JSW™ Financial

1995 South Main Street, Suite 903 | Blacksburg, VA 24060
P: 540.961.6706 • T: 888.553.2211 • F: 540.961.6910
www.joelswilliams.com • info@joelswilliams.com

Prsrt Std
U.S. Postage
PAID
Blacksburg, VA
Permit No. 158

Thank you!

Many thanks to more than 95 clients, friends and guests who attended our 23rd Annual Client Appreciation Event. The evening was filled with good food from Blue Ridge Mountain Catering, entertainment from the Highland Jazz Trio and the Tuxedo Pandas and we shared some exciting news.

Together, Joel and Andrew Miller told the fortuitous story of how a former intern and mentoree (Andrew) had recently purchased JSW Financial. It was a momentous occasion to share this news as Joel continues to implement his business transition and succession plan.

The JSWF team wants to thank you for your continued support and we look forward to providing you with excellent service. Cheers, until our next meeting or celebration.

Contact Us

Office hours: Monday - Friday | 8 a.m. - 5 p.m.

- team@joelswilliams.com
- Beth Ashe | betha@joelswilliams.com
- Joel Williams | info@joelswilliams.com
- Andrew Miller | andrewm@joelswilliams.com
- Sarah Moravec | sarahm@joelswilliams.com
- Ashley Coake | ashleyc@joelswilliams.com
- Andrew Cialek | andrewc@joelswilliams.com
- Katie Mullins | katiem@joelswilliams.com

Editor: Robin Hoback

Citations:

[1]The sample includes funds at the beginning of the 15-year period ending December 31, 2016. Funds are sorted into quartiles within their category based on average expense ratio over the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile; winners are funds that survived and outperformed their respective Morningstar category benchmark, and losers are funds that either did not survive or did not outperform their respective Morningstar category benchmark. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Small Blend, Small Growth, Small Value, and World Stock. For additional information regarding the Morningstar historical categories, please see "The Morningstar Category Classifications" at morningstardirect.morningstar.com/clientcomm/Morningstar_Categories_US_April_2016.pdf. Index funds and fund-of-funds are excluded from the sample. The return, expense ratio, and turnover for funds with multiple share classes are taken as the asset-weighted average of the individual share class observations. For additional methodology, please refer to Dimensional Fund Advisor's brochure, The 2017 Mutual Fund Landscape. Past performance is no guarantee of future results.

[2]For illustrative purposes only and not representative of an actual investment. This hypothetical illustration is intended to show the potential impact of higher expense ratios and does not represent any investor's actual experience. Assumes a starting account balance of $1,000,000 and a 6% compound annual growth rate less expense ratios of 0.25% and 0.75% applied over a 15-year time horizon. Taxes and other potential costs are not reflected. Actual results may vary significantly. Changing the assumptions would result in different outcomes. For example, the savings and difference between the ending account balances would be lower if the starting investment amount was lower.

Financial Partner

JSW™ Financial

A Quarterly Newsletter From JSW Financial
Summer 2017

Table of Contents

- Life Insurance .... page 2
- Featured Local Artist.. page 2
- Ops Reminders .... page 2
- Joel's Corner .... page 3
- Thank you! .... page 4

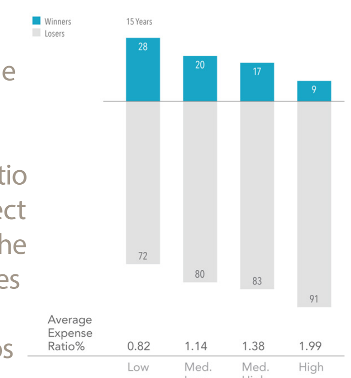
In The News

Getting what you don't pay for

Costs matter. Whether you're buying a car or selecting an investment strategy, the costs you expect to pay are likely to be an important factor in making any major financial decision.

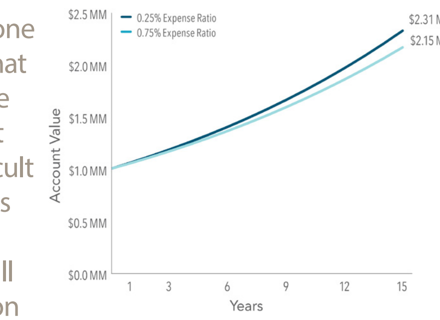
People rely on a lot of different information about costs to help form these decisions. When you buy a car, for example, the sticker price tells you approximately how much you can expect to pay for the car itself. But the sticker price is only one part of the overall cost of owning a car. Other things like sales tax, the cost of insurance, expected routine maintenance costs and the potential cost of unexpected repairs are also important to understand. Some of these costs are easily observed, and others are more difficult to assess. Similarly, when investing in exchange-traded funds (ETF) and/or mutual funds, different variables need to be considered to evaluate how cost-effective a strategy may be for a particular investor.

EXPENSE RATIOS. Many types of costs lower the net return available to investors. One important cost is the expense ratio. Similar to the sticker price of a car, the expense ratio tells a lot about what you can expect to pay for an investment strategy. The illustration to the right[1] demonstrates why expense ratios are important and shows how hefty expense ratios can impact performance.



This data shows that funds with higher average expense ratios had lower rates of outperformance. For the 15-year period through 2016, only 9% of the highest-cost equity funds outperformed their benchmarks. This data indicates that a high expense ratio is often a challenging hurdle for funds to overcome, especially over longer horizons. From the investor's point of view, an expense ratio of 0.25% vs. 0.75% means savings of $5,000 per year on a $1 million account. As shown in the next chart[2], those dollars can really add up over longer periods.

While the expense ratio is an important piece of information for an investor to evaluate, what matters most when gauging the true cost-effectiveness of an investment strategy is the "total cost of ownership". Similar to the car example, total cost of ownership is more holistic than any one figure. It looks at things that are readily observable, like expense ratios, but also at things that are more difficult to assess, like trading costs and tax impact.



TRADING COSTS. Overall trading costs are a function of the amount of trading, or turnover, and the cost of each trade. If a manager trades excessively, costs like commissions and the price impact from trading can eat away at returns. Viewed through the lens of our car analogy, this impact is similar to excessively jamming your brakes or accelerating quickly. By regularly demanding immediacy like this when it may not be necessary, the more wear and tear your car is likely to experience and the more fuel you will end up using. These actions can increase your total cost of ownership. Additionally, excessive trading can also lead to negative tax consequences for the fund, which can increase the cost of ownership for investors holding funds in taxable accounts. The best way to try to decrease the impact of trading costs is for funds to avoid excessive trading and minimize the cost per trade.

Employing a flexible investment approach that reduces the need for immediacy, thereby enabling opportunistic execution, is one way to potentially help accomplish this goal. Keeping turnover low, remaining flexible, and transacting only when the potential benefits of a trade outweigh the costs can help keep overall trading costs down and help reduce the total cost of ownership.

CONCLUSION. The total cost of ownership of a mutual fund can be difficult to assess and requires a thorough understanding of costs beyond what an expense ratio can tell investors on its own. A good advisor can help investors look beyond any one cost metric and instead evaluate the total cost of ownership of an investment program—and ultimately help clients decide if a given strategy is right for them.

– Andrew Miller

Ops Center

Is life insurance on your to-do list?

Many of us rely on to-do lists to determine what needs to be done and in what order. I live off my to-do lists; I would be lost without them. The sense of accomplishment I get when I scratch something off is extremely gratifying. On the other hand, a task that seems difficult may sneak down to the bottom of my list and be avoided. So what important tasks are at the bottom of your list? Is life insurance one of them? Life insurance often travels down to the bottom because it seems so far off, abstract, and sometimes even confusing. When, in reality, it could be a very important part of your family's financial future.

When we ask clients about life insurance, the response usually sounds something like, "We just haven't got around to it." Then questions like "What type is best?" and "How much do I need?" follow. As with most anything, our recommendation will vary from person to person based on your individual situation and goals. We can help you simplify the process, arrive at the right choice for you and your family and help you mark it off your to-do list. Let's take a look at the basics.

The purpose of any insurance is to reduce or remove a risk. For life insurance, the risk we need to identify is "what happens financially if you pass away?" We will work with you to identify the areas of risk specific to your situation such as covering final expenses, outstanding debts and mortgages, planned educational expenses, and lost income. One instance people tend to overlook is life insurance for stay-at-home parents. Though the family wouldn't experience a loss of income, they would certainly experience increased costs to replace the valuable work which that parent provided (example: childcare).

In most cases, we recommend term life insurance. Term life pays a benefit if the insured dies during a specified term and is usually the cheapest option. There is no cash value or investment component. The temporary coverage can range from one year to thirty years. The goal is to insure only for the amount of time that the risk is present. For example, if the financial risk in your case is paying off a 15-year mortgage, you would only need a policy to cover that specific period of time. There would no longer be a need for coverage once the mortgage has been paid off and the financial risk is gone.

In contrast to term policies, whole life insurance covers the entire life of the policy holder and has a cash value component. These policies are more expensive compared to term policies with the same death benefit amount and, since they provide coverage for the entire life of the policy holder, there could be excess coverage after the risk is gone. In other words, with whole life policies, you could pay more expensive premiums to insure the wrong time period of your life. With that said there are exceptions to this and certainly some valid reasons to have permanent insurance through whole life policies, such as estate planning and special needs planning.

Don't let the complexities of life insurance allow this important task to keep sinking to the bottom of your to-do list. We can help you determine if you need it, how much you need, and how long you'll need it. If you already own a policy, we can also review it to see if your current coverage is optimal for your situation. We will guide you through these questions, demystify, and simplify life insurance and help you make the best decision for your family's financial future.

– Ashley Coake

Please note: this is not a recommendation to change or cancel your existing policies. Contact us to review your policies before making any changes.

Featured Local Artist

As a local business, JSW Financial appreciates the support of the community and we want to give back by periodically displaying the works of local artists in our office. Our second featured artist whose artwork is currently on display is Dr. Joseph A. Lineweaver of Blacksburg, VA. In retirement, Joe has mastered his skills in scroll sawing. His three-dimensional subject matter is wide and varied in framed and plaque styles.

Previously, Joe was a professor of Dairy Science at VA Tech and owner of Blue Ridge Embryos and Seven Springs farm. He was on the Board of Directors and Vice-President of the American Jersery Cattle Association and was President of the American Embryo Transfer Association.

Be sure to stop by the office, say "hello" and view his work displayed on the hallway walls and table tops.

If you or someone you know would be interested in being featured, please email us at team@joelswilliams.com.

– Beth Ashe

Ops Reminders

- **RMDs:** IRS rules require everyone who will be 70.5 or older by December 31, 2017, to take a Required Minimum Distribution (RMD) annually from your IRA. Now is a great time to think ahead and set up a recurring automatic RMD. Contact us at team@joelswilliams.com to get started.
- **Life Changes**: If you experience any life changes that could affect your financial plan, please email updates to team@joelswilliams.com.

– Andrew Cialek

Joel's Corner

Reading market tea leaves

When you "read the tea leaves", you attempt to predict the future by looking for patterns in the way tea leaves sit in the bottom of the teacup. Full disclosure: I'm not a fortune teller and I don't have a clue as to which of the following narratives will play out:

1. The Dow Jones could go up to 20-30k before correcting. OR
2. The market will drop below 10k with a major recession.

It will take something significant to spook the market into a free fall. Simply look at the news:

- Trump bombs Iran and/or Afghanistan
- The nut in North Korea keeps throwing firecrackers in Trump's playpen
- Changes in the White House personnel look like a lottery-ball drawing
- Eli Lilly developed a new anxiety pill only for media journalists
- News stories based on truthful facts died with Walter Cronkite

The list goes on and on, the least of which is the food fight between our adult leaders in Washington and the media.

Here are some fundamental facts suggesting the market should fall:

- At this point, The Dow Jones could fall 1100 points just because of a simple 5% correction. (Corrections are defined to be up to 15%.)
- At 97 months, this is third-longest market run in US history. The average is 39.
- Price Earnings (P/E) ratios are 25-40% higher than average.

However, the following are some fundamental reasons for the market to continue rising:

- Earnings are expanding which will lower the P/E ratio.
- Job numbers have been increasing for the most part, although wages are still lagging behind.
- July housing numbers improved.
- Energy prices will remain low for a while.
- Interest and inflation rates continue to remain low.

> "...We are taking just enough risk in the market to meet your goals."

So here are my thoughts.

The market is currently ignoring the circus (Washington and the media) and seems to be more focused on the continued low interest rates by the central banks around the world. These interest rates will play a key role in whether the market experiences a slight correction or a significant drop. So keep your eye on rates around the world, not just on Janet Yellen and the Fed.

When (not if) the ride down starts, it will be a bumpy decline instead of a dramatic free fall; in my opinion. During a normal 5-15% correction, professional traders (not average investors) often jump in and out of the market which causes up and down movements in the market and could cause some average investors to think the correction is over. So expect choppiness and be glad you are a long-term investor. My best guess is that we will see some kind of correction by October.

In regards to our government, the silent majority of voters from both parties still have hope in a change of our officials, even if it is without Trump. I think the 2018 midterm elections will begin to show a big surprise coming in the 2020 election. In my opinion, political textbooks will be written in the next 39 months in a positive way. There is something very strange in our political system going on and I'm not talking about Trump!

Conclusions:

1. We are being watchful and taking just enough risk in the market to meet your goals. This helps us avoid the irrational behavior of trying to beat the market. Now is not the time to be a hero.
2. The bond allocation in your portfolio is like fire insurance for your house. You haven't needed it in almost a decade, but it is there for a reason.
3. Finally, we are not simply being passive: the Wealthcare strategy of selling stocks in small increments (3%) as the market goes up forces us to do what is rational, even when our emotions tell us otherwise. We all know we should eat broccoli instead of chocolate cake because it's better for us, just like we know that we should sell stocks high and buy stocks low. However, we seem to forget this is going on as the market goes up. We are not missing out on this increasing market. It's quite the opposite!

So just in case it gets a little bumpy, remain seated with your seatbelts fastened! And don't worry, we will be fine.

Until next time.

Joel

Markets

July 31, 2017

DOW | 21,891.12

Nasdaq | 6,348.12

S&P 500 | 2,470.30