

Market Recap Q2

2017 began with a stock market rally that was almost eight years old, stock valuations that were already full, and interest rates that were already rising. Even so, market performance for the first half of 2017 turned out to be surprisingly strong with global equity markets returning 11.8% and global bond markets returning 4.4%. Current Fed Chair Janet Yellen's recent characterization of equity valuations as "somewhat pricey" is a perfect description of a market where valuations are above their historical average, but rational... In short, current valuations may reflect a sober balance of investors' assessment of positive and negative factors.

Index	June 2017	Q2 2017	YTD 2017
S&P 500	+ 0.62%	+ 3.09%	+ 9.34%
MSCI ACWI	+ 0.45%	+ 4.27%	+ 11.48%
Barclays Global Aggregate	(0.10%)	+ 1.40%	+ 2.30%
Bloomberg Commodity	(0.19%)	(3.00%)	(5.26%)

Data via Zephyr Associates and City National Rochdale

1. US economy continued to strengthen, expected earnings growth was stable, investor sentiment remained positive and volatility remained low.
2. A weakening US dollar in both quarters sweetened the year-to-date return on international stocks, which was 14.5% for US investors compared to the 9.3% they captured from US stocks.
3. Stock valuations are historically high, but are not necessarily unreasonable. Instead, current valuations appear to reflect a sober balance of risks and opportunities for the markets.
4. Well diversified portfolios across asset classes and strategies continue to be most appropriate for the current market environment in which expected earnings growth and favorable credit conditions are balanced by historically high valuations, central bank tightening, and political uncertainty for progress on corporate tax reform.

Trusts 101

A trust is a fiduciary arrangement allowing a third party, or trustee, to hold assets determined by a grantor (you) on behalf of a beneficiary or beneficiaries. Trusts can be arranged in many ways and can specify exactly how and when the assets, including cash, investments, insurance policies and even artwork, pass to the beneficiaries. Before establishing a trust, it is best to consult an estate planning attorney. The following are some of the most common types of trusts that I encounter:

Revocable Trust. Funding a revocable trust (living trust) during your lifetime can be useful if you wish to avoid probate and ensure privacy. For folks living in Washington State, our probate process is relatively affordable and easy. Additionally, if your assets are primarily in investment, bank and retirement accounts and you have designated beneficiaries then it will avoid the probate process and go directly to them.

Irrevocable Trust. If making gifts during your lifetime makes sense for estate tax savings or for other reasons, the use of an irrevocable trust to receive such gifts may be warranted. For example, a qualified personal residence trust (QPRT) may allow you to transfer a primary residence or vacation home out of your estate, while still allowing you to use that residence for a specified period of time.

Qualified Terminable Interest Property (QTIP) Trust. These trusts can be helpful in blended family situations. It helps provide income to a surviving spouse while ensuring the trust assets/principal pass to the children of the first-to-die spouse upon the surviving spouse's death.

Spousal Protection Trusts. Rather than leaving assets outright to the surviving spouse, the first spouse to die leaves his or her assets in a trust for the surviving spouse. The trust terms emphasize living choices and care not tax savings and may be exempt from counting as a disqualifying asset for purposes of Medicaid eligibility.

Charitable Trusts. These can include benefits to a charity with the remainder to your beneficiaries or an income stream to you for a defined period with any remainder going to the charity and many other iterations.

-----Estate Planning-----

Many people find conversations regarding estate plans and "end of life" measures stressful and uncomfortable and thus easy to avoid. As much as I can empathize with these thoughts I also know that our families appreciate the chance to understand our wishes and desires.

A typical estate plan includes three components: a will, health care directives, and powers of attorney. A will comes into play upon your death and states who will act as your executor and resolve your final matters as well as who will inherit your estate. Your powers of attorney for health and financial decisions act for you if you are unable to do so thus it should be someone you trust implicitly. A health care directive states what sort of treatment you wish to receive or not receive if you cannot communicate.

If you have a will in Washington State, the probate process is relatively straightforward and cost effective for your executor to settle your estate.

However, if you don't have a will, your property is distributed according to the laws of "intestacy", your relatives may or may not know your wishes.

In some cases, relatives may disagree on how to resolve your matters. The process can be time consuming and expensive as the court is now called upon to decide on various matters.

Sandy Cairns, Estate Planning Attorney, recently spoke at my local Financial Planning Association Luncheon and made a couple of great points. She suggested if a family member has been diagnosed with dementia or Alzheimer's, creating POAs that have "immediate" powers are helpful as it is often hard to gauge when someone is no longer able to act for themselves. Waiting until that time adds complexity, delays and costs to something that could have been much simpler.

Additionally, she encourages her clients to have personal conversations with their loved ones about their financial, legacy and health wishes. This often helps their Powers of Attorney see any future potential decisions not so much that they are making the decisions but rather they are carrying out the client's wishes. It's an important distinction.

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Client Corner – Mark and Debbie

I have often thought Mark and Debbie’s story would make a perfect Hallmark Channel Movie. Confirmed carefree bachelor and quintessential outdoorsman in his 40’s meets divorced darling 30-something mother of two resigned that no one would want to step into her situation. But their paths crossed and from the outset, they knew they had something special.

They had much in common including a love of shooting and hunting. In fact, Mark says, “Way before I put a ring on her finger, I bought her a shotgun.” They were married eleven months after they met. “From the moment I met Mark I knew he was a man of great integrity, I knew he would be committed forever.”

And life was very good. The girls blossomed in a loving and happy environment. Mark retired early from a telecommunications company and their future seemed financially secure. Unfortunately, shortly after Mark’s retirement, Debbie got sick. “Cancer completely derails everything you are thinking about your life. It is all consuming while you are dealing with it – you are so focused on surviving that everything else falls away.” Fortunately, Mark could take care of her because he was “retired”.

After 1 ½ years, Debbie was in remission, the girls went off to college and for the first time in their marriage, they were alone as a couple and celebrating Debbie’s return to the “land of the living.” Not for long... Mark got sick with a very aggressive cancer and time was of the essence. Through it all, Debbie was at his side just as he had been at hers. They credit their deep faith and prayers of friends with getting them through the challenges of those few years. “God sat close in our hearts though it all.”

They feel things deeper now, take nothing for granted and are immensely grateful for the gift of each other. “We trusted each other before but there’s no question of the depth of our trust and love for each other now.”

Jay’s and my path recently crossed with Debbie and Mark’s in Maui. We enjoyed dinner together and the opportunity to celebrate their 15th wedding anniversary, Debbie’s “5 year clean” checkup and Mark’s remission. It was a joyous evening filled with laughter, happiness, gratitude and hope for good years and good health as they continue their life’s journey. God Bless.



May 2017 in Maui, Hawaii

Kathy’s Corner - Heroes

Most of us have had role models that have nurtured and helped us develop and pursue our dreams. My heroes are my parents. My father modeled discipline and the highest professional ethics. My mother displayed perseverance and shared her love of sewing and knitting. Both demonstrated unconditional love, optimism and a joy for living. I reflect on the enormous impact they have had on my family as my Dad turns 75.

High school sweet hearts, they married young and proceeded to have 4 children in short order. Throughout college and law school, my Dad attended classes during the day and worked at night. My mother, in her mid-20’s cared for us, adjusting to life away from her family, often alone. She sewed clothes and Halloween costumes (I made a great Martha Washington) and made incredible meals on a very tight budget. It was an arduous, exhausting journey but they loved and believed in each other and in the life and family they were building.

Upon law school graduation, my parents moved across country to Eastern Washington, where they and my siblings remain today. My dad built a successful law practice and was appointed to the Federal bench by President Clinton where he remains today as a Senior Judge. My mother graduated college with honors in Nutrition Sciences. She recently retired after 30+ years as a well-respected diabetes dietician. As children, we enjoyed an idyllic childhood complete with Friday night football games, sock hops in the gym, cows grazing, and warm grapes for the picking.

As I built my own family with Jay, my parents never ceased loving, nurturing and listening. At times my parents drove or flew up and back in one day to see my children swim or perform. In turn, my kids treasured trips to Pasco. They rode the lawn mower regardless of the season, picked cherries, boated on the river and walked the dogs with my mom.

My dad says, “We have been so darn lucky.” And we absolutely have. We have enjoyed good health, parents that remain a vibrant part of our lives today, who exemplified hard work, a gratefulness for life’s blessings and mutual respect and love for each other. Jay and I couldn’t have had better role models over our 30 years of married life.

I’ve heard said “It isn’t the years in your life but the life in your years that count most.” We have been doubly blessed to have had both.



Pasco Hydroplane Races -1979



Ed’s 75th Birthday Celebration – July 2017

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