HUDSON
DYNAMIC RETIREMENT
Dynamic Retirement Planning / Lifelong Relationships

Brief Notes October 1, 2015

Maintaining Our Investment Principles

Globally diversified portfolios have incurred modest losses over the past year. Although trailing three and five year net returns (as well as longer term returns) are in line with the performance necessary to meet your long term growth and income goals (assuming an appropriate portfolio withdrawal rate), is the more recent "under performance" a cause of concern? This edition of Brief Notes will touch on a few key topics that will address this issue. Even though these are investment principles we frequently discuss in detail during our review meetings, uncertainty caused by current events, media reaction and personal circumstances can make these periodic reminders of our investment approach helpful in keeping things in the proper perspective.

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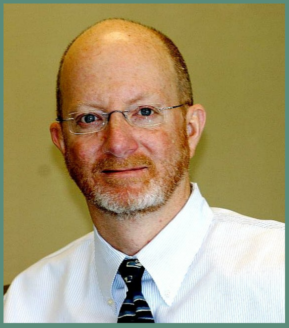

Andrew Brief, ChFC

We'd love to hear your thoughts and are looking forward to your next review...

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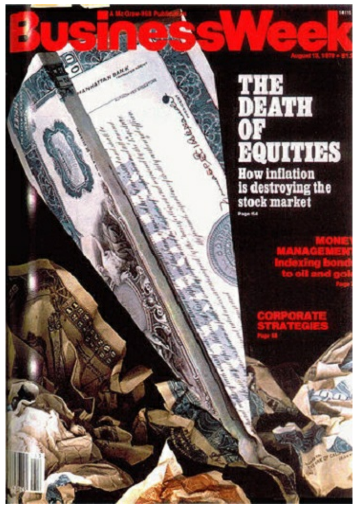
Principle #1 - Nobody Can Predict Short Term Market Performance Continuously

Although there are plenty of media coverage, pundits and newsletters that at least give the impression that this is possible, and even vital to your financial success, these sources are selling something different than responsible, long term financial planning advice. History has proven that media have continuously misread the "crystal ball" and those investors who have followed this direction, many times are caught buying at market highs and selling at market lows. Prudent long term investment success has never been dependent on short term market predictions.

March 2009 - DOW 6527



August 1975 - DOW 820

Principle #2 - Short Term Volatility and Performance Can Vary Greatly from Expected Long Term Returns

Given that there is so much media and "Wall Street" emphasis on the news of the day and investor reaction (and action), and technology has virtually erased all barriers to individual investor trading, short term market volatility has continued to increase. The variations in one-year returns of major asset classes are significant and the roller coaster ride this creates has the potential of derailing investor confidence. However, long term returns are much less variable, and remain consistent with performance necessary to meet the goals of a prudent investment strategy.

Short Term Uncertainty vs. Long Term Consistency

Principle #3 - In light of Principles #1 & #2, a Globally Diversified Portfolio Strategy is Vital, Especially When Short Term Performance May Disappoint

As discussed, long term market returns have remained very consistent. Logic dictates that if this is to continue (which we believe to be the case although our client planning scenarios assume more modest returns than historical averages), then temporary under performance, and over performance for that matter, should revert back to relative norms at some reasonable point in time. Abandoning a prudent strategy (that historically has been successful) when times are difficult to an approach that may temporarily provide better short term returns, basically defines "selling low and buying high." The main goal of a globally diversified approach is to avoid this "trap" by reducing portfolio volatility and providing enhanced options from where retirement income can be derived while avoiding significant liquidations from portfolio positions that may be at temporary lows. It is the divergence of returns of positions within your portfolio that is desirable and necessary to properly implement this strategy. Asset classes contained in your portfolio can vary greatly in return relative to each other and the leaders and laggards from year to year are completely arbitrary and unpredictable. .

Figure 1: Yearly returns by equity sub-asset class (highest to lowest from top to bottom)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
34.0%	32.1%	39.4%	-36.8%	78.5%	26.7%	1.5%	18.2%	36.8%	13.2%
13.5%	26.3%	11.2%	-37.6%	34.4%	18.9%	-2.5%	17.9%	33.1%	7.1%
8.1%	16.2%	5.8%	-43.4%	31.8%	16.1%	-12.1%	17.3%	22.8%	-2.2%
6.3%	15.5%	1.4%	-53.3%	28.4%	7.8%	-18.4%	16.4%	-2.6%	-4.9%

US Large Cap Equities
Emerging Markets Equities
US Smid Cap Equities
Non-US Developed Markets Equities

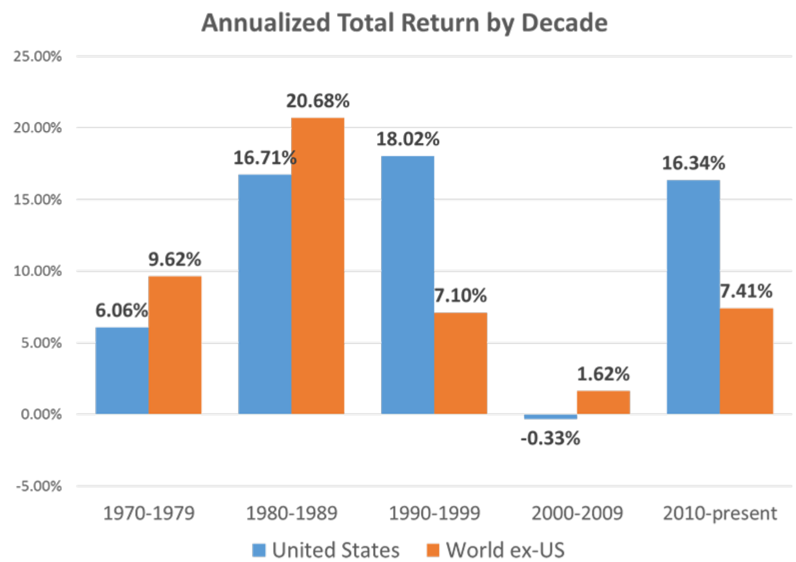
Source: Bloomberg as of 15 January 2015
US Large Cap Equities represented by Russell 1000; US Smid Cap Equities by Russell 2500; Non-US Developed Markets Equities by MSCI EAFE Net Return; Emerging Markets Equities by MSCI EM. Past performance does not guarantee future results. An investment cannot be made directly in a market index.

Equity Asset Class Leaders & Laggards 2005-2014

Principle #4 - A Global Approach Should Be

Maintained Even Though U.S. Stocks Have Outperformed Since 2010

U.S. stocks have significantly outperformed international stocks over the past several years. Some pundits feel that times have changed and a strong dollar and uncertainty overseas has created a different "paradigm" that justifies a 100% U.S. portfolio. However, history has again illustrated that this approach can hinder long term performance and increase portfolio volatility. If we consider 2000-2009, for example, U.S. stocks provided a negative total return of more than 9% over that decade (source: Morningstar). Avoiding international stocks over this period would have severely reduced portfolio longevity for those retired by potentially forcing liquidations at relative lows to provide required income.



U.S. vs International Equity Returns by Decade

Principle #5 - Periodic Portfolio Re-balancing Helps Reduce Risk and Maintain a Strategy Consistent with Your Goals

Markets can move dramatically over time. Over-exposure to stocks after an extended period of growth can greatly increase portfolio volatility/risk as markets change. Likewise, after a period of stocks contracting in value, future growth may be reduced and potentially increase purchasing power risk if long term growth objectives are not met. Client portfolios are re-balanced to set specifications through one or a combination of methods depending on your particular situation: 1) systematic annual re-balance adjustments by selling over-weighted positions and buying under-weighted positions with the proceeds, 2) investing new deposits in undervalued areas of the existing portfolio, or 3) emphasizing the liquidation of over-weighted and over-valued positions in the portfolio when accommodating distribution requirements for needed income.

If you are interested in more detailed information regarding the merits of portfolio re-balancing, please click the link below which will take you to summarized research conducted by T. Rowe Price on the subject.

https://www2.troweprice.com/financial-advisors/insights/portfolio-rebalancing-can-help-mitigate-risk

Please let us know if you would like to discuss any of these principles in more detail if you do not want to wait until our next review. We look forward to seeing you soon.

Best wishes,

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Rick Nacius, CFP®
Christina Dziadzio

Hudson Dynamic Retirement

[1]Using asset allocation and diversification as part of your investment strategy

If you do not want to receive further editions of this weekly newsletter, please e-mail me at abrief@dynamicretirement.com.