Williams, Parsons & Schiller

FINANCIAL ADVISORS, LLC

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2nd Quarter Review

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As we look back at the second quarter, several events — political and otherwise — affected the markets. These events included France's election of a new president; President Trump's release of a proposed tax plan; and Britain's election, in which the prime minister's party lost seats in Parliament. But arguably, the factor that had the greatest impact on the market, across multiple asset classes, was the sharp decline in oil prices. The spot price dropped from $50.54 per barrel to $43.24 per barrel (a drop of more than 14 percent), according to the U.S. Energy Information Administration. The change in price is likely due to excess oil supply, especially in the United States, where the number of oil rigs has increased for 22 consecutive weeks.

These lower oil prices have had the effect of a tax cut for Western consumers, which helps explain the strong performance of equities in the second quarter. U.S. equities returned 3.1 percent (S&P 500 Index), non-U.S. developed markets returned 6.1 percent (MSCI EAFE Index) and emerging markets returned 6.3 percent (MSCI Emerging Markets Index).

Source: BAM Alliance *Returns as of 6/30/17*

Index Name	3 Mo. Return	1 Yr Return
S&P 500 (US Largo Co)	3.1%	17.9%
S&P 500 Value	1.5%	15.9%
S&P 600 (US Small Co)	1.7%	22.5%
S&P 600 Value	1.3%	21.8%
MSCI EAFE (Intl Index)	6.1%	20.3%
Bloomberg Commodities	-3.0%	-6.5%
Dow Jones US Real Estate	1.6%	-2.4%
Barclays Intermediate Bond	0.9%	-0.2%

Lower oil prices can also mean lower inflation. Indeed, we see the market today forecasting lower inflation than it was three months ago. Lower inflation means that prices for goods and services will rise at a slower rate, but it also translates to lower nominal bond yields: The yield on a 10-year Treasury note decreased from 2.39 percent to 2.31 percent. At the end of the first quarter, the difference in yield between a 20-year nominal Treasury note and a 20-year inflation-protected Treasury note was 2.0 percent (this is called the breakeven inflation rate, or the market's best guess at inflation over the next 20 years). At the end of the second quarter, the breakeven inflation rate had declined to 1.8 percent.

We try to focus on the economic data as much as possible, while still paying attention to the political and geopolitical environment. At the present time, the U.S. economy is tracking in a positive direction. Europe is also starting to look good, with better valuations than the U.S. at present. Predicting any one sector is difficult, however, which is why we preach diversification and a portfolio that is appropriate for your individual ability, need, and willingness to take on investment risk.

The Value of Experiences

"Save more to meet your financial goal" may seem like a common refrain from advisors, but it can also lead to the perception that financial advice will always gravitate toward "no" when it comes to spending questions. That's why we want to remind you that a vital part of our role is helping you feel confident in the decision to pursue the experiences most important to you. We should all live life to the fullest. Focus on making memories. After all, your financial plan is firmly predicated on your values, and that means funding the experiences required to fully live out those ideals. Encouraging you to spend money, prudently and in the areas necessary to achieve your dreams, can be powerful because it confirms something we already know deep down: Experiences are more valuable than stuff.

The following is an adapted excerpt from a Forbes column authored by Tim Maurer, director of personal finance for the BAM ALLIANCE, in which he describes his family's decision to choose experiences over stuff:

"You're crazy." Those were my wife's words when I called her from the road, rushing to discuss what I termed "the concert of a lifetime." I'd just learned that living legends U2 were touring in support of the 30th anniversary of their most celebrated album, "The Joshua Tree."

Andrea was on board with going to the show – she's a big fan too. But what invited her claim of insanity was my insistence that we take the whole family to *Seattle* to see the show. We live in Charleston, South Carolina. I insisted that we had a moral obligation to go as a family – assuring my wife that it would result in a lifelong memory soon to be deemed priceless.

Now, we're a family of four with two boys (13 and 11) in youth sports. One could argue that every piece of furniture in our home is a candidate for replacement. If you are in – or remember – or tried to forget – this phase of life, you know that, regardless of your income, every dollar seems to be pledged even before it is earned.

But a mathematical fact remains: There are only two ways to dispose of your money – on experiences or stuff. Even if we save, invest,

or give, we're just deferring when and where the money will be spent on experiences or stuff. For our family, going to see U2 in Seattle was simply more valuable than something like replacing the battered couch or maybe the bedroom furniture.

But why? It's not necessarily because it's obvious from the start. Initially, the experience worth $X gives about the same amount of joy as the stuff worth $X. But as we adapt to the stuff, as it literally depreciates in value, our joy in its utilization also decreases.

But while stuff devalues, the recently elapsed experience can actually increase in value. “Even if it was negative in the moment,” writes James Hamblin, “it becomes positive after the fact. That’s a lot harder to do with material purchases because they’re right there in front of you.”

By now, you know what happened. My loving wife succumbed. We scraped together all the rewards points and discretionary dollars we could muster, ordered the tickets, booked the flights and reserved the room. We fought through jet lag to enjoy hiking in a blizzard on Mt. Rainier, having coffee at the first-ever Starbucks, enjoying breakfast overlooking a bustling Pike Place Market, going up the Space Needle and down the Great Wheel, running to catch the ferry to Bainbridge Island for lunch and – the best part – watching my boys’ eyes light up as “Where the Streets Have No Name” rumbled through our bellies.

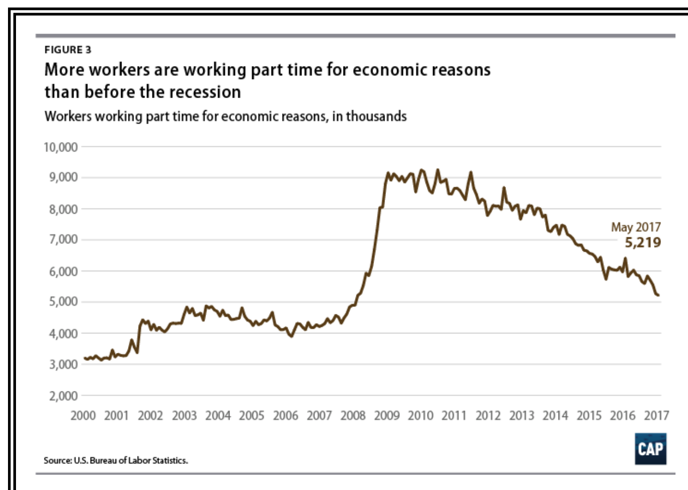
On the plane ride home, exhausted, my wife turned to me and said, “You were right. It was worth it. But you’re still crazy.”

Tim Maurer’s story reminds us that our financial plans are created to provide the means to live life fully. The real goal is to embark on a wealth of experiences, not just accumulate wealth or stuff. We hope this story creates a new sense of adventure in you. The stuff you accumulate fades with time. The experiences you share with loved ones will endure forever.

U.S. Labor Market

The U.S. economy added 222,000 new jobs in June, bringing the unemployment rate down to 4.4%. The unemployment rate is back down to pre-recession levels. That does not mean the labor markets have fully recovered, however.

The number of workers who are employed only part time for economic reasons – meaning they are unable to find full-time work despite wanting it – remains high



compared to pre-recession levels. If workers are part-time because their hours are cut or because they cannot find a full-time job, that indicates a labor market that is less favorable for all workers. In June 2017, the number of involuntary part-time workers stood at about 5.3 million, which is still significantly higher than the pre-crisis low of 3.9 million workers in April 2006. The labor markets aren’t fully recovered yet, but they are trending in a positive direction which is helping the stock market.

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Active Management – The Hidden Secret

Each year, Dimensional Fund Advisors (DFA) analyzes the returns from a large sample of U.S.-based mutual funds. And each year, the results are basically the same, with the evidence showing a large majority of fund managers in the sample failed to deliver benchmark-beating returns after costs. 2017's report is no different.

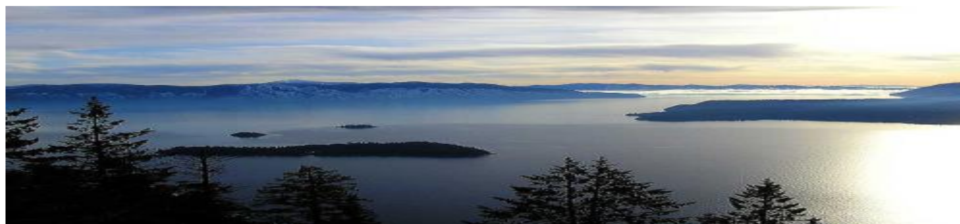
The DFA "2017 Mutual Fund Landscape" covered more than 4,000 funds—1,050 U.S. fixed-income funds, 1,056 international equity funds and 1,889 U.S. equity funds—and almost $7 trillion of assets under management.

The following table shows the number of funds at the start of each period, the percentage of funds failing to survive the full period in question, and the percentage of funds that outperformed their Morningstar category benchmark for that respective period ending December 2016.

	5-Year Period	10-Year Period	15-Year Period
Equity Funds			
Number of Funds at Start of Period	2,863	2,944	2,587
Percentage of Funds that Failed to Survive	21%	42%	52%
Percentage of Funds that Outperformed	29%	21%	17%
Bond Funds			
Number of Funds at Start of Period	952	1,022	958
Percentage of Funds that Failed to Survive	15%	34%	43%
Percentage of Funds that Outperformed	50%	26%	18%

As you can see, active management is clearly a loser's game, with the large majority of funds underperforming their respective Morningstar fund categories. And these figures are all based on pretax returns. Because taxes are typically the greatest expense for taxable investors (greater than the expense ratio or trading costs), the percentage of winners would be much lower for funds held in taxable accounts.

No wonder why the mutual fund industry works so hard to hide the truth. Presented with the above evidence, very few would buy actively managed mutual funds.



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