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10,000 foot view

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system will continue to denigrate and will reach a point of no return.

One doesn't have to look far back in history for examples. Historically, when the people allow governments to grow to where the people must depend on the ruling class to provide their sustainment, a downward spiral of economic and social deterioration begins for the greatest majority. The people gradually lose their freedom, but first their incentive to sustain themselves. Adam Smith, the father of economics, outlines this in his greatest work, not his most famous: The Theory of Moral Sentiment.

Please, please vote! Seriously, vote in all elections that you can; not just the presidential. We as citizens can only turn this tide of destruction around by getting our elected officials to work together, for the people and not demonize the other party (or parties). That's our responsibility, not the politicians!

I do have my concerns, but I am the most comfortable I have been in a long time about the position of your investments. There will be choppy water, to be sure, but we are prepared to handle it. It would not surprise me that we could benefit more than we expect, as we saw with the results after the January/February market drop and Brexit.

Pray for our leaders. Until next time,
Joel

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[1]Quint, Michael (1986, July). End of Road for Sturdy '8's'. *The New York Times.* http://www.nytimes.com
[2]Levine, David (2016, July). The Goldilocks Strategy for Prudent Investors. *The New York Times.* http://www.nytimes.com

Financial Partner

JSW™ Financial
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In The News

The bond market - is the party over?

If you've spent any time on the internet lately, you've seen the headlines about the gloom and doom regarding bonds (especially government bonds) and the bond market.

According to Bill Gross (founder of PIMCO who now manages a multi-billion dollar bond fund for Janus Capital), historically-high bond prices and rock-bottom yields may be a "supernova that will explode one day."

The current state of the bond market illustrates the inverse relationship between bond prices and yields. Skittish investors have bought all the bonds they can find, especially US Treasuries, driving prices up and yields down.

I recall the opposite phenomenon in 1980-81. When I entered the banking business, the bond market was underwater. Unlike today, short-term interest rates were 15% or more, and nobody wanted US Treasury notes yielding a paltry 8%. Can you imagine? Here's an interesting quote about the "8's of '86," a ten-year government note issue that created quite a stir when it was auctioned during the Ford administration back in 1976:

> But the "magic eights" lost their glamour and their profits as interest rates began rising in the late 1970s, ultimately reaching the highest levels since the Civil War. In the bleakest days of 1981, when Federal Reserve officials were intent on rooting out high inflation with a tight credit policy while the Treasury was issuing more debt than ever, the notes fetched less than 75 cents on the dollar, trading with a yield of more than 15 percent.[1]

Bonds can be volatile too. Dampening that volatility, and the uncertainty it creates for you and your goals, is one of our key responsibilities as an advisor. So let's consider the roles bonds serve in your portfolio.

First, bonds generate income at a fixed rate (the coupon) for a specific period of time. Bonds, generally, are not correlated with the stock market, meaning that bonds may zig when the stock market zags. Finally, bonds are liquid, a ready source of cash.

Despite these good reasons for holding bonds, all the talk of a correction in the bond market and "normalization" of interest rates (bond prices fall, yields rise) may prompt this question: "Should I sell my bonds and go to cash?" Sound familiar? (Think stocks, circa 2008-09.)

Short answer: No! Intermediate US Treasury bonds (IEF in our Pure Gamma portfolio), over the long run, outperform cash and long-term bonds. The intermediate-term US Treasury is right in the sweet spot where risk/return is balanced in your favor. This asset class has never fallen more than 10% in a year, and never in back-to-back 12 month periods, even when inflation drove rates up as much as 4% in 1979 and 6% in 1947.

This is Wealthcare 101, found in the "Retiring" section of The New York Times:

> … To minimize the real risks we all face in meeting our unknown, long-term financial obligations, you need a different strategy, one that produces reliable, spendable cash flow and superior returns, minimizing the likelihood that the inflation-adjusted value of your portfolio will decline over time.[2]

Define your goals. Focus on your portfolio mix, not portfolio performance. We'll take what the market gives us, as we learn to manage uncertainty instead of stocks. When you do this, you will stress-proof your plan, your portfolio and the part of you that worries about being ready for retirement.

Party on!

– George Taylor

Ops Center

The harvest season is upon us (tax loss harvesting)

Fall is rapidly approaching and, for farmers, that means it's time to harvest this year's crops. Here at JSW Financial, we are thinking about harvesting something a little different - tax losses.

Tax loss harvesting is the process of selling an asset at a loss to offset a capital gain that you have realized by selling another asset. If used properly, this strategy has the potential to significantly reduce your tax liability.

For example, if you had purchased Fund A for $10 and then sold it a year later for $20, you would have a $10 capital gain. Those capital gains would usually be taxed at a rate of 15-20%. However, consider that you also have Fund B that you purchased for $20 and it's currently priced at $8. You can sell Fund B at a loss of $12 and offset the gain of $10 that you had for Fund A. In other words, in this example, you would not have to pay capital gains tax on Fund A because you offset those gains with a loss from the sale of Fund B. It's also important to note that, in this example, you have more realized losses than gains at this point. You can use up to $3,000 per year of realized capital losses to offset ordinary income and carry forward any additional losses into future tax years.

Keep in mind that capital gains and losses are not applicable in IRAs, Roth IRAs, annuities or any other type of tax-advantaged account. This is one of the reasons that it's helpful to have at least one taxable account in your portfolio.

We are always looking to harvest losses to cover realized gains in your accounts that we manage as the opportunities arise. However, if you have experienced any realized gains or losses on any other assets this year, such as real estate or accounts held elsewhere, please let us know so we can work together with you and your tax preparer to make sure we are optimizing this strategy. This is just another way that JSW Financial is taking what the market gives us and using it to your advantage.

– Ashley Coake

Client Education Series

Talking with your family about your estate

In August, we gathered with clients to discuss the difficult topic of talking to your family about money. We looked at this critical but often avoided topic from both the perspective of the aging parent and from the adult children. We shared primary research on what adult children (ages 32-50) want to know from their parents and compared that to why most aging parents were holding off on the conversation. What we found is that a lot of unneeded stress is being created on both sides of this conversation! There is so much that adult children want to know about their parents' situation, desires and needs so they can do the right thing for their parents, or know if they need to be planning to support them. Secondary research shows 30% of adult children that believe they need to support their parents in retirement do not actually need to. The lack of communication between generations is causing undue stress. And aging parents have so much knowledge and personal messages they want to pass on but do not because they don't want to get into the sensitive subjects of becoming incapacitated and loosing control, death, what will be left or how it's being divided.

These events were good opportunities for everyone to stop and rethink their own situation. We had some great sessions with personal stories shared. A huge thank you to all the clients who were brave enough to open up. We are all better for it! Thank you.

If you missed the sessions last month, I encourage you to view the video on our website (www.joelswilliams.com > News & Resources). Hopefully, it will spur some reflection for you too.

– Sarah Moravec

Deadlines to consider

- **RMDs:** IRS rules require everyone who will be 70.5 or older by December 31, 2016, to take a Required Minimum Distribution (RMD) annually from your IRA. The IRS can impose a 50% penalty for not taking out the calculated RMD amount. Now is a great time to think ahead and set up a recurring automatic RMD. Contact us at team@joelswilliams.com to get started.
- **Looking for financial aid for college?** Students will be able to file a 2017–18 Free Application for Federal Student Aid (FAFSA®) as early as October 1, 2016, rather than beginning on January 1, 2017. The earlier submission date will be a permanent change, enabling students to complete and submit a FAFSA as early as October 1 every year. For more information and to read about other changes to the FAFSA application, visit www.studentaid.ed.gov.

Joel's Corner

Markets

September 12, 2016

DOW | 18,325.07

Nasdaq | 5,211.89

S&P 500 | 2,159.04

10,000 foot view

Interesting observations; nothing catastrophic yet!

There are positive developments and some not so positive, all dependent on the stars lining up for a result that is either a) continued slow growth economy and continued market volatility "within a 10% market range", OR b) a resetting of global financial markets with a significant drop in the market (i.e. 30%+), albeit a short recovery.

In either case, it would not be wise to attempt to outsmart the direction. Besides, our current allocation has been right on target, with enough risk to benefit from a large upswing in the market, yet a conservative bias that is producing more dividends and interest (after fees!) than what we can earn on five-year CDs, while we wait for the market to figure out its direction.

In my opinion, the government economists, the talking heads of the media and the financial geniuses with their built-in bias have no clue. However, because of this trepidation about the market over the past year, our Wealthcare process of only taking the risk we need in the market to accomplish our goals, and the consistent rebalancing at strategic times (and not just on a time regulated basis), has reduced volatility in our clients' portfolios, while still delivering returns, after fees, in line with market benchmarks.

> "...I am the most comfortable I have been in a long time about the position of your investments."

Fact: Forty-eight hours after the Brexit vote (Monday morning, June 27) the assets of all JSWF clients combined was HIGHER than the previous Wednesday, June 22, the day before the Brexit vote. This was AFTER an almost 5% drop in the market. The same thing was noted after the -11% market panic in January-February of this year. That says something about the way our research and trading departments are managing the portfolios we selected, based on your plans we designed together. It's working!

Some brief opinions on the economy:

- Interest rates are not likely to be raised multiple times for a good year or two. Although we may get a couple of token raises here and there. In my opinion, a raise in September won't happen to protect the incumbents and even one in December of 2016 is not likely.
- Middle management wages increased slightly in July-August - a small positive sign.
- Consumers have been faring better from lower gas prices, but the interesting thing is they are not spending as much, thus expected GDP is not growing as much. Smartly, they are paying off debt and improving their personal balance sheets. This is good; the government should be paying attention.
- Baltic Dry Index was up a little in July-August. However, one of China's big container shipping companies went out of business. A sure sign they and their banks did not see support from an increasing global economy! (Source: Bloomberg)
- Jobs are increasing, but there continues to be what is called "structural unemployment." The jobs are not paying as much and it is difficult for families to buy a home and furnish it, which is critical for our economy to grow.
- Housing is doing better, but first time buyers are still only 28% of sales compared to 42% when the economy is considered stable. (Source: Home Building Institute)
- Inflation: Not happening. Jobs are the key. Target inflation was 2%; now it is down to 1.2%. Bad symptom of economy.

Now, about the upcoming election. I believe the outcome of the election will have little short-term impact on your personal portfolio; it will not change your lifestyle. Regardless of which party controls which government branch, we still have a lot of work to do on important topics from paying down our debt, creating jobs, improving our education systems, providing healthcare, managing terrorism threats to revamping our Social Security and Veterans Administration programs. All while reducing size of government and government regulation on small businesses so they can create decent paying jobs. (70% of jobs in US come from small business.)

Think about it: Do we really expect one man/woman or one party to change all this? In my opinion, one should vote to insure our elected officials work together to solve the priorities of the people, regardless of party affiliation. The tipping point on the future of our economic prosperity is fast-approaching. Without a means to socially/economically improve oneself, values, beliefs and freedoms are compromised.

Handing a person more entitlements is only a temporary assistance…and is a vital support and basis for who we are as Americans. But when it becomes permanent, it is not a means for personal prosperity. The government is failing the people, when this happens.

The student of economic history can attest to the fact that when the government (elected officials) no longer provides opportunities and incentives for the individual to improve their personal/social wellbeing, the overall society and economic

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