To-Do List

WILL GOODSON, CFP®

ASSOCIATE FINANCIAL PLANNER

The end of each year tends to be a mixture of joy and chaos. The holiday season arrives out of nowhere and passes in a blur. Between family obligations, travel and shopping for gifts, it's easy for your financial to-dos to get lost in the shuffle.

While you may already be thinking about your New Year's resolutions, it's a good idea to take care of your 2015 financial loose ends. Here is a list of tasks you may need to address before the year is up:

01. Max out your 401(k)/403(b) retirement accounts. Contributions must be made before the end of the calendar year. For 2015, individuals may contribute up to $18,000 into their pre-tax 401(k) or 403(b) plans. If you are over the age of 50, you are allowed an additional $6,000 catch-up contribution.

02. Exhaust your flexible spending account (FSA). If you use an FSA through your employer-sponsored health plan, you will want to spend down any remaining funds before the end of the year. These plans typically have a "use it or lose it" rule, meaning you may be unable to carry over an existing balance to the next calendar year. Some plans may offer a small grace period and/or a carry over amount up to $500. However, not all plans offer these provisions, so it's important to read the guidelines of your FSA.

03. Take your required minimum distributions (RMDs). Once you reach age 70½, you need to take RMDs from your retirement savings accounts—401(k)s, 403(b)s, traditional IRAs, etc. These distributions must be made prior to December 31. The main exception is for the year in which you turn 70½; you have until April 1 of the following year to take your first RMD. Failure to take your RMD can lead to a hefty penalty by the IRS. If you have not taken your RMD for 2015, we will contact you before the deadline. However, if you want to be proactive, feel free to give us a call.

04. Contribute to a college-savings 529 plan. The rising costs of higher education are a growing concern for parents and grandparents throughout the country. 529 plans are an excellent vehicle for education savings. Investment earnings within the plan are not subject to federal taxation as long as the distributions are used toward qualified education purposes. Each parent and/or grandparent may contribute up to $14,000 per child per year. All contributions must be made prior to the end of the year.

05. Make a charitable contribution. If you itemize deductions on your annual federal income tax returns, consider making a tax-deductible charitable contribution. What better way to get into the giving season during the holidays than to support a charitable cause? Just make sure you do it before the December 31 deadline! It is very important to consult with your tax advisor to make sure you are contributing to an eligible charitable organization and the amount you give does not exceed deduction limits. You may also want to consider donating appreciated stock (or mutual fund shares) to shelter the capital gain from being taxed.

This list is not exhaustive, but it does cover the most common financial items that may need to be addressed before the end of the year. If you have any questions on how we can assist with these or other matters, please contact our office!

Impressive Banking for Charles Schwab Account Holders

HEATH HIGHTOWER, CFP® | PARTNER

Banks these days are either gouging with hidden fees or requiring huge minimum balances. Since many of our clients have complex banking needs, I often refer them to Charles Schwab Bank.

Charles Schwab has the 13th largest bank in the nation and can offer their account holders some impressive banking perks that you may be interested in. Here are just a few:

01. Higher-yielding checking and savings: *Money* magazine recently named Charles Schwab Bank as the best checking account for travelers. They offer free checking, and the daily balance earns a "top tier" interest rate. There are no maintenance fees, no foreign-transaction fees, no bill-pay fees and unlimited reimbursements for ATM fees worldwide. No hidden fees and no account minimum required. And it's FDIC-insured.

02. Pledged Asset Line of Credit (PAL): A PAL allows clients to remain fully invested while providing liquidity for future business or personal needs. Schwab account holders pay no setup fees or maintenance fees, and we've found the rates to be extremely competitive. These loans can also be used as an alternative to traditional home lending (similar to a mortgage).

03. Mortgages, HELOCs and more: Of course, Schwab has traditional banking capabilities too. Clients can access low rates for a wide range of loan options with impressive online tools, support teams and market commentary.

While we have no affiliation with Charles Schwab Bank, I've found them to be a great fit for many of our clients (and for myself). Of course, there are many other great banks out there, but for investors who are already comfortable with Charles Schwab brokerage accounts, this can be a very attractive and convenient banking option.

Financial Synergies is an independent advisory firm and has no affiliation with Charles Schwab Bank. An open Charles Schwab brokerage account is required to qualify for some banking features. Sources: schwab.com and "The 8 Least Evil Banks" on money.cnn.com.

The Fed: Will They, or Won't They?

MIKE MINTER, CFP®, CFS® | PARTNER

As of now, the Federal Reserve (Fed) is keeping everyone hanging on whether they will raise short-term interest rates (the federal funds rate) in 2015. We're officially into October now, and at the time of this writing, they have not made the move. They are scheduled to meet at least two more times before the end of the year, so it could definitely still happen.

This uncertainty has played a major part in the market's recent downturn, along with falling commodity prices and economic weakness overseas, particularly in China.

The two primary mandates of the Fed are maximizing employment and moderating inflation. Recent economic data and Fed meeting minutes indicate that economic activity is expanding at a moderate pace. Officials say they expect the job market to recover sufficiently for them to start raising rates soon, but they remain concerned about sluggish inflation, which is both a sign of economic weakness and an impediment to faster growth.

Personally, I'd like get the show on the road and see rates go up sooner rather than later. The waffling back and forth on rates, and even internal strife between Fed members, is driving the markets and businesses bonkers. But I understand that the Fed has a job to do, and it doesn't just revolve around stock market volatility. They are clearly concerned about making the move too soon, and the last thing we want is for a rise in rates to be rushed.

INTEREST RATE HIKES AND YOUR PORTFOLIO

Clearly a rise in rates is coming, so it's only a matter of when. Rate movements obviously have an impact on stocks and bonds, but it's impossible to state with any certainty exactly how stocks or bonds will be affected during this next cycle of rising rates.

The relationship between interest rates and bond prices is pretty clear-cut—inverse. In general, as rates rise bond prices fall, and vice versa. With stocks and interest rates the interaction is not so technical, because there are pros and cons. For example, rising rates usually point to a healthy and improving economy, which is good for stocks. But it also means the cost of borrowing goes up, which can be a negative for businesses.

However, we only have to look at recent history to see that just because rates rise, it does not mean you are going to lose a bunch of money in your bond funds. And it certainly isn't a foregone conclusion that it's all bad for stocks.

From 2004 through 2006, the Fed raised rates a total of 17 times! By the time they were done, federal funds rates had gone from 1% to 5.25%. And during that time frame the S&P 500 (U.S. stocks) rose 11.3%, and the Russell 2000 (U.S. small company stocks) gained 22.5%.

Your typical short- to intermediate-term bond fund did just fine as well. The Barclays U.S. Aggregate Index (U.S. bonds) made 4.34% (2004), 2.43% (2005) and 4.33% (2006). This was very respectable, considering.

We don't know for sure how this next cycle of rising rates will affect stocks and bonds in the short term. What we do know is that stocks will always be the major growth engine of any portfolio over a long-term period of time. And high-quality bonds will always serve as the ultimate counter lever to stocks, and provide stability to a diversified portfolio. You can't abandon either, no matter the environment.

Mutual Fund Spotlight: Dimensional Fund Advisors (DFA)

BRYAN ZSCHIESCHE, CFP®, MS, MBA | PARTNER

Patience. Discipline. Integrity. An impressive track record. These are some of the traits we expect in all of the managers we employ in your portfolio, and they're all present in the managers at Dimensional Fund Advisors (DFA).

We recently introduced our clients to DFA in a letter outlining some improvements we're making to our portfolios. Most of our clients have never heard of DFA. Founded in 1981, the fund company is now headquartered in Austin, Texas and manages over $400 billion. Roughly half of the money they manage comes from large institutional investors, such as pensions and endowments. The other half comes from clients of qualified investment advisors such as Financial Synergies who share the same overall philosophy as DFA. The foremost tenet of that philosophy is focusing on things we can control:

- Let markets work for you.
- Minimize expenses and taxes.
- Diversify to manage risk.
- Stay disciplined.

DFA's strategy is primarily based on the academic research of Kenneth French and Nobel laureate Eugene Fama. In short, DFA funds are broadly diversified, emphasizing areas of the market with the highest expected returns based on certain factors ("dimensions") such as size, value and profitability.

- **Company size:** Smaller companies have higher expected returns than larger companies.
- **Relative price (value):** Companies with a low relative price ("value stocks") have higher expected returns than companies with a high relative price ("growth stocks").
- **Profitability:** Companies with higher profitability have higher expected returns than those with lower profitability.

While decades of research have helped DFA identify these dimensions of return, the implementation of this research is where DFA shines. With trading operations in cities across the globe, DFA is able to add value over their benchmarks by being flexible and keeping trading costs extremely low, resulting in higher returns for investors.

As noted in our letter, we will be purchasing several DFA funds, using them in asset classes where we believe they provide the best long-term outlook for success. Please let us know if you'd like to learn more about how we're leveraging DFA's expertise for your benefit.