SUMMER 2017

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

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Active Management— The Harsh Reality

Consider these two investment options:

1. Bill hires a professional active investment manager to manage his portfolio. His manager actively buys and sells stocks and bonds based on timely market news, research, and analysis in an attempt to earn superior returns.

2. Mary hires a professional passive investment manager to manage her portfolio. Her manager implements a diversified investment portfolio comprised 100% of stock index funds and maintains a consistent investment allocation through the ups and downs of the stock market. As a result, her portfolio experiences all of the gains and losses of the stock market.

Do you think Bill's actively managed portfolio will perform better over the next ten years, or do you think Mary's passively managed 100% stock portfolio will perform better?

Before you answer, please remember the following:

- We have no idea what the long-term impact of the President will be on the stock market.
- We have no idea whether Trump will be a one- or two-term President.
- We have no idea who will control the House and the Senate over the next ten years.
- We don't know when the next recession will hit or how long it will last.
- We have no idea what terrorist attacks we might face.

With that in mind, whose portfolio do you think will perform better?

Unfortunately, no one can predict the answer. However, based on history, in the majority of ten-year time horizons, Mary's portfolio, which is invested 100% of the time in a broad index of stocks experiencing all of the market gains and losses, would perform better than a majority of professional active investment managers who are actively trading based on market research.

Even if we don't like it, attempting to earn superior returns by actively managing an investment portfolio, whether performed by a professional active manager or a well-informed layperson, will increase the odds that the portfolio will underperform over the long term.

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JENTNER WEALTH MANAGEMENT

Bruce Jentner, CFP®, President

THE PRESIDENT'S WORD

The Stock Market Has Been Up, What Should You Do Now?

There are lots of predictions about what will happen next in the stock market after eight years of strong performance. So what should an investor do?

The domestic stock market has performed handsomely over the past eight years. So what should investors do now? Wall Street strategists, on average, expected the S&P 500 to end this year at 2,362. But by the end of the first quarter of 2017, the S&P 500 exceeded the full-year target, and it was still over the target at the end of the second quarter.

This has the professional investment community in an uproar. Some analysts are predicting a near-term pullback. Some are predicting a major decline. Others are re-evaluating their forecasts to a higher number. In light of all of this excitement and speculation, what should you do if you are an investor?

Having observed this behavior over and over again during the past 30 years, let me make a suggestion. Most investors should not be concentrated in only stocks or in only bonds. And most investors should not attempt to predict what the markets will do.

Numerous studies demonstrate that investors who diversify broadly and avoid jumping out of the markets during the inevitable downturns end up earning long-term returns that are competitive and beneficial to their financial independence.

Yes, there are some who are comfortable with day-trading speculation. There are others who are only comfortable with guaranteed CDs and annuities. But if you are a long-term investor, stay the course with a well-designed, low-cost, diversified portfolio. Don't jump in and out. The stock and bond markets continually fluctuate, often unexpectedly, both up and down. This is why wise investors diversify broadly in multiple countries investing in stocks, bonds, and alternative investments.

Historically, the world economy has gradually grown over time as people continue to innovate and explore new and better ways to bring their goods and services to people who want and need them. Although this path has ups and downs with twists and turns, this has provided superior returns over the long term.

If you consider yourself an investor, avoid speculation. Diversify and stay invested to give yourself the opportunity to benefit from the growing world economy.

Avoid Frequent Trading Despite Market Volatility

Day-to-day stock-market volatility convinces many that they should be trading frequently in their investment portfolios. The financial media wants you to believe that today is vastly different than yesterday. Why is that? Do they actually believe this? The media implies that today is vastly different from yesterday because they want to catch your attention. If the newspaper headline said, "Nothing changed today," you wouldn't buy it.

It may come as a surprise, but some of the savviest investors buy and hold portfolios for years without responding to the market's daily fluctuations. Mark Hulbert, author of the Hulbert Financial Digest, analyzed the performance of 200 investment advisors and found that the top three newsletters, based on their performance over 25 years, held stocks for an average of three to seven years. According to Hulbert, "Their holding periods are about as far away from high-frequency trading as you can imagine."

Additionally, investors who get swept up in trading trends can easily get whipsawed by sudden reversals. Do you remember those investors who sold the day of the presidential election, when market futures went down sharply, only to miss the huge updraft later the same day? Those who sold during the election likely missed the returns of November and December, which were the best in six months.

Remember, the purpose of the media is not necessarily to give you the best information. It's to keep you watching, listening, or reading. In a big economy like the United States, the market fluctuates 2%, 3%, or 4% percent in a day, sometimes more.

Successful long-term investors ignore the daily noise that actually provides little useful information. Reacting to daily news typically hurts your long-term performance. Speculators react to daily news. They periodically experience wonderful results, but their long-term tracks records are generally disappointing.

What Kind of Mortgage Is Right For You?

Should you choose a 30- or 15-year mortgage? Should it have a fixed or adjustable rate?

Recently, the Federal Reserve once again increased its key interest rate by 0.25%. Home mortgage interest rates increased slightly. If you are in the market for a home mortgage, should you obtain a fixed-rate or variable-rate mortgage? Should you finance over 15 or 30 years?

It's difficult to predict how soon or how much interest rates will increase in the future. There are many different opinions, but in reality, the future is an unknown. Here is a strategy for you to consider as you determine what kind of mortgage you want.

1. Currently, 30-year fixed-rate mortgages are still at a historically competitive interest rate. Under current tax law, the interest is tax-deductible if you itemize on your tax return, reducing the after-tax net cost further.

2. Even though variable-rate mortgages currently start out with lower interest rates, it is likely that interest rates will increase in the future. When interest rates rise, you may find yourself facing a monthly mortgage payment that is difficult at best, maybe even unsustainable.

3. 15-year fixed-rate mortgages have lower interest rates than 30-year fixed-rate mortgages, but 30-year mortgages have lower monthly payments than 15-year mortgages even though their interest rates are a little higher.

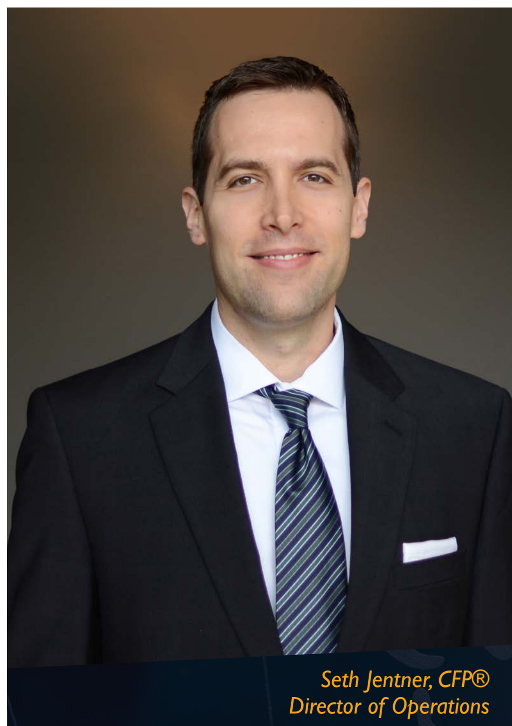
Here is a mortgage strategy we like:

Finance your home with a 30-year fixed-rate mortgage, locking in your long-term interest rate. But rather than making only the minimum required monthly payments, make greater monthly payments that will pay off your mortgage within 15 years. This provides you two benefits:

1. First, you will not pay all of the interest required over a 30-year payment scenario.

2. Second, in the event of an unexpected reduction of income, you can temporarily drop back to paying the lower 30-year monthly mortgage payment until you get your income back on track, thereby protecting your home.

Talk to your CFP® advisor to see if this makes sense for you.



Seth Jentner, CFP®
Director of Operations

The Things You Shouldn't Pay Attention To

An excerpt from "The Things You Shouldn't Pay Attention To" by Morgan Housel of the Motley Fool:

"There are 315 million people and 13 million businesses in America. The tax code is 73,000 pages long. Visa and MasterCard process 4,000 transactions per second. 47 million Americans are on food stamps; the 400 richest Americans are worth $2 trillion; 254 million antidepressant prescriptions are written annually; and in the time it took me to write this paragraph, 13 Americans filed for bankruptcy, 22 were married, and 21 died."

"The economy is so complex, it is literally unfathomable. There are trillions of moving parts reacting to each other every second, often without making any sense or having any historical precedent."

"One of the most dangerous things you can do is pretend the economy, or the stock market, is simple and easy to understand. It causes you to see patterns that are really just random flukes and wrongly assume that if one lever is pulled over here, something predictable will happen over there."

"Forget searching for patterns and correlations you think might explain the future. Instead, avoid being stupid by realizing what doesn't work and what you shouldn't pay attention to."

Contact us today to learn more about how a diversified, passively engineered investment strategy can help you "avoid being stupid."

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Who Becomes Financially Independent?

Some 14% of workers who earn more than $100,000 annually say they are living from paycheck to paycheck. Many workers do not make any contributions to their 401(k) retirement savings plan. This is why Social Security benefits make up the majority of retirement income for 60% of retired Americans.

Financial independence is not the same as earning a good income. If you earn a good income each year and spend it all, you are not getting wealthier. You are not becoming financially independent. You are just living high.

We have been in the financial coaching business for more than 30 years. A majority of the retirees we work with who are financially independent did not win the lottery, did not strike it rich because they bought Apple (or some other wonderful stock) before it was discovered, and did not inherit a boatload of money from a wealthy relative.

Most of the people we work with would not appear to be highly affluent. They look like ordinary people who are prudent, hard-working, and generous. Most of them accumulate more than a million dollars before they retire. But, you would never know this by looking at them.

Who becomes financially independent in retirement? It's not people who strike it rich. The financially independent are people who live below their means, who invest something out of every paycheck, and who believe that achieving financial independence is more important than displaying high social status. In a word, they believe in delayed gratification, and they know that building wealth takes personal financial discipline and time.

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