The right partnership makes it possible.
Laraway
Financial Advisors, Inc.

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The Laraway Report

Barriers to Investment Success

by Steven A. Laraway, J.D., CPA®, CFP®

I have long felt that an important part of my job as an investment advisor has nothing to do with selecting the right investments or making the right allocation decisions-it has to do with being the reasonable voice heard through the noise. In other words, it is the psychological aspect of investing. I must determine with each unique client what their barriers are and must convince them that this bias is hampering their chances for success. So just what are those barriers? I recently read a Franklin Templeton Investments marketing piece which explained those barriers. They suggested that there are certain things that hinder success. Those are:

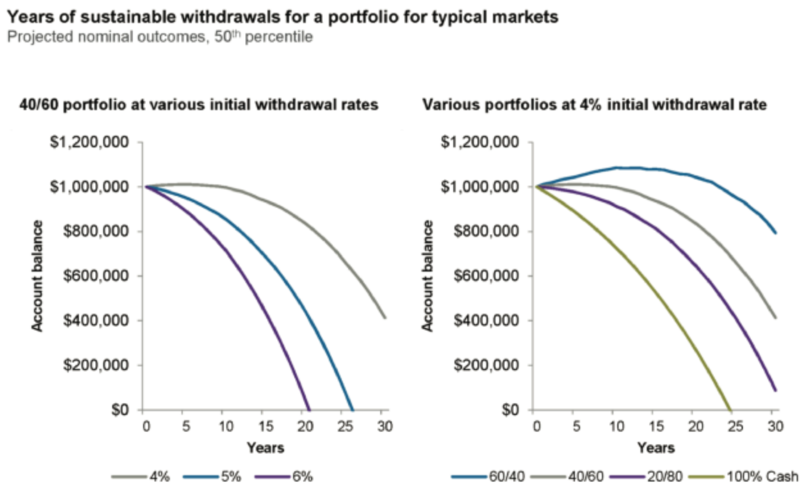
1. **Availability Bias** – This means that our thinking is influenced strongly by what is personally most relevant, recent or traumatic. A difficult time in the markets may cause us to lose sight of what is really happening.
2. **Herding** – We have a tendency to follow the crowd because we are afraid of making mistakes or missing opportunities. One needs to look no further than the dot-com bubble or recently the crypto currency craze.
3. **Loss Aversion** - The pain we associate with a loss is much more intense than the reward felt from a gain. Many people would rather have a small "sure thing" than the opportunity for a big return.
4. **Present Bias** – We often overvalue immediate rewards at the expense of long-term goals. Instant coffee, one minute rice, fast food etc. have trained us all to want it now –to the detriment of the future.
5. **Home Country Bias** – We tend to favor companies and products from our home country or region. This is the "home-sweet-home" bias. We hear more about companies in our backyard than we do about those in other regions, so we have a tendency to invest in them. However, we must remember that as reported by "World Market Capitalization" the US stock market makes up only 39% of the world capitalization. That means that if we only invest in the USA we are missing out on 3 out of every 5 investment opportunities.

As an advisor we try hard with our clients to overcome these psychological barriers. It is not an easy task-but a necessary one. It is my opinion that an investor who has come to these behavioral barriers will be well served by "jumping over them" with help from their investment advisor.

Happy Investing!

What's the Right Withdrawal Rate?

by Chris Wayne



How much will I need in retirement?

How much can I plan on withdrawing from my investments?

Will my assets last my whole retirement?

J.P. Morgan Asset Management has a nice slide from their Guide to Retirement showing the withdrawal rates and asset allocation. Setting an initial withdrawal rate and an appropriate portfolio allocation is necessary to sustain 30+ years of spending in retirement. The chart on the left illustrates the effects of different initial withdrawal rates at a 40% equity/60% bond allocation. The 4% rate—a general rule of thumb introduced in 1994, which adjusts the initial withdrawal amount for inflation over time to preserve purchasing power—is valid, while the 5% and 6% initial withdrawal rates prove not as successful and may put retirement at risk. The right chart illustrates the 4% withdrawal rate, but assuming various portfolio allocations. The more conservative the investor, the more difficult it may be to sustain the 4% rule over long periods of time. Consider a more dynamic approach to ensure that you efficiently use your savings to support your lifestyle while ensuring that you don't run out of assets too quickly. So, when you're planning your retirement and the income you'll need, keep this illustration in mind. This is where Laraway Financial Advisors can assist you in helping you determine the right asset allocation and withdrawal rate so you can enjoy retirement.

So What's Going on with The Markets?

Two weeks ago the Dow Jones hit a new all-time high around 26,600. Now the Dow is around 23,860 as of 2/8/2018. We read the headlines and alerts that keep telling us the markets plunges, plummets, dives and sheds points. Not exactly a positive message. So what's going on? Let's take a look at what's happened since this fall.

Equity and fixed-income markets continued their strong performance into the fall, as spreads for most fixed-income sectors tightened further, and the stock market hit new highs. Year-to-date, the Dow Jones Industrial Average and the S&P 500 index are up 18.5 percent and 14.5 percent, respectively. Market performance reflects a number of important dynamics, including strong corporate earnings, accelerating economic growth, still-accommodative monetary policy, and robust business and consumer confidence.

The U.S. economy continues to expand at an above-trend pace. Real gross domestic product (GDP) grew at an annualized rate of 3.0 percent in the third quarter, despite the major hurricanes that likely subtracted around 1 percentage point from growth. We expect fourth quarter growth to be around 3 percent, supported by strong momentum in consumer spending, continued acceleration in business investment, and rebuilding activity in the wake of recent storms. Assuming no major geopolitical or other unforeseen shocks, we expect the U.S. economy will grow by between 2.0–2.5 percent in real terms in 2018, supported by a strong labor market at home, a synchronized upswing in the global economy, and favorable financial conditions. We see potential upside to 2018 growth in the event tax cuts pass in Washington.

Economic and financial conditions are supportive enough for the Fed to continue to resume a quarterly pattern of rate increases in December. Four hikes in 2018 would be a much faster pace than the market is currently pricing in, and we expect the result to be a bear flattening of the Treasury yield curve. We also will begin to start seeing the effects of balance sheet normalization. The Fed announced in September 2017 that it would allow a maximum of $4 billion in Agency debt and mortgage-backed securities (MBS) and $6 billion in Treasurys to mature on a monthly basis starting in October 2017. The monthly cap will gradually rise to reach a maximum of $20 billion for MBS and $30 billion for Treasurys. According to Fed research, quantitative easing (QE) programs depressed the 10-year Treasury term premium by approximately 100 basis points. Theoretically, unwinding QE should remove that source of downward pressure on term premiums, although this will take place only gradually due to the slow balance sheet runoff.

The majority of pullbacks during non-recessionary periods registered declines under 20 percent. Pullbacks falling within the 5–20 percent range historically experience recovery periods of one to four months.1 These are not periods typically associated with severe economic deterioration, and do not necessarily represent a signal to reduce equity exposure.

Vikings Market Letter

by Chris Hastings

January 16th of 2001 my father had routine surgery to remove his thyroid. We were told the surgery should last no longer than two hours, and he was expected to have normal life-span afterward. The surgery lasted at least six hours, and my father was diagnosed with a cancer that gave him a six-month life expectancy. My brothers and I went to the hospital following the surgery; I arrived first, my middle brother arrived second, and my youngest brother, Barry, walked into the into the hospital room at 4:00 p.m. ESPN was on the TV, and the announcers were recounting the Vikings' 41-0 massacre, courtesy of the NY Giants. Barry looked at my dad, looked at the TV, looked back at my dad, and then again at the TV, and said, "Dad, I hate to break this to you, but I don't think you are going to live to see the Vikings win a Superbowl." Silence. Complete silence. My dad smiled and said, "Neither will you son, neither will you. Not in your lifetime." The Vikings are once again in the playoffs. Hope springs eternal.

At the beginning of my career as a financial advisor in the year 2000, my father came to me and said he would help me out by giving me a certain amount of money to manage. I explained that while this would be greatly appreciated, we needed to make sure other parts of his life affecting his finances were also in order. Little did he or I expect these things to be so significant in the following year.

Other areas we made sure to update were as follows:

Medical Directive

A medical directive allows someone else to make medical decisions for you in the event you are unable to make decisions for yourself. Without a medical directive, healthcare providers make decisions for the patient and the general decision is to provide all life-sustaining care possible. A medical directive ensures your wishes are heard regarding life-sustaining measures. Specific wishes, such under what conditions you wish the be intubated (breathing assistance) or under what conditions you wish no action to be taken.

Durable Financial Power of Attorney

This document allows for another person to sign legal financial forms in the event you are unable to sign them yourself because of medical or mental incapacitation. This includes tax returns, IRA distribution requests, and even real estate sales.

Will and/or Trust

These documents dictate final instructions for all of your assets. Generally speaking, wills work fine for most families. When a will is used, assets go through probate and a judge signs off regarding the validity of the will. In Minnesota, a simple probate is generally used and the process is generally fast.

When differentiating between a will and a trust, it helps to think of a trust as a garage in which items are placed. A will is more like putting labels on things and leaving them where they lie. The times where we see trusts commonly used is for blended families or in the case of very large estates. Trusts also allow for assets to be controlled after a person has passed away. Trusts allow anything held in the trust to be passed to the beneficiaries without going through the time and legal expense of probate.

It is worth noting that IRA's and some insurance products contain beneficiary designations that supersede the instructions in a will. This means you should review your beneficiary designations on these accounts from time to time. I have literally seen a long-established IRA honor a former girlfriend as a beneficiary despite the man having been married to someone else for the 20 years prior to his death.

Often when I bring this subject up to clients I hear, "We've discussed putting our wishes in writing, but we can't decide what we want." If you can't decide when you're clear-headed, how can you expect your loved ones to do so in a time of crisis? Additionally, retaining attorneys to put these documents together during an emergency can be very expensive and time consuming. These are the last decisions you want to make when emotions are running high.

My father died almost exactly 6 months after his initial diagnosis. He spent his last days enjoying lifelong relationships with old friends and his family. He was thankful we had these documents and place and his beneficiaries updated, and we settled his estate in less than a month after he passed.

Interestingly enough, a few weeks after my father's death, through a law firm we received a trust he had set up in 1972. In these documents he named people that, when the time came, were in no way qualified to act as trustees. This illustrates the importance of reviewing these documents from time to time.

While talk of death is never a fun topic of conversation with our loved ones, establishing documents to protect your healthcare wishes and finances in times of medical emergencies or worse, death, can provide clarity and peace of mind during what will be a very stressful time. Taking care of these things before there is a problem is one of the greatest gifts you can give your loved ones. I can speak from experience when I say you never know when a crisis will strike, so plan now to protect your loved ones in the future.

Obviously this was written before the Vikings devastating lost to the Eagles in the NFC Championship Game. Despite our collective disappointment, let's not forget what we did have: My children's entire elementary school gathered in the gym and did a Skol chant led by the principal on a drum. Places throughout Minneapolis became purple; buildings, bridges, and walkways. I am pretty sure the television ratings for at least the first half were huge. For at least a week, everyone agreed the Vikings were a great thing, and the hope of victory was the great unifier for what is often a disjointed society. Just as we hoped for a Vikings victory and, against historic odds, believed it could happen, we tend to hope tragedy will never come our way. But when it does, being prepared is the best way to protect ourselves and our loved ones…

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Investment Performance Through December 31, 2017

Category	3 Months	YTD	1 Year	5 Year
MORNINGSTAR				
Large Cap Value	5.97%	15.56%	15.56%	13.67%
Large Cap Blend	6.41%	19.92%	19.92%	14.60%
Large Cap Growth	6.43%	26.82%	26.82%	15.69%
Mid Cap Value	5.35%	12.89%	12.89%	13.61%
Mid Cap Blend	5.45%	15.42%	15.42%	13.63%
Mid Cap Growth	6.02%	23.41%	23.41%	14.12%
Small Cap Value	3.48%	8.12%	8.12%	12.63%
Small Cap Blend	3.55%	11.87%	11.87%	13.42%
Small Cap Growth	4.71%	20.96%	20.96%	14.36%
Foreign	3.09%	14.62%	14.62%	6.07%
Govt. Bonds (Interm.)	-0.21%	1.75%	1.75%	1.03%
Corp. Bonds (Interm.)	0.27%	3.88%	3.88%	2.04%