A Compendium on Achieving Financial Independence

EnRich Financial Partners

ALIGNING YOUR MONEY WITH YOUR LIFE

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The Beauty of Optimism and Principles

2016: The Year the Optimists Ran the Table

Recapping 2016 is a lesson in market behavior and how optimism is the only realism when it comes to long-term investing. The year began with "the worst six weeks in stock market history" with the S&P 500 declining more than 12% through February 11th. This came on the heels of a rather difficult 2015 where markets around the world generally peaked in May of that year with many declining more than 20% and emerging markets in particular having declined more than 37% before recovering somewhat by year-end 2015. Then without any flashing buy signal in February 2016, the S&P 500 proceeded to advance more than 25% through year-end 2016—finishing the year with a total return of over 11%. The tectonic market shifts of last year are nothing more than the tug-pull relationship that always exists in markets between fear/pessimism and faith/optimism. We say: the rationally optimistic beliefs and behaviors that we convey and encourage investors to follow are simply our rational observation and study of history. The declines of a globally diversified portfolio have always been temporary while long-term advances have always been permanent.

Given that belief and how keeping the faith reaped tremendous rewards rather than permanently damaging one's financial future, we thought sharing a few words about our general principles would be in order.

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General Principles

It is always worth restating the bedrock of our philosophy and advice. With few exceptions, our experience has been that successful investing is goal-focused and planning-driven. We have observed that most failed investing was market-focused and performance-driven. Simply put, the really successful investors we've known over our careers were acting continuously on a plan. This sounds simple-and it is-but it is in no way easy. Continuously tuning out the fads and fears of the moment has proved very successful for our investors, while the ones that stumbled were reacting randomly to economic and market "news."

Nearly all of our clients are working on multi-decade and many times multigenerational plans toward such great goals as education, retirement, and legacy. Given the importance of these values and the longevity of those goals, current events in the economy and the markets are only a distraction. For this reason, we make no attempt to infer an investment policy from

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today's headlines, but rather align clients' portfolios with their most cherished long-term goals. The byline in our company logo is "aligning your money with your life," and we mean it.

We don't forecast the economy. We have opinions, like anyone, about what the future may hold, but we do not time markets. We cannot—nor, we are convinced, can anyone else—consistently project future relative performance of specific investments based on past performance. In the fewest possible words, we are planners rather than forecasters. Our experience has taught us that our highest-valued services are planning and continuous encouragement to our clients to avoid overreacting to market events both negative and positive.

These past 20+ years of experience have also taught us these four essential principles of portfolio management in pursuit of our clients' most I mportant goals: 1) The performance of the portfolio relative to a benchmark is largely irrelevant to financial success. While we seek to produce strong returns for all our client accounts, we also recognize that the preponderance of a portfolio's return comes from the underlying return of the various asset classes. Over long periods of time, those with higher levels of stock exposure have higher returns than those with lower stock exposure. The best performing bond fund investment over a 20+ year horizon will almost inevitably have a lower total return than a middling stock fund. 2) The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals. 3) Risk should be measured as the probability that you won't achieve your financial goals—not the fluctuation of your portfolio. 4) Investing should have the sole objective of *minimizing that risk* to the greatest extent possible. Most investors are only given two choices. They can elect to have low fluctuation of their portfolio with low return invested in cash/bonds in exchange for a high level of uncertainty that their portfolio will be able to meet all of their lifetime increasing income needs. Or, they can elect to have a much higher fluctuating portfolio invested with a significant exposure to stocks with the higher historical long-term returns in exchange for the much lower level of uncertainty that their portfolio will not meet their lifetime income needs. For most investors that are planning for a 20-30+ year retirement, the latter choice is the "less risky" option.

Once we and the client family have put a long-term plan in place and funded it with the investments historically shown to be best suited to its achievement, we rarely recommend changing the portfolio allocation, except to take advantage of pricing offered to us from market panic. In a nutshell, our principle is: if your goals haven't changed, don't change the portfolio. Our observation is that the more often people change their portfolios, the worse their results are.

Since 1980, the average annual intra-year decline in the S&P 500 has exceeded fourteen percent. Yet even without counting dividends, annual returns have been positive in 28 of these 37 years and the index has gone from 106 at the beginning of 1980 to 2238 at year-end 2016, excluding the reinvestment of dividends. We believe the great lessons to be drawn from these data are that—historically at least—temporary market declines have been very different from permanent loss of capital, and that the most effective antidote to volatility has simply been the passage of time. We cannot predict that it will always work out this way; we can only have faith that free markets and human ingenuity will continue to manifest themselves in higher stock prices.

The nature of successful investing is the practice of *rationality under uncertainty*. We can never have all the information we want about what's about to happen, because we invest in and for an essentially unknowable future. Therefore, we practice the principles of long-term investing that have most reliably yielded favorable long-term results over time. We plan based on a rational optimism from experience, observation, patience, and discipline. These will continue to be the fundamental building blocks of our investment advice in 2017 and beyond.

The Beauty of Optimism and Principles

In closing, we would be remiss if we didn't express our sincere gratitude for the trust you've placed in our firm. We know that having faith in us and our principles are not small requests. We continually try to act with integrity in helping you meet your most cherished goals. If you ever experience any doubts about your plan or our counsel, please let us know. We will always sincerely listen to your concerns and provide a compassionate and thoughtful response. Your success is our greatest ambition.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value-weighted index. The Russell 2000 Index measures the total return of small capitalization U.S. stocks and is a market value-weighted index of the 2,000 smallest stocks in the broad-market Russell Index. The MSCI EAFE is a Morgan Stanley Capital International Index designed to measure the total return of the developed stock markets in Europe, Australasia, and the Far East. The MSCI EM is a Morgan Stanley Capital International Index designed to measure equity performance in global emerging markets. The S&P 500, Russell 2000, EAFE, and EM are unmanaged indexes. One cannot invest directly in an index. Past performance does not guarantee future results.