Empowered Future Report
Short term thoughts about long term matters

February 4, 2017

Quote of the Day:

"We must all suffer one of two things: the pain of discipline or the pain of disappointment" – Jim Rohn

Movie Invitation – "The Moneychangers" on March 9th

In lieu of our quarterly workshop, we scheduled a special showing of "The Moneychangers: Shylock's History of Moneylending"- 6:30pm on March 9th at the Chez Artiste Theatre. Mike will be moderating Q&A with an expert panel afterwards. The film includes interviews with leading financial figures, former heads of FED and FDIC, economists, bankers, Wall Street insiders, and man-on-the-street to provide a provocative, informative, and objective investigation of this controversial, largely misunderstood topic. Please RSVP soon as ALTIUS clients get initial preference for this showing but others will be invited and we don't want you to lose your spot.

Party Like It's 19,999

The Dow Jones Industrial Average finally closed above 20,000 for the first time last month and, given how we're prone to thinking in such round milestones, many in the media are hyping it as a bullish sign and that we'll continue the upward movement in financial markets that's surprised most people since the election. Keep in mind that the DJIA is only 30 stocks and not always a good representation of how the broader market or economy is doing. But the S&P 500 and the Nasdaq are also at or near their all-time highs and so I thought I'd just remind you that while we were happy to get very solid or better returns last year, we believe it's crucial to keep an eye on valuations. The higher price you are willing to pay for any particular asset means the lower the overall returns will be on that asset for the future.

Obviously, one of the themes this year is how the Trump administration will impact the economy and markets and we're watching such political developments closely. As I always say, policy does make a difference but in my view, the big driver will continue to be valuations and Fed policy. Central banks around the world have painted themselves in a corner with historically low interest rates and stimulative measures, so fiscal policy will likely now have a bigger impact. Bonds have been falling lately given the expectations of higher growth and inflation while stocks seem to be buoyed by Trump's pro-growth/tax reform rhetoric. As I've told many of you, from all sides of the political spectrum, my thinking is that Trump could be great for the economy if he is successful with half of his policies – as long as it's the right half! I do believe we'll experience higher volatility given the sort of unpredictability of policy right now.

I'd also point out that judging market performance by presidencies is generally unproductive. The stock market is an inherently long-term instrument with underlying securities that necessarily pay out their cash flows over decades. The presidency itself is an inherently short-term and coalescing series of terms whose existence cannot be properly judged within the time frames we apply to it. We like to attribute events to certain presidents because it makes for convenient political narratives, but when viewed through a more objective lens, it becomes clear that you can't easily separate one presidential term from the next. As we continue the new year, you are likely to be bombarded by political narratives about the next four years. These stories should not be ignored but weighed in proper context since they often have to do someone selling from an ideological bias. While such narratives can be appealing, they often result in a misalignment of one's risk profile with their underlying asset allocation.

Given the current valuation levels and potential volatility, we are revisiting our models and, perhaps more importantly, each of our clients risk tolerance. One of the checklist items we're using in client review meetings is making sure we look at your Investment Policy Statement (IPS). The IPS is not a contract but more your broad instructions to ALTIUS as to what your risk/return expectations are. If we haven't reviewed yours in a while and you are concerned about volatility, usually it's volatility on the downside – no one minds when their investments spike quickly upwards – we should take a look at it and be sure it's in alignment with your goals and timeframes. Also, while it's not perfect, our Riskalyze Questionnaire does help in narrowing down the appropriate model for you so let us know if you'd like to take that again.

TD Ameritrade National Conference Notes

I'm finishing up this newsletter in San Diego where I've been for the last few days attending TD Ameritrade's National Conference. While there are always great sessions and insightful workshops on practice management, growth, compliance (and plenty of firms marketing investment solutions they want me to put in your portfolio) my main focus this time was to research and vet some of the technology options we're considering this year. Most of these are behind the scenes tools to make us more efficient but that can give you a better client experience as well. Right now we have a combination of best in class tools (our My Empowered Future platform powered by eMoney, TD's Veo trading/account management platform, Morningstar Workstation, etc.) along with, frankly, a couple of workhorses that have served us well but are now a bit dated. For you software people, you know the holy grail is *integration,* where all the tools seamlessly pull together, but this can be illusive. It now seems like there truly are some excellent options and I'll keep you up to date on how we're moving forward.

Two of the best presentations at the conference were the keynote speeches by David Cameron (former Prime Minister of the UK) and Salim Ismail (author/consultant on disruptive technologies and co-founder of Singularity University). Cameron spoke candidly about his referendums – the success with Scotland and the failure, for him, of Brexit – along with insightful commentary on the US election and President Trump. I say insightful because I agreed with much of what he had to say ☺, namely that the argument for free markets and globalism (the good kind: trade and tolerance, not the bad kind: loss of sovereignty and centralization....all obviously my characterization) have to be made again and in a more thoughtful and compelling way. I also thought he had a fair assessment of the American people, the strength of our economy and our leadership in the world as well as a balanced and open approach to Trump.

One of the best parts of his presentation was the story he told about weekly meetings with Queen Elizabeth who has met and had relationships with fully a quarter of all US Presidents. It was quite humorous to hear him sheepishly explain how he'd prepare to explain what was going on with Britain and the world but go in knowing that she'd likely heard it all before.

Salim Ismail gave a really thought provoking talk about how various technologies are changing the world at such a fast pace that many of us are not prepared for it. He provided fascinating examples such as how impressive Artificial Intelligence is becoming and being incorporated into a multitude of future products. Whereas a few years ago, when IBM's Watson beat the best chess players in the world, we now have AI that is actually beating people at poker. Chess is mostly logical with lots of strategy options but poker is where emotions and bluffing play a much larger role so we now have computers that can sense, adapt and lie or bluff. He also showed what happens with the exponential improvements in information with mostly positives such as marginal costs to production going to almost zero and the actual domain or market itself exploding. While this creates more and more abundance, humans aren't always prepared for such abundance and can be thrown off with the way they define their challenges shifting entirely. I re-read this paragraph and think, geez it's way too abstract but I hope gives you a sense for what he was talking about. In a nutshell, these newer technologies can be really scary at first but most of what I took away was that our world will continue to improve because of such innovation and it will provide great investment opportunities.

Client Satisfaction Survey

We prepared a survey to determine what factors you value most from us and how we're doing in providing them. We take your feedback seriously and want to foster a culture of continuous improvement, realizing we do some things well and wanting to grow in those that could use some work. If you have already completed this survey, thank you for your feedback! If not, please take a few minutes to let us know how we are doing and how we can improve. You can find the survey here.

Tax Documentation and Timing

We wanted to give you an update on the tax information you'll be receiving from TD Ameritrade (TDA).

1. For clients who have **retirement** accounts (IRAs, Roth IRAs, 401(k)s, 403(b)s, etc), you will receive a 1099-R only if you took a distribution from your account at TDA during 2016. If you did not take a distribution from your retirement account in 2016, you will not receive a 1099-R. All 1099-Rs were mailed out by January 31st, so if you took a retirement distribution last year, you should have received your 1099-R or be getting it shortly.

2. For **non-retirement** accounts (Individual, Trust, TOD or Joint), you will also be receiving a separate Consolidated 1099 (1099-B, 1099-DIVs, and 1099-INT). These will be mailed by February 15th, so you should expect to receive it by February 21st, or thereabouts. (Feb 15th is the date all firms have to mail 1099s for taxable accounts.) As they did last year, TD Ameritrade will include advisory fee information in the Consolidated 1099. This information will be on a separate page labeled *"Fees & Payments Received*" and will appear after the required tax information. Note that advisory fees incurred in your taxable account may be deductible but that fees in IRA and other retirement type accounts are *not* deductible for tax purposes.

3. If you have online access to your TD Ameritrade (TDA) accounts, the 1099s will also be available online under the *Account Documents* tab. If you have not received your hard copy by February 21st, and you don't have online access to your accounts to download one, we can send you a duplicate copy.

4. IRS Form 5498, which reflects retirement plan CONTRIBUTIONS, are not mailed by any custodian until May 31st. (This allows time for custodians to report IRA contributions made up until the April 15 deadline.) However, current year *and* prior year IRA contributions are shown on monthly TD statements so any 2016 or 2017 IRA statement should show the amount of your 2016 IRA contributions if you made one. If you think you made a retirement plan contribution for 2016 but aren't sure of the amount and don't have access to a monthly statement, please contact us and we will be happy to provide you with the amount.

5. Just a reminder that cost basis information (i.e., how much you paid for an investment) is now required to be shown on the 1099-B statement itself, so in most cases, you should not need to provide any additional cost basis information to your accountant or tax preparer other than providing them with the Consolidated 1099, which includes the 1099-B.

We hope this message along with the information you receive from TD Ameritrade provides you with all you need to prepare your taxes. If you have any questions or are unsure about anything, feel free to email or call our office.

I know this newsletter was long and appreciate your patience if you were able to make it through everything. I read a ton and have great opportunities to hear some very interesting ideas and so my goal is to be a conduit to you, our clients and friends, of such information. In that regard, I'm experimenting with some new formats and ways of curating such information so that it can be more consistent and targeted. We've had Facebook, LinkedIn and Twitter accounts for awhile and part of our experimentation will be to take advantage of these platforms. I'll keep you posted on how all this goes but look for some changes in our newsletter and social media strategy and please give us feedback.

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