



You Don't Need Perfect Knowledge To Invest Well

If you had the power to predict which one of 12 types of investments representing a wide range of assets was going to be No. 1 every year for each of the 15 years from 2002 through 2016, you would have averaged a 29.9% annual return.

Of course, no one has the power to predict which investments will be No. 1 every year. Surprisingly, accepting that you cannot predict the future and maintaining equally-weighted positions in the same 12 types of investments in the same period averaged a 7.5% annual return with less volatility.

again, and you would have had to do that annually for 15 years to average a 30% return.

It's obviously totally unrealistic to have expected this. It would take a miracle to pull this off!

However, even more miraculous is that common sense, an understanding of the history of investing, and rebalancing annually, achieved an annualized total return of 7.5%, and that may be enough to achieve your financial goals in life.

This approach to investing is grounded in a large body of academic research developed over the past 70 years,

Thanks Colleen Hello Erin

With the birth of her second grandchild in August, Colleen has decided to trade her calculator for a pacifier and retire at the end of 2018. We're going to miss Colleen and wish her the best in retirement. It speaks volumes about her financial planning skills that she's able to retire in her early 60s. Thanks Colleen and remember, I know where you live!

While Colleen's planning wisdom will be missed, we've hired an excellent replacement to carry on our strong financial planning platform. Erin McCloskey, our new Senior Wealth Manager, started in August and has already made her presence felt at SWM. As a Certified Financial Planner with an MBA from Regis University, Erin has hit the ground running and is working closely with Colleen to ensure the transfer of intellectual capital and client knowledge.

Erin comes to us from First Western Trust where she honed her skills as a financial planner and portfolio manager. SWM is excited to add a fresh perspective to our firm and Erin is excited to be able to offer the level of personalized service only a small, privately-owned firm like SWM can. Please welcome Erin to the team at your next meeting.

Our goal is to make the transition as seamless as possible. SWM is committed to maintaining the highest level of client service and we look forward to continually earning your trust as an independent, fee-only Registered Investment Advisor.

If You Had Perfect Knowledge And Picked The Top Asset Class Annually

29.88% Annualized, 2002 Through 2016

Year	Large U.S. Stock	Midcap U.S. Stock	Small-Cap U.S. Stock	Developed Non-U.S. Stock	Emerging Non-U.S. Stock	REIT	Natural Resources	Commodities	U.S. Bonds	TIPS	Non-U.S. Bonds	Cash
2002	(22.12)	(15.77)	(14.63)	(15.61)	(6.00)	7.88	(13.00)	22.01	10.25	16.57	19.59	1.65
2003	28.39	35.20	38.79	38.45	56.28	38.96	33.63	25.56	4.10	8.40	14.78	0.90
2004	10.75	16.14	22.65	19.75	25.95	33.80	24.24	36.38	4.34	8.21	10.33	1.11
2005	4.79	12.17	6.20	13.39	34.54	12.00	35.79	27.83	2.43	2.65	(6.66)	3.01
2006	15.69	10.05	19.40	26.00	29.53	35.20	16.30	11.47	4.33	0.29	6.44	4.88
2007	5.39	7.64	(6.96)	10.97	39.05	(16.38)	33.82	31.34	6.97	11.46	10.57	5.14
2008	(36.97)	(36.38)	(31.99)	(43.14)	(52.77)	(36.98)	(42.78)	(30.80)	5.18	(2.52)	4.41	2.77
2009	26.42	36.87	30.52	31.41	76.28	29.76	36.92	15.08	6.03	11.38	6.51	0.53
2010	14.93	26.17	24.97	7.52	18.99	28.44	23.23	11.86	6.51	6.10	4.13	0.06
2011	2.06	(1.99)	(4.05)	(12.18)	(18.68)	8.62	(7.81)	(2.71)	7.72	13.40	3.60	0.04
2012	15.84	17.58	18.78	17.22	18.84	17.67	1.71	3.31	4.04	6.80	5.85	0.04
2013	32.21	33.08	36.57	22.62	(5.00)	2.42	15.89	(7.57)	(2.15)	(8.65)	(3.66)	0.02
2014	13.53	9.42	10.55	(5.04)	0.60	30.29	(10.21)	(28.18)	1.32	(1.17)	8.83	0.01
2015	1.34	(2.40)	(4.67)	(0.90)	(15.35)	2.36	(24.52)	(18.64)	0.92	(0.15)	1.08	0.05
2016	11.80	20.33	24.80	0.96	11.75	8.53	30.13	4.27	1.42	2.69	4.67	0.33

Past performance is not a guarantee of your future results.

Source: Dr. Craig Israelsen

To be clear, to get that 29.9% return every year from 2002 through 2016, you would have had to invest 100% of your portfolio in the No. 1 asset class on January 1 and held it until the end of the year, and then bought the coming year's leader. The yellow boxes highlight the No. 1 asset classes in each of those 15 years. On January 1, 2003, you would have had to choose which one of the 12 types of investments would be No. 1

generally called "modern portfolio theory." It's an approach we believe has merit, and it is very different from trying to predict the future or picking next year's No. 1 performer.

The lesson here is that you do not need perfect knowledge to succeed financially in life. You do not need a miracle in your portfolio. Sticking with a

(Continued on page 4)

Sidestepping New Limits On Charitable Donations

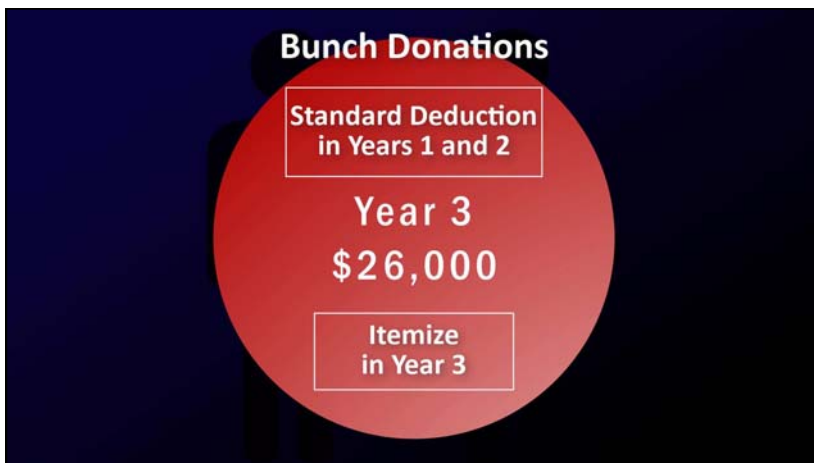
If you think you're no longer allowed to deduct items like charitable donations on your income tax return, think again.

The new tax law doubled the standard deduction, slashing the number of Americans eligible to itemize deductions from 37 million to 16 million.

However, if you are among those who will lose your ability to deduct charitable donations, there is a simple strategy for managing the new limits on charitable giving, and it enables you to continue doing good while doing well for yourself by reducing your tax bill.

The strategy is simple: bunch a few years of donations into a single tax year instead of making them annually.

Rather than report charitable donations on your tax return every year, you bunch two or more years of contributions into a single tax year — enough to boost the charitable total



above that year's standard deduction.

Say you're married and you give \$10,000 in Year 1, \$6,000 in Year 2 and \$10,000 in Year 3. Your \$26,000 total

limits without losing the tax benefits.

And if you can plan to make the larger donations in a year when you expect higher income, bunching

charitable donations can be even more effective in lowering your tax bill.

We'll be speaking with clients about this in the months ahead because this tactic does take some planning in advance.

If you have any questions about your personal situation, please do not hesitate to give us a call. ●



Five Retirement Questions To Answer

How much money do you need to save to live comfortably in retirement? Some experts base estimates on a multiple of your current salary or income, while others focus on a flat amount such as a million dollars. Either way, the task can be daunting.

But there is no magic formula and every situation is different. What's more, your definition of "comfortable" could be different than someone else's. Maybe a better approach is to answer these five basic questions:

Q. What will your expenses be?

It's almost impossible to figure out what you need to save if you don't know what you'll be spending. Draw

up a monthly budget based on what you think might happen. If you downsize your home or won't have to spend as much on clothes as you do now, you may spend somewhat less in retirement. But you also might travel more and make greater outlays for leisure pursuits. Just don't expect your expenses to be dramatically lower in retirement than they are now.

Q. How long will your nest egg have to last?

This requires you to analyze several factors, including your age, medical condition, and family history. No one can predict the future, so it's usually best to plan for the

worst and hope for the best. And with life expectancies on the rise, it becomes easier and easier to outlive your savings.

Q. How are you investing your savings?

It's not just how much you save that counts, it's also what you do with that money. If you invest wisely, reflecting your personal comfort level with investment risk, you may be able to stretch your savings longer. Of course, no one knows for sure how the markets will perform, but the independent research firm Morningstar projects that savings of about \$1.18 million invested at 6% annually (with a

Economic Facts To Prepare For The Elections

With the mid-term elections approaching and the political stakes increased, the level of misinformation on economic conditions is likely to rise.

To avoid making bad financial decisions based on distortions and outright lies constantly on TV news, here are economic facts to survive the political season.

As the election nears, you are likely to hear on TV the news that Americans are suffering from slow growth in wages and personal income. That's just not true!

Wages and benefits, the key drivers of the U.S. economy, grew at a 4.4% annual rate. Consumers have more money in their pockets!

Meanwhile, the interest and dividends portion of personal income surged 6.4% in the 12 months through July 2018 — welcome relief for retirees.

Disposable personal income, before inflation, grew 5.3% in the 12 months ended July 2018.

That equals the rate of growth in personal disposable income in the last economic expansion!

Yet politicians and pundits across the political spectrum often bemoan stagnant wages and income.

Real disposable personal income per capita grew by 2.2% in the 12 months

ended July 2018, compared to the 1.8% five-year annualized growth in the peak of the last economic expansion.

You're also likely to hear more talking heads on TV news saying inflation is rearing its ugly head again.

They're not lying but they're often not giving you all the facts.



A key inflation index that U.S. central bankers at the Federal Reserve consider in deciding interest rate policy, the Personal Consumption Expenditure Deflator, poignantly is doing what's expected by policymakers.

The Fed chair, according to the minutes of the Federal Open Market Committee meeting recently released, expects inflation to hover around 2%.

It may go above 2% for a time and that is expected. But it may also go slightly below 2%.

Meanwhile, at 2.3%, the PCED deflator is above the Fed's target of 2%,

but the Core PCED, at 2%, is right on target — and that is the key figure.

The core PCED is a basket of fixed monthly expenses that excludes gasoline and other volatile expenses.

It's all about long-term expectations, which is how you want the Fed to think if you're an American investor.

The cost of an employee in the U.S. rose 2.8%, but core PCED grew only 2%. That means employees are getting wage increases because the cost of an employee rose, but the core inflation rate did not reflect the rise! That's a free lunch!

Productivity surged in the second quarter of 2018, which explains why inflation did not rise as fast as wages and benefits, and that's about the best thing you could hope for: increased productivity.

Unit labor costs declined! The cost of an employee went down!

Rising wages and benefits were offset by a 2.9% surge in productivity!

Productivity is a key to prosperity for the American economy.

Labor costs, by far the biggest driver of inflation, declined in the second quarter by almost 1%.

This was a reflection of the surge in second-quarter productivity.

The University of Michigan's monthly survey of confidence dropped from 97.9 in July to 96.2 in August. No irrational exuberance here.

Consumers are not about to go on a debt binge, stop saving, or make speculative investments.

Which brings us to the Standard & Poor's 500 stock index.

Despite a looming trade war with China, U.S. political polarization, and a Presidential political crisis, the economy is great, according to shareholders in America's largest publicly-owned companies.

As the current expansion closes in on the post-War record for longevity, investors can expect the coming elections to stir up the false narrative of stagnant wages and slow income growth. Don't believe it. ●

2.5% inflation rate) will provide annual income of \$40,000 for 30 years. Naturally, your needs may differ.

Q. How will taxes affect your investments?

Don't forget to factor future taxes into the equation. Long-term capital gains currently are taxed for most people at a 15% rate, while those in the top ordinary income tax bracket pay 20%. But income from some investments—including municipal bonds and muni bond funds—is exempt from federal income tax. Also, remember that the tax law requires

you to start taking minimum distributions from most retirement plans after age 70½.

Q. What can I do now to avoid problems?

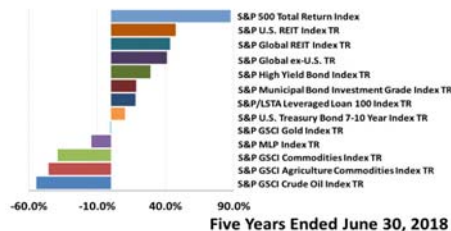
If you're still working, you could boost your savings, utilizing tax-advantaged retirement accounts such as 401(k) plans. The compounding of the money inside your plan can help you catch up in meeting your retirement goal. In addition, you might consider postponing your retirement until you've saved enough. ●



Market Data Bank: 2nd Quarter 2018 ^ψ



CORRECTION, RECOVERY, FRACTIONAL LOSS
Stocks gained a very robust +14.4% over the 12 months ended June 30, 2018, despite February's -10% correction. Stocks had melted up in January 2018, on euphoria following the 12/22/17 passage of the new tax code. Stocks in 2Q 2018 returned to their winning ways, with the S&P 500 posting a +3.4% total return.

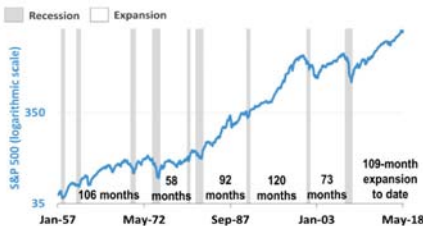


INDEXES TRACKING 13 ASSET CLASSES
It was a great five years for U.S. stocks! A dollar invested in American blue-chip shares grew to \$1.88 — more than twice the return of foreign stock markets — in the five years ended 6/30/18. U.S. stock market returns were explosive relative to this broad array of indexes representing 13 distinct asset classes.

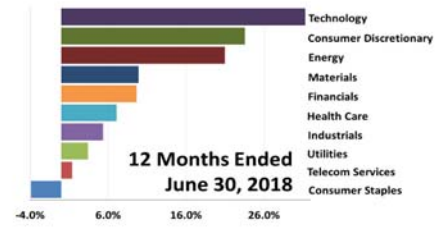
Past results may not indicate future performance. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign Investing involves currency and political risk and foreign-country instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more established markets, such as risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments.



STOCKS NEARLY DOUBLED IN FIVE YEARS
Over the 10-year period ended 6/30/18, the S&P 500 total return index gained +163%. From the financial crisis share-price bottom on March 9, 2009, the S&P 500 total return index through June 2018 gained +389%. It's the second-longest bull market in post-War history and becomes the longest in July 2019.



APPROACHING THE LONGEST BOOM
At 109-months old, this is the second-longest expansion in modern U.S. history, surpassing the 106-month long expansion of the 1960s, and just 13 months shy of the 120-month boom of the 1990s — the longest ever. With fundamentals strong, this is likely to become the longest boom in modern history.



SECTORS SHOW GROWING APPETITE FOR RISK
For the 12 months ended 6/30/2018, the technology sector again was the leader, as it was a year earlier. The laggard sectors — consumer staples, telecom and utilities — are more defensive and less volatile. With economic fundamentals strong, an appetite for risk grew.



FED PLANS INTEREST RATE HIKES
Contrary to popular belief, there is no historic evidence that rising bond yields are bad for stocks. In fact, many episodes of rising bond yields have coincided with a bull market in stocks. Also, the stock market has done just fine when the absolute level of bond yields was much higher than today.

Perfect Knowledge To Invest

(Continued from page 1)

plan for the long-term that is not based on miracles but, rather, on moderation, may be enough to pay for all you need in life.

Withdrawing money from leading investments and deploying it in lagging types of assets to reset a portfolio back to equilibrium at the end of every year, lowered the risk of this portfolio and returned enough to enable financial independence.

It's counterintuitive but those are the facts. The data is from Dr. Craig Israelsen, an expert of low-expense portfolio design, whose research we license to share with you. Of course, past performance is not a guarantee of your future results and diversification neither assures a profit nor guarantees against

loss in a declining market. Nor is a quantitatively-driven discipline infallible.

However, with stocks appreciating sharply in 2017 and early 2018, be sure you are rebalancing properly. You can call on us for prudent portfolio management based on economic fundamentals and quantitative analysis or with any questions about your portfolio. ●

US Large Cap represented by S&P 500 Total Return Index. US Mid Cap represented by S&P MidCap 400 Total Return Index. US Small Cap represented by S&P Small Cap 600 Total Return Index. Non-US Developed represented by MSCI EAFE Index NR USD. Emerging repre-

sented by MSCI EM Index GR USD. Real Estate represented by S&P Global REIT Index TR USD. Natural Resources represented by S&P North American Natural Resources Total Return Index. Commodities represented by Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Excess Return. US Bonds represented by Barclays US Aggregate Bond Index TR USD. TIPS represented by Barclays US Treasury US TIPS Index TR USD. Non-US Bonds represented by Barclays Global Treasury Index TR. Cash represented by USTREAS Stat US T-Bill 90 Day TR.

Perfect Knowledge Vs. Broad, Quantitative Portfolio Returns, 2002 Through 2016

Portfolio Strategy	Average Annual Return	15-Year Standard Deviation	Realistic?
Perfect Knowledge	29.88	18.68	No
Broad Quantitative Diversification	7.51	12.98	Yes

Past performance is not a guarantee of your future results.

Source: Dr. Craig Israelsen