SPRING 2018

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Lessons for the Next Crisis

How to prepare for the market's next inevitable downturn.

In 2008, the stock market dropped in value by almost half. During that market crisis, the future looked anything but certain. Headlines such as "Worst Crisis Since '30s, With No End in Sight," "Markets in Disarray as Lending Locks Up," and "For Stocks, Worst Single-Day Drop in Two Decades" were common. Reading the news, opening up quarterly investment statements, or going online to check account balances were stomach-churning experiences for most people.

Roll the clock forward to today. It's been ten years since 2008, and the stock market has provided significant returns since 2009. However, warnings persist that we are about to experience another market crash. Some predict that it could be worse than 2008.

Even though financial markets have a habit of behaving unpredictably in the short term, we believe there are lessons we can learn to help us survive the next financial crisis:

- Stock- and bond-market volatility is a fact of life.
- In spite of this volatility, capital markets have rewarded investors over the long term.
- Having an investment approach you can stick with, especially during tough times, can help prepare you for the next crisis and its aftermath.

Yes, it's easier said than done. Being an investor today is by no means a worry-free experience. There is no limit to the information that is put before us every day; some of it is helpful, but the majority of it is distracting. The feelings of dread and panic felt during a financial crisis are distinctly acute. We would not be human if we were not tempted to react emotionally to market commentaries and account balances.

During the last market crisis, some decided it was more than they could stomach, so they sold out of stocks and are still dealing with the ramifications of that decision. Others who were able to stay the course recovered from the crisis and reaped the full benefit from the subsequent market rebound.

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JENTNER WEALTH MANAGEMENT

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THE PRESIDENT'S WORD

More Evidence It's Hard to Beat the Market

Does the historical evidence regarding active versus passive management affect your investing decisions?

Bruce Jentner, CFP®, President

S&P Dow Jones Indices, a scorekeeper of the active versus passive investing debate, recently released its SPIVA® U.S. Year-End 2017 Scorecard. Here's an overview of the SPIVA® Scorecard:

> "There is nothing novel about the index versus active debate. It has been a contentious subject for decades, and there are strong believers on both sides, with the vast majority of market participants falling somewhere in between. Since its first publication 16 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate."

Recognizing that the active versus passive debate continues, here is one of the main conclusions of the SPIVA U.S. 2017 Scorecard:

> The majority of active equity funds underperformed over long-term investment horizons. Over the five-year period ending with 2017, 84.23% of large-cap managers, 85.06% of mid-cap managers, and 91.17% of small-cap managers underperformed their benchmarks: the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 respectively.
>
> Similarly, over the 15-year investment horizon, 92.33% of large-cap managers, 94.81% of mid-cap managers, and 95.73% of small-cap managers failed to outperform their benchmarks.

The data is clear. The vast majority of active managers underperform their respective benchmarks over 5-, 10-, and 15-year periods.

Recently, I received a newsletter from a major investment institution that offers active investment management. Here are some of the opening comments:

> "Actively managed funds have long been, and continue to be, favored over passive funds by investors. Even so, it is no secret that active managers have had a tougher time as of late, enduring over the past five years perhaps the most difficult environment for achieving outperformance relative to benchmarks. […] We acknowledge the precarious situation currently facing active management."

Before reading the balance of the 21-page, technical, detailed investment analysis with numerous charts and graphs, I said to myself, "This analysis will conclude that active managers may eventually improve their results and should be used in client portfolios."

Here are a few more excerpts from their newsletter:

> "It is striking to see that over 80% of various groups of active managers underperformed their respective indexes over the past ten-year period.
>
> Performance of active managers does bounce from quarter to quarter due to the market environment.
>
> We believe the performance of active managers could improve as the macro environment becomes more favorable.
>
> Active managers' ability to outperform benchmarks has shown itself to be cyclical. The past few years […] show as some of the worst performance, relatively speaking, for active managers. However, we note that periods of underperformance often are followed by periods of outperformance."

Just as I predicted, they felt compelled to conclude that active management should be used. I must admit that I feel their pain. More than 20 years ago, Marty Weisberg and I observed the disappointing, spotty results of active managers. It was difficult for us to follow the conclusions of our own research: that passively engineered investments with broad diversification and low internal costs provided superior long-term results in the majority of cases. However, due to the overwhelming evidence, we made the change from active management to passive management to better serve our clients.

Yes, the markets rise and fall. Diversified portfolios earn both positive and negative returns. Yet, when shorter-term volatility is ignored and periodic rebalancing without tactical market predictions is employed, competitive long-term returns are earned. We acknowledge that some active managers occasionally outperform their benchmarks over shorter periods of time. But our emphasis is on the long term, not the short term.

Why do we continually remind you of this? There are several reasons:

- The financial media focuses on short-term market fluctuations, encouraging investors to make changes, hoping to mitigate their losses or amplify their returns.
- The majority of investors continues to employ active managers in spite of their disappointing performance.
- The majority of investment advisory firms offers active management in an attempt to produce superior returns.
- Although the historical evidence is clear, so many people still believe that actively tinkering with their investments is needed to achieve good results.

We appreciate that our clients have acknowledged the historical evidence and are employing a passively engineered investment strategy to improve their probability of achieving long-term success. We urge you to call upon the Jentner team whenever we can answer your questions or alleviate concerns.

The Grandparent Scam

Generally speaking, grandparents love their grandchildren. Con artists take advantage of this. Every year, seniors are swindled out of thousands of dollars by exploiting this compassion. Emotions are powerful, and when we believe someone we love needs our help, we respond. It is not unusual for perfectly rational people to lose their wits when they hear the distressed, tearful voice of someone who sounds like their grandchild pleading for help.

Scammers put a lot of preparation into their schemes. It is important to be aware of their tricks to protect yourself. This particular scam is often performed on grandparents who do not live near their grandchild and who haven't seen their grandchild for a while.

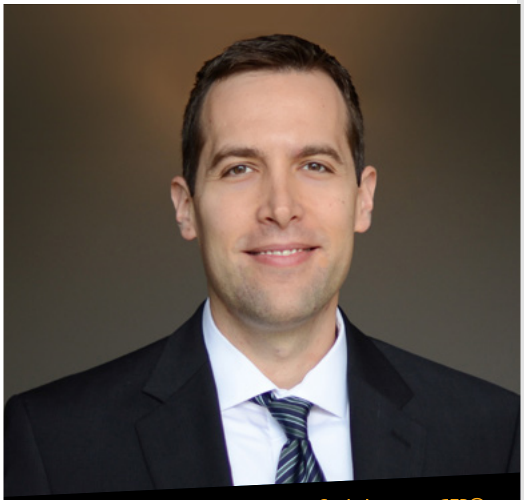
In one particular scam, the scammer will call the grandparent and claim to be a police officer, provide a fake badge number, and come up with a plausible story. The scammer may tell you that your grandchild was a passenger in a car that was in a minor accident and was not hurt, but drugs were found in the car. The scammer may say he's convinced that your grandchild is innocent and wants to help. Sometimes, the scammer may say the grandchild has asked for secrecy to avoid embarrassment if his or her parents were to find out.

A grandparent shared the following story: Sergeant Grant told us our grandson, Paul, was in his friend Mark's car when they got into an accident this morning. Our grandson was not charged in the accident, but because marijuana was found in the vehicle, he had to pay a $3,500 fine or serve two weeks at the detention center.

The grandparents, who loved their grandson, responded by sending the money. When they went to the detention center the following day to pick up Paul, they did not find Paul, his friend Mark, or Sergeant Grant. It was then that they realized they had been conned by experienced criminals. When the grandparents later called their grandson, they discovered that Paul was home studying for an exam. He was not in an accident, was never arrested, and was never in police custody.

We want you to know about these schemes so you can protect yourself. If you were to encounter a situation like this, here are some suggestions.

1. Be skeptical of strange calls. Keep your emotions in check.
2. Ask questions for verification.
3. Make independent calls to your family member and the alleged police department.
4. Use the published phone number and address of the detention center, police station, or court.
5. Phone numbers and wire transfers can often be traced. If reported quickly to law enforcement, the criminals may be caught.



Seth Jentner, CFP®
Director of Operations

Lessons for the Next Crisis

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The 2008 stock-market crash, which included the bankruptcy of Lehman Brothers, was not the first time we experienced a severe market decline, nor will it be the last. In fact, investors have experienced a number of startling market declines in the last 30 years:

- October 1987 stock-market crash
- August 1989 U.S. savings and loan crisis
- September 1998 Asian contagion, Russian crisis, and long-term capital management collapse
- March 2000 dot-com crash
- September 2001 terrorist attack

Although a globally diversified, balanced investment strategy would have experienced temporary declines during these events, the financial markets and diversified investment portfolios recovered after each event. Having a long-term perspective, appropriate diversification, and an asset allocation aligned with your risk tolerance and goals are critical for enabling investors to remain disciplined enough during a financial crisis to ride out the storm.

There's almost always a crisis of the day or a major event looming that could cause the next market decline. Unfortunately, predicting the future of the markets correctly is difficult. History demonstrates that to enjoy the benefits of higher long-term returns, investors must be willing to accept uncertainty and volatility as part of investing. A well-thought-out, transparent, diversified investment approach can help people face the uncertainty and is critical to improving their ability to stick with their plan and capturing the long-term returns of capital markets.

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Quotable Wisdom: Market Corrections Are Opportunities

As stewards of our clients' values, goals, and dreams, our mission is to preserve and protect our clients' financial resources. To do so, we focus on research, experience, patience, and a long-term perspective. In our quest to serve our clients well, we are willing to be different.

We believe in what we do. Therefore, we invest our own money alongside our clients' using the same investments, strategies, and philosophy.

Here are a few notable quotes that we think are worth repeating:

Warren Buffett, one of the most successful investors of all time:
"A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices."

Anonymous
"Bailing out of a good investment, with the idea of jumping in later, is how most investors get burned."

Benjamin Graham, influential investor known as the father of value investing:
"The intelligent investor is a realist who sells to optimists and buys from pessimists."

Burton Malkiel, economist and author of *A Random Walk Down Wall Street*:
"It was steady investors who kept their heads when the stock market tanked in 1987, and then saw the value of their holdings eventually recover and continue to produce attractive returns."

Peter Lynch, former manager of the Magellan Fund at Fidelity Investments:
"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves."

Anonymous
"You might be right about where the market is going, but you have no idea where it will go after that."

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