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left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

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What's a Reasonable Rate of Return?

The assumed rate of return used in your investment program will determine how much you need to save to reach your financial goals and how much you can withdraw annually from your portfolio after retirement. Use a rate that is too high, and you may not accumulate the amount you need or be able to withdraw enough during retirement. But what is a reasonable long-term rate of return?

Typically, the assumed rate of return for an investment program is the average annual return for some historical period. Data is readily available going back as far as 1926. But does looking at history still make sense in the current market environment? Consider the following points when deciding on an assumed long-term rate of return:

- When selecting what historical period to consider, keep in mind that returns can vary substantially over different time periods. As a starting point, you may want to consider average returns for the period from 1926 to present, making adjustments from there.
- Understand the difference between arithmetic and geometric returns. For the period from 1926 to 2016, the arithmetic average annual return for the Standard & Poor's 500 (S&P 500) was 12%, while the geometric average return was 10%.* The arithmetic average is a simple average of the sum of each annual return divided by the number of years used.

The geometric return calculates the return earned over the years, including the change in value over a specified period. Basically,

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Looking for Signals to Buy and Sell

While practiced for more than 100 years, the methods of technical analysis aren't nearly as familiar to the investing public as those of fundamental analysis. Fundamental analysis tells the company's essential story —who runs it, what it does or makes, how much money it spends, and how much and fast it earns money.

Technicals, though, sound altogether different. Instead of talking about the company, technicians focus on the statistics about the stock: how the price has changed and how many shares were bought and sold as the price changed. Their domain is lines drawn on a chart and the patterns they make, and their job is to infer where the stock price is likely to go next.

The difference between the approaches is defined by Wall Street like this: fundamental analysis tells you *what stock you should buy*, and technical analysis tells you *when to buy it*. Here are a few of the signals technicians use to make buy-and-sell recommendations.

Changes in price and volume. Technical analysis is grounded in the concept that stock prices are determined much in the way the prices of any other goods or services are set: by the relative balance of supply and demand. In the case of stocks, it's a matter of how many people are anxious to buy or sell shares at any given price point. If more people want to buy, the price will go higher; if more want to sell, the price will go down.

By looking at whether volume was higher or lower when the stock price changes, technicians can make a reasonable inference as to whether the buyers outnumbered the sellers or vice versa. Generally speaking, if volume increases on a day the price goes up, the inference is that the buyers outnumbered the sellers, and the stock price is likely to continue going higher. If the stock price rises on lower volume, the inference is that fewer and fewer people are eager to buy the stock, and the

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What's a Reasonable?

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you calculate how $1 would grow over the years based on actual year-by-year returns, determining what rate of return would produce the ending value. Typically, the geometric return will be equal to or lower than the arithmetic return.

- Don't forget to factor in inflation. When determining how much you want to have saved by a future date, your figure is stated in terms of today's dollars. Due to inflation over the years, that amount will not have the same purchasing power as it has today. You will need a higher amount at that future date for the same purchasing power. Thus, you should factor inflation into your assumed rate of return. From 1926 to 2016, inflation has averaged 2.9% annually.*
- Returns tend to regress to the mean. There is a tendency for the stock market to revert back to the average when it has had above- or below-average returns for an extended period. So following an extended period of above-average returns, it is possible that the market may go through a period of below-average returns. Thus, you may want to lower your expected annual return.
- Use conservative estimates. When deciding between a lower or higher expected return, it is usually more prudent to use the lower return. While a higher return means you will need to save less annually, you run the risk of not meeting your savings goals if actual returns are lower. Which is better — to have too much money saved when you are ready to retire or not enough? If you save too much, you can always reduce your savings in later years or spend more in retirement. The alternatives are far less attractive if you don't have enough money saved.

So what is a reasonable long-term rate of return to use in investment programs? Starting out with the average geometric return (since this is more conservative than the arithmetic return) from 1926 to 2016 of 10% and subtracting the long-term inflation rate of 2.9% would result in a return of 7.1%. You may even want to use a more conservative return if you feel the stock market may go through an extended period of below-average returns. If you'd like to discuss this in more detail, including how various rates of return would affect your long-term portfolio, please call.

* The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns. Returns presented are for illustrative purposes only and are not intended to project the performance of any specific investment vehicle. Source: *Stocks, Bonds, Bills, and Inflation 2017 Yearbook*.

Investing Defensively

A volatile market makes most investors nervous, although there are some investors who see these market downturns as an opportunity to buy shares of companies at bargain prices. But if market corrections make your stomach turn, there are some ways you can invest to help provide some protection.

Stocks with Dividend Yields Are a Good Buffer

Probably the most powerful defense against a rocky market are stocks that have healthy earnings and a good dividend payout ratio and yield. When stock prices fall, the dividend yield increases, because the cash dividend becomes a larger percentage of the purchase price of each share. For example, if you have a $100 stock with a $2 dividend, the dividend yield is 2%. If the stock falls to $50 per share, the yield would become 4% ($2 divided by $50). During a volatile market, the dividend yield will increase and investors find themselves with excess cash, so they start buying shares, which will drive up the price of the stock. You typically see less damage to high-dividend stocks when the market falls.

Consumer Staples Are Useful Defensive Tools

Some of the most successful stocks are durable goods, which include products such as toothpaste, laundry soap, mouthwash, cereal, etc. Many of these are blue-chip stocks that make up the Dow Jones Industrial Average, and they have very large market capitalization. The reason they stay relatively stable is that no matter how bad the economy gets, the demand for staples remains pretty constant. It's highly unlikely that most of us will stop washing our clothes or brushing our teeth.

Good Companies with Repurchase Programs

There are some companies that repurchase vast amounts of their own shares. When the market falls, these companies are buying stock that is being sold by investors, which helps reduce the pressure on the stock price. Long-term shareholders may also benefit from repurchases if the stock becomes undervalued; because the company is able to reduce the total outstanding shares at a quicker pace due to the lower stock price, increasing future earnings per share and cash dividends for the remaining stock.

Stocks Trading at Reasonable Valuations

Stocks associated with value-investing fundamentals, such as those with low price/earnings ratios, price-to-book ratios, price/sales ratios, and conservative balance sheets have proven to hold up well in the long term. If you review the historical metrics, you will see that value-based stocks emerge from market downturns relatively intact over the course of time.

Please call if you'd like to discuss this topic in more detail.

Looking for Signals

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upward movement is likely to slow down or reverse.

Levels of support and resistance. These are price points where the trend in a stock price either hesitates or reverses. If the stock stops going up, it's said to be meeting resistance; and if it stops going down, it's encountering support. While this sounds like an architectural feature, in reality these points are prices in which a shift occurs in the balance of buyers and sellers.

Levels are visible on stock charts when the price goes sideways for a period of time or the price line forms peaks and valleys below and above certain levels. Technicians identify these points by looking at the chart history. Often, when a level of resistance or support is broken — especially on higher volume than the day before — the stock may seek that next price level.

Moving averages. Technicians draw lines on charts that plot moving averages of a stock's closing price. These are calculated as the average closing price over a given period of time. Among the most popular are 20-, 50-, and 200-day moving averages. They're useful in two ways: they serve as additional points of support and resistance and can be used to identify buy-and-sell signals.

For example, when a stock price crosses the 200-day moving average, a very important signal is generated. If a stock crosses its 200-day moving average from above to below, it's often taken as a sell signal, which occurs after a long downtrend that is getting worse. When the price crosses the 200-day moving average from below to above, it's often seen as buy signal — a sign that a long down trend has ended and a new up trend is beginning.

Moving Average Convergence and Divergence (MACD). This indicator is of a level of complexity above the three concepts we have just reviewed. It's a barometer of the momentum a stock's price trend has and how it changes over time. Technicians use it to forecast changes in stock trends and recognize the difference between a relatively meaningless fluctuation in a stock's price and the beginning of a meaningful new trend. Identifying new trends is another way technicians recognize buy-and-sell signals.

Interestingly, technical analysis is equally useful when analyzing stock indices as well as individual stocks. The benefit to analyzing indices is technicians can identify broad market trends. Since most stocks move in the same direction as broad indices, technicians can help investors decide when it's a good time to act on buy-or-sell signals generated on individual stock charts.

Please call if you'd like to discuss this in more detail.

Tactical Allocation and Market Timing

Your investment strategy should include a long-term plan for dividing your portfolio among the major asset classes: stocks, bonds, and cash. The term for this is strategic asset allocation, and it entails an annual review to bring your portfolio into alignment with your strategy. Over time, some asset classes perform better or worse than others, causing your actual holdings in each class to be larger and smaller than your strategy calls for.

You can resolve this discrepancy by selling off some assets that grew to be more than the plan calls for and use the proceeds to buy assets that became a smaller portion than they're supposed to be. In this way, you maintain the risk level that's needed to meet your objectives.

But there's another way to go about managing your portfolio that takes a different approach. It's called *tactical* asset allocation and involves making changes in your portfolio to take advantage of emerging up trends in one asset class and avoiding the damage a new down trend in another asset class could cause. If you're successful, you can achieve higher returns than by sticking with your strategic allocation plan.

Notice, however, the word "if." It's extremely difficult even for professional money managers to succeed in tactical asset allocation, and the consequences of being off on your timing can be devastating.

As most financial advisors tell their clients, the best portfolio returns are often achieved not by timing the market, but by how much time your money is in the market. Even though market up trends can last for months if not years, studies show that the biggest returns come in spurts of short periods of time. If you miss these spurts, you could be missing the bulk of the benefits of any upturn.

The table below illustrates the benefits of remaining in the stock market and risks of being out of it, even for relatively short periods of time. It shows returns from a portfolio entirely invested in the Standard & Poor's 500 Index for all 5,038 trading days from the first day of 1997 through the end of 2016, compared to the returns that investor would have had if he/she had been out of the market for its 5, 10, 20, and 40 best days. The differences in returns are striking.

Average Annual Total Return: 1997–2016

Invested…	
All 5,038 days	7.68%
Minus 5 best days	5.49%
Minus 10 best days	4.00%
Minus 20 best days	1.57%
Minus 40 best days	-2.42%

Source: Index Fund Advisors, 2017

What's the main message here? Your best strategy is to invest your money in a diversified portfolio, reallocating periodically to maintain your strategic balance. Need some help with your strategic asset allocation? Please call.

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News and Announcements

From the Flinton Household

"As we express our gratitude, we must never forget that the highest appreciation is not to utter words, but to live by them." ~John F. Kennedy

Thank you. Thank you. Thank you. A sentiment that isn't shared nearly enough. As our firm reflects on the past couple of decades, we swell with pride in thinking of the positive impact we get to make in the lives of so many families. We are incredibly fortunate to work with so many wonderful people, and we feel grateful for the opportunity to continue to earn your business. Your trust and confidence in our firm and the many great people who work on your behalf is something we never take for granted. It is cliché to say that a referral of a friend or family member is the greatest compliment that we can receive; but as a business that has grown due to this very act, we can tell you it truly is a great compliment. So on behalf of the entire Retirement Investment Advisors family, I want to say thank you for your business, thank you so much for the opportunity to continue to serve you and your family, and thank you for giving us the ability to live fulfilling lives by working with you. We appreciate you more than you know.

Wishing you a wonderful month,

Andrew Flinton, CFP®

From the Alexander Household

Fifteen years ago, Kerry proposed at sunrise overlooking Machu Picchu in Peru after a three-day hike. To celebrate our anniversary, we decided to visit the temples in Cambodia, including Angkor Wat. Built over 30 years starting in 1113, Angkor Wat is part of the largest religious complex in the world. Originally a Hindu mountain temple, Angkor Wat was converted to a Theraveda Buddhist monument around the 16th century. There are hundreds of temples spread across more than 400 acres. Our perfect day started watching the sun rise over Angkor Wat and ended on a dragon boat on the Angkor Thom moat at sunset.

We also visited Halong Bay in Vietnam. We spent the night on a boat, kayaked, visited a floating village, and even practiced tai chi at sunrise on the deck. In Thailand, we spent a couple of days on a live aboard dive boat to scuba dive together for the first time. It was magical. We completed an advanced open-water certification that included wreck, night, and deep dives.

We ended the trip in Bangkok with yet more astonishingly beautiful temples and a couple of art museums. The only negative there was the traffic, so we took a tuk tuk (auto rickshaw), ferry, and sky train. We always appreciate the opportunity to learn about other cultures and religions and to see our lives from a different perspective.

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Rudy Household

Both Amy and I have a great appreciation for well-landscaped yards. We notice them on neighborhood walks and when visiting friends and family. However, neither of us are very active in planting or maintaining our own landscaping. I am a bit surprised I don't enjoy it more, since I have many memories helping my mom and grandmother planting and watering.

The past few times my parents came down to watch the girls while Amy and I vacationed, they did some landscaping. The output sure did look nice, but our only goal was to keep the plants and flowers alive until their next visit.

Since those flowers stayed alive, Amy and I decided to take the opportunity to do a little planting on our own. We visited three nurseries and had the SUV full of plants. After I learned the price of the plants, we spent a considerable amount of time asking questions to ensure we were buying the right things according to the amount of sun it would get and the size the plant would become. Some of the plants are like puppies, they look all cute now, but will grow into monsters. After a half day of work, we completed the planting.

While it has only been about a week, we are both checking with each other to ensure everything has been watered. I am looking forward to adding to our landscaping, but next time I'm going to wait for a cooler day.

Chad Rudy, CFP®