HALLOWEEN PET DRESS-UP CONTEST

Pets like Halloween too! We thank our clients for their participation in our first annual Halloween Pet Dress-up Contest. All entries received a gift card to pamper their pet at Pet Smart! The Top Three contestants won $100 Ruth's Chris Dinner Certificates! (you come for the dinner and bring a doggy bag home for your photogenic friend)

Officer Gus

Owner, Bonnie and Curt

Grand Prize Winner

Maggie, The Magic Unicorn

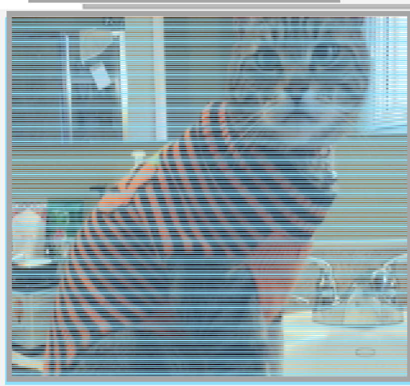
Owner, Pam

Grand Prize Winner

Xena, Dress up as an Alien

Owner, Dave and Lori

Grand Prize Winner



Brucie, the grand-cat

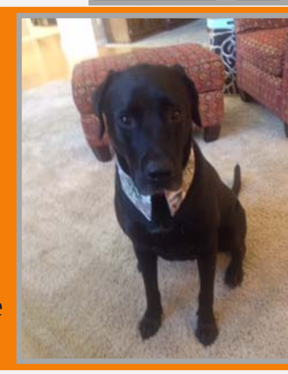
Owner, Lisa

Runner Up Prize

Zeke, Cruising the dog park

Owner, Alan and Eileen

Runner Up Prize



Maxwell, the Hawaiian Tourist

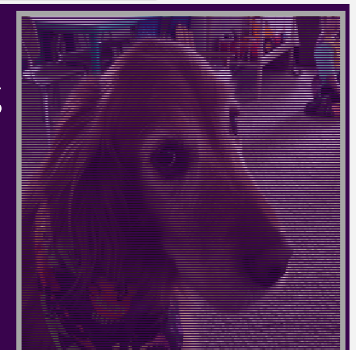
Owner, Kathleen and Rick

Runner Up Prize

Ollie, Feeling Festive

Owner, Lisa

Runner Up Prize



StoneRidge Wealth Management
Rock Solid Retirement & Estate Planning

8625 SW Cascade Avenue, Ste 240, Beaverton, Oregon 97008
503.352.0188 o 360.567.0784

Visit us @ www.stoneridgewm.com
Contact: amy.treat@lpl.com (or) van.mason@ lpl.com

StoneRidge Wealth Management
DEC 2017

The Quarterly Profit

HOLD 'EM, FOLD 'EM, OR SKIM REDUX

Several years ago, I wrote a Quarterly Profit article, "Hold Em', Fold Em', or Skim", borrowing from Kenny Rogers famous 70's song "The Gambler". The goal was to illustrate various portfolio strategies, not from a market timing standpoint (which **never** works) but from each client's own perspective and response to serious economic, geopolitical, and market forces that could send their investments into a downward spiral and threaten their financial security. "Hold 'Em 'Fold Em Redux" is a timely reminder for serious portfolio review, as we confront a continuing barrage of geopolitical and domestic forces. While my personal opinion is that the U.S. and global economies will continue to strengthen and drive the markets forward in 2018, one could argue that the escalating rhetoric with North Korea, our own domestic turmoil, and an elevated market could set the stage for a significant market drop. How seriously should we perceive these and future threats and what strategies might be reasonable to preserve our investment income?

Our baseline for discussion is that the markets are always seeking a next highest level, until such time as specific events shake investors' collective confidence and prompt a market sell off. Let's try to quantify the various levels of market sell off risk. For simplicity, I'll classify the most serious threats as global game changers. These are the events that truly shake the markets, and jeopardize our financial planning. We'll identify them by the approximate 40% loss each has caused since WWII. As frightening as a 40% market drop is, let's remember that there have only been four such events since WWll: (1) the oil embargo of 1973-1974 (2) the tech bubble bursting in 2000 (3) the attacks of Sept. 11 (4) the global breakdown of 2008. I do not include Black Monday, Oct. 19 1987, when the markets plunged about 30%. As unsettling as the drop must have been, the markets were already up about 40% when it occurred, and finished 1987 with a 6% gain.

Let's classify the next level of threats as market disruptors. As they send the markets south, we can't help but wonder if we're heading towards a global game changer. Market disruptors usually recover within several months, as the underlying forces that cause them become less threatening. Recent examples would include the 16% drop in July, 2011 when the PIIGS' (Portugal, Ireland, Italy, Greece, Spain) financial insolvency threatened to subvert our markets as we struggled to recover from 2008's debacle. July of 2015 surprised us with an 11% drop in 45 days, caused by sudden anxiety over China's slowing growth rate. The markets recovered by the holidays, but dove again in January as new questions arose over China's revised GDP estimates. For the sake of this illustration, let's assume that market disruptors do not recover in the short term, and result in losses of between 5% and 10% in any given year.

(continue...)

Winds in the Market (continued)

We'll identify the last level of market risk as the jitters. Let's assume that most clients will accept some level of market risk, building their portfolios with a combination of stocks and bonds to offset the emotional jitters caused by a 5% loss. If the possibility of a 5% market loss causes emotional distress, then one's portfolio should be heavily weighted towards certificates of deposits, treasuries, and conservative bonds.

The million-dollar question, then, is how fearful should we be of the markets? The S&P 500 has shown a total of fifteen negative years since WWll. When the markets begin to drop, will the result be a case of the jitters, a market disruptor, or the prelude to a global game changer? If we exclude the four global game changers listed earlier, there have only been six calendar years of market disruptors since WWll , and just three years of the jitters. But market chance has neither conscience nor memory. Anything is possible, and market averages may not soothe an anxiety attack at 3:00 AM. Fearlessly "holding" as the market plunges into a global game changer may not be an optimal strategy for portfolio income, because investments will be sold at declining values to generate monthly distributions. Fearfully "folding" will certainly protect the portfolio against further loss, but too often occurs near the market bottom as panic takes hold, then misses most of the recovery that has always followed. Enter the "skim".

We'll use the example of the Smiths. Mr. and Mrs. Smith consider themselves "Hold 'Em" investors, who usually resist taking defensive measures unless there are serious threats to the economy. They dismiss market jitters and aren't overly concerned with market disruptors, because the markets have always bounced back. The Smiths have enjoyed the market's strong tail wind this year and the solid gains that show on their statements. However, the political turmoil frustrates them, and they both stress over the escalating military tensions in the Korean Peninsula and the South China Seas. They don't believe that a nuclear exchange is imminent, but they want to protect themselves just in case the situation erupts into a global game changer.

The Smiths have yearly living expenses of $75,000 per year. They have combined Social Security and pension income of about $55,000 and take distributions of about $45,000 (6%) from their $750,000 IRA portfolios. After taxes, their distributions cover their retirement expenses. The Smiths decide to "skim" $100,000 from their more aggressive funds. Technology has been hitting home runs, Health/Biotech has been very strong, and Small Caps have been on a roll. By selling $100,000 of these sectors and investing this money in five categories of bond funds, the Smiths have sheltered much of their 2017 gains, effectively "selling high" and holding the money in historically less volatile income producing categories. The bond funds are not guaranteed, but there is a reasonable expectation of outperforming certificates of deposit and savings accounts. If the markets do move into global game changer status, the Smiths will have about 18 months of investment income available, providing the necessary income cushion as they wait for the market recovery. If the market threats end the year as disruptors, the Smiths may have preserved their gains, earned a little from their bonds, and are well positioned to respond to the changing economic and geopolitical forces.

Let's discuss these various strategies in our next quarterly meeting. Kenny Roger's gambler broke even, and this might be an ace that we can keep.

Van Mason, CFP®, CLU, MBA

This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing. Investing involves risk including loss of principal. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

1st Annual Jingle and Mingle…

We want to thank all of you who were able to come to Plumper's Tree farm on December 2nd! We had over 150 guests and 12 gift basket winners. Mark your calendars for Saturday, December 1st, 2018!