THE H GROUP, INC. | SALEM

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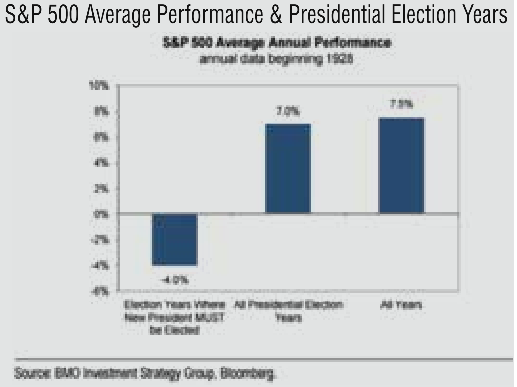
Financial Perspective

Should You Change Your Investment Strategy for the Elections?

This wouldn't be a presidential election year if we weren't frequently asked, "Should I invest now? Wait until after November? Retreat to cash until 2017?" In addition, it seems that everyone wants to know how the election results will affect the stock market. This year is no different, except there seems to be more partisanship and anxiety due to current political developments. Partisans on opposite ends of the political spectrum are predicting doom and gloom if their presidential candidate and political party aren't elected. Even those in the middle are wondering the same and potential changes to and within the Republican party add a new twist to historic data.

S&P 500 Average Performance & Presidential Election Years



Looking at the averages since 1928, presidential election years have produced an average S&P 500 annual gain of 7% versus 7.5% for all years, excluding dividends. In other words, presidential election years have been pretty average.[1]

However, that doesn't tell the whole story. In election years such as this one in which a new president must be elected, the S&P loses 4% on average.[2] The end of the Bush II term, however, greatly skewed this number downward as the S&P 500 Index declined -36.55% in 2008, excluding dividends. Major economic events beyond anyone's control in 2008 were obviously stronger forces on the financial markets than whether or not it was the eighth year of his presidency. ***Take 2008 out of the calculations, and the results are more like a typical year.***

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Our Own Larry Hanslits
Adjunct Professor at OSU

Larry is teaching the taxation section for a graduate level course on financial planning. "Teaching this course has really forced me to sharpen my skills and be at the top of my game," reports Larry. "These students are bright and engaging, and with them in the wings, the future of financial planning looks bright."

Ron Kelemen, CFP® • Katherine Suchan, CFP®
Larry Hanslits, CFP® • Mary Way, CPA, CFP®
Brenna Baucum, CFP®

INSIDE

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Understanding the New Fiduciary Rule for Retirement Plans

By now, you may have heard of the "Fiduciary Rule" published by the Department of Labor (DOL) on April 6. The thrust of the rule is to require that anyone who provides advice regarding IRAs and 401-k rollovers to adhere to the Fiduciary Standard. Previously, this standard for advice applied to only employer-sponsored retirement plans, such as defined benefit pensions and 401-k plans.

The final details are still subject to some back-and-forth with Congress and won't go into effect until January 1, 2018. You will no doubt hear much more about it, so we thought it would be helpful to explain the Fiduciary Standard and provide you some context.

We first wrote about the Fiduciary Standard in our May 2007 issues of this newsletter. We had converted to a fee-only business model a year earlier, and to this day we find that some current and prospective clients don't quite understand what fee-only or the Fiduciary Standard really mean.

Fee-only means fee-only, all the time, for all accounts. Our revenue comes directly from our clients—not from product or brokerage commissions, finder fees, trail commissions, or revenue from related entities. We are fiduciaries, not only for retirement plans, but for all other advice and type of account. In recent years, the distinctions have become more blurred as brokerage firms entered the advisory arena. They often use the term fee-based, which always doesn't mean fee-only all the time (more on this under the Broker-Dealer definition below).

Here are two standards, followed by who must abide by them.

Two standards:

1. **Fiduciary**—*(adj) Involving confidence or trust; (n) held or holding in trust for another.* In the financial world it means putting the clients' interests first. The duty is to the client, not the company.

2. **Suitability**—whether or not an investment recommendation is appropriate (but not necessarily the best) for an individual. This is the more lenient standard to which those in the broker-dealer world are held accountable.

Two types of firms:

1. **Registered investment advisor (RIA)**—a person or firm that is registered with the Federal Securities and Exchange Commission (SEC) or the states to provide investment advice for a fee. *(That's us: The H Group, Inc. is the RIA, and we are Advisory Associates of it.)* The ***Fiduciary Standard applies in all instances***, and full disclosure of all conflicts of interest must be disclosed. RIAs operate on a fee-only basis all the time.

2. **Broker-Dealer**—a firm (typically called a brokerage firm) registered with The Financial Industry Regulatory Authority (FINRA), a self-regulatory organization that governs all business dealings between dealers, brokers and all public investors. Many banks and insurance companies are also affiliated with broker-dealers to sell financial products. Representatives of a broker-dealer sell products and receive commissions and trail commissions, and ***only the suitability standard applies.*** This also applies to in-house inventory and proprietary products manufactured by their broker-dealer. Many broker- dealers also have created related RIA firms so that they can charge fees. When they do, the fiduciary standard applies to that portion of their business. For clients it may be difficult to know which standard is being followed. Advisors who wear multiple hats are often referred to as **fee-based** advisors.

The DOL's Fiduciary Rule is going to require major adjustments for broker-dealers and their representatives in the IRA marketplace. However, they can still continue with business as usual on other business until the Fiduciary Standard becomes the standard for all types of accounts. The RIA firms, such as ours, will have fewer adaptions to make, depending upon the final details of the rule. We'll keep you posted as the Fiduciary Rule is finalized.

Asking the Right Retirement Question

Many people approaching retirement want to know how much of a nest egg they will need to support their retirement goals. ***"What's my number?"*** is the typical question. This is a good question and one we routinely answer for our clients. However, once clients retire, some of them are reluctant to drawn down the sum of money they have accumulated for the purpose of providing retirement cash flow. Others go the other direction and spend too much because they feel rich with a huge amount of money burning a hole in their pockets.

Perhaps the better question to ask is this: ***"What's my paycheck?"*** That is, they should be looking at the income they'll be getting, rather than how they'll be drawing down the lump sum they'll been accumulating. This helps those worried about drawing down their nest egg to focus more on enjoying retirement with a predictable "paycheck" each month, rather than focusing on their account's value. It also forces the big spenders to budget their big ticket purchases and trips, just as they did while still working and receiving a monthly pay check.

The key, of course, is to find the sustainable paycheck to match your "number." We can help you do that.

Should You Change Your Investment Strategy for the Elections?...

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What about after the election?

On average, the first year of a new presidential term sees the markets rise by 6%.[3] That's below the 7.5% average for all years going back to 1928 and excluding dividends, but still a positive signal that the country has survived its latest election drama intact.

Which political party is better for the markets?

Conventional wisdom suggests that Republicans, who are supposedly more business-friendly than the Democrats, would be more beneficial for the stock market. In fact, looking back to

1900, Democrats have been slightly better for stocks, with the Dow up an average of nearly 9% annually when the Democrats were in control, compared with nearly 6% per year during Republican administrations. But normal variations in annual stock market returns dwarf that difference.[4] (See the heading "It's us—not the politicians.")

Is a divided government better for stocks?

Except for the two years following 2010 and 2012 elections, it is not, according to a study by InvesTech that looks back to 1928. When the House and Senate are divided, the S&P 500 averaged just 5.5% for the two year period after an election. When one party controlled the White House and both houses of Congress or just both houses, the two-year post-election averages were greater than 15%.

Our bottom line is this: the financial markets don't mind the election outcome, but they dislike the uncertainty and all the negativity the election season engenders. This year, the uncertainty is greater than usual, so expect more volatility. After the election, things should settle down. **It's us—not the politicians.**

Absent the recessions, there is basically no election cycle. Daily decisions by billions of consumers and businesses worldwide are what drive the economy and ultimately the financial markets. Although public policy and tax structure can affect a company's opportunities and profits, some do better or worse than others regardless of who is president or what the Fed does. On top of all of this, technology marches on, hurting some and helping others. If things were as predictable as election cycles, there would be no risk, and thus no return.

Therefore, if Congress, the President, and political parties could wave a magic wand and control the economy and the stock market they would have done so by now. Don't believe that any candidate or political party has one.

Hopefully you will be alive for another 10, 20 or 30 election years. Let us help you with a long-term diversified portfolio of different asset classes that can withstand good and bad times, pleasant and unpleasant surprises and even an election every two years. Politicians come and go, but life goes on. Kids go to college, people need food, heath care, housing, transportation, vacations, cell service, entertainment, utilities, and retirement income; all this, no matter who is in office.

So, here is our election year strategy: vote with your ballot, not your financial future. Don't bet your portfolio on a certain election outcome.

[1] *Belski, BMO Capital Markets*
[2] *Belski BMO Investment Strategy Group, Bloomberg*
[3] *Stephen Suttmeier, Bank of America Global Research*
[4] *Russ Koesterich, chief investment strategist at BlackRock*

The Team Advantage™

Larry Hanslits, Brenna Baucum, Katherine Suchan, Mary Way, and Ron Kelemen and are independent CERTIFIED FINANCIAL PLANNER™ certificants. They jointly serve their clients as a team with over 100 years of combined experience. They work on a fee-only basis and do not accept any third party compensation or finder's fees. Their practice focuses on wealth planning and investment management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., an independent fee-only registered investment advisory firm with 11 professionals in five offices with over $700 million under active management. For more information about us go to the Who We Are tab at TheHGroup-Salem.com.

About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's and Mary's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is an adjunct professor of financial planning at Oregon State University.

About Brenna Baucum, CFP®

Brenna joined the practice in 2013 and focuses her attention on Social Security and the grey areas of retirement planning. She is a member of the Rotary Club of Salem, the Women's Leadership Group, Salem Young Professionals, the FPA Mid-Winter Conference Committee, and a board member of the Chemeketa Community College Foundation.

About Katherine Suchan, CLU, CFP®

Katherine joined the practice in 2016, following 20 years of experience in Eugene and five in Portland. With the Chartered Life Underwriter (CLU) designation, she has additional expertise in life insurance planning for individuals and businesses.

About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years' experience in banking, business, and finance. She is President of the 185-member Rotary Club of Salem, and like Ron, a past president of the Willamette Valley Estate Planning Council.

About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of *The Confident Retirement Journey.* He is active in Rotary, CASA, and serves as a board member for Capital Manor and the Capital Manor Foundation.

Page 1 photo courtesy of Caren Ann Jackson

Team Update

The spring fundraising season has given us several opportunities to support some of our favorite local nonprofits by sponsoring and participating in their fundraisers. These include the Chemeketa Foundation STARs event and last summer's golf tournament, the Medical Foundation's annual speaker event, the Chamber of Commerce First Citizen's Banquet, Salem Rotary's Good Works auction, and the Liberty House auction. In addition, we volunteer for several non-profits and supported a number of cultural organizations by purchasing ads for their programs.

Michelle traveled to Denver for her stepfather's funeral. Not a fun trip, but she was glad she went. She also got to watch her sister graduate from Humbolt State University in Northern California.

Debbie was as busy as ever during tax season. She spent a week in North Carolina while attending her niece's graduation from UNC at Chapel Hill.

Katherine worked with our software developers to get our client relationship software customized to suit the way we track all activities and serve our clients. She and husband Duane's home in Eugene sold quickly and now they are shopping for one in Salem.

Brenna received the Financial Planning Association's CFP® Scholarship and later was featured in April's FPA member spotlight. She also spoke at the Rotary District 5100 Training Assembly, presenting to others on ways to attract and retain the next generation of Rotarians. Her garden is thriving. As you read this she will be visiting a dear friend in DC.

Larry, along with Brenna, Mary, and Ron attended the two-day FPA Mid-Winter conference in Portland. He is teaching a graduate level course on taxation at Oregon State University. As busy as he and wife Laurie were, they still managed a Mother's day weekend in Seaside, played lots of golf, and got their garden planted.

Mary is wrapping up a successful year as President of the 188-member Rotary Club of Salem. She calls this a "time consuming, but very rewarding, commitment." In March, she attended her step daughter Emily's wedding in New York with two young grand children in tow.

Ron had a good snowboarding season and an early start on bicycling. He and Kathy participated in three Airstream rallies and traveled to New York for the US citizenship swearing in ceremony of their former exchange student from Uzbekistan. It was quite an emotional experience and you can read about it in their blog: Ron & Kathy's Mid-Life Adventures.

Financial Perspective

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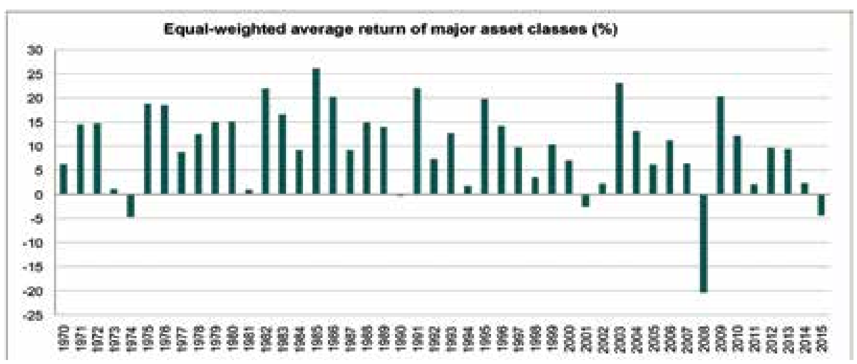
Diversification vs Asset Allocation–
Which Makes a Better Cake?

Our clients and other readers of our newsletter know that we are big proponents of diversification, which basically means spreading your eggs into different baskets to reduce risk in an ever-changing investment world. Since 1970, a portfolio of 10 equally divided asset classes would have had an average return of 9.82%.

In a rising market where one particular asset class does extremely well, a diversified portfolio will lag because not everything in it is going up as fast and some things may be going down. This was especially true in 2015 when a portfolio of 10 equally divided asset classes declined -4.3%, yet the S&P 500 had a modest gain of 1.2%, including dividends. This was the worst decline since 1974, except for 2008. Then, however, the decline of a diversified portfolio was (only) -20.35%, far less than the S&P's decline of -36.55%.



Source: Morningstar. Asset classes represent equal weightings of the following 10 indexes: Ibbotson 30-Day T-Bill (Cash), Barclays US Government (US Government Bonds) , Barclays US Credit (US Corporate Bonds), Barclays US Corporate High Yield (High Yield Bonds), Citi WGBI Non-USD (Foreign Bonds), S&P 500 (US Large Cap Stocks), Russell 2000 (US Small Cap Stocks), MSCI EAFE (Foreign Stocks), FTSE/NAREIT Equity REIT (US REITs), S&P GSCI (Commodities). If a particular index did not have a sufficient track record back to 1970, a representative index of similar risk/reward characteristics was used.

Diversification is often confused with asset allocation, which is a type of diversification. Asset allocation places more emphasis on the mixture of assets rather than whether to own Stock Fund A or Bond Fund B. Using mathematical models, it attempts to pair assets that zig when the other zags. Many asset-allocated portfolios (including ours) didn't decline as much as an equally diversified portfolio would have in 2008 and 2015 because of the attention paid to the mix of asset classes.

Think of baking a cake. If you added equal amounts of flour, sugar, water, vanilla extract, cocoa powder, eggs, and baking powder, you'd have a huge mess in your oven. A good cake recipe is a careful weighting of ingredients. When we use the term "diversified," we really mean a carefully constructed portfolio using asset allocation principles.