

Market Recap Q1

The first quarter was generally satisfying for investors with US stocks returning 6.07% in a continuation of a rally that began after the US Presidential Elections and based on expectations of Trump's policies particularly those surrounding infrastructure spending, corporate tax cuts and de-regulation. International stocks performed even better for US investors, returning 7.4% in US dollars terms, due in part to the decline in the US Dollar relative to other currencies. And emerging market stocks performed best returning 11.5% for US investors. In fact, this same trend was repeated in the bond sector with emerging market bonds enjoying a 3.3% return for the quarter.

Index	March 2017	Q1 2017	YTD 2017
S&P 500	+ 0.12%	+ 6.07%	+ 6.07%
MSCI ACWI	+ 1.22%	+ 6.91%	+ 6.91%
Barclays Global Aggregate	(0.05%)	+ 0.82%	+ 0.82%
Bloomberg Commodity	(2.66%)	(2.33%)	(2.33%)

Data via Zephyr Associates and City National Rochdale

As Goldman Sachs recently put it, "More uncertainty, more growth, more record highs, and more risk: the reigning market theme today seemingly is one of quantity—more of virtually everything. We do expect one exception to the trend of "more"—returns. We foresee modest returns from major asset classes due to valuation and political realities. Consequently, we see even more need for intelligent portfolio construction and investor discipline."

Constructing Intelligent Portfolios

So how do you construct intelligent portfolios? One of the first tasks is to determine how much risk you need **and** can tolerate to meet your goals. This generally helps us decide how much growth/income/diversifiers to incorporate into your portfolio at the outset. The next question is how best to get exposure to the different asset classes? Should we use passive strategies or active/tactical strategies or a combination of both? We use a combination of broad based strategies and strategists to get the exposure we need.

Passive strategies, often achieved through an index are essentially "buy and hold" strategies. And, they tend to do well when markets are going up. Since the Great Recession passive strategies have had large cash inflows and been very popular with investors in part because they are cheaper and do well in bull markets like we have experienced the past 8 years. I use these strategies to gain exposure to US and International stocks. But markets do not always go up and even in midst of a bull market there are periods when things get choppy or sell off. This is why I also incorporate "active" strategies to provide exposure to global fixed income and diversifiers, and "tactical" strategies that focus on when to dial up and down stock market exposure. Tactical strategies don't usually experience market peaks and troughs but I find they generally help my clients stay disciplined and less stressed with the knowledge that part of their portfolio was constructed specifically to react in such environments so they don't have to.

Jerry Chafkin, AssetMark Chief Investment Officer wrote recently that, despite investor and business confidence at high levels, low market volatility and strong leading economic indicators, there is increased market, regulatory and political uncertainty. He recommends, and I agree, including different strategists proficient in passive, tactical and active areas provides potential additional diversification and opportunity which is prudent and appropriate for today's environment.

Planning Differences for Women

A recent Pershing study found that women have similar financial goals to men in that they want to 1) live contentedly while maintaining their desired lifestyle and 2) fund both their and their family's healthcare expenses.

However, while women and men share similar goals, women face several challenges that men do not. First, women often experience gaps in employment as a result of caring for children and elderly family members. This has a negative impact on lifetime earnings for social security benefits and retirement savings resulting in fewer retirement resources. Second, women live longer than men. As a result, their dollars need to stretch further or last longer in retirement than the average man's but, as mentioned above, they may have less resources. Third, women face higher tax rates because of their longer life expectancy. 80% of women will be single during their final years and this results in a higher tax rate at the end of their life than being married would. Fourth, higher medical costs as a result of living longer strains the resources that they do have.

So what is a woman to do? She must take responsibility for the reality of what may be ahead, address it head on and be realistic. It is important to do the planning early on to understand that your retirement may not look like his or even "ours". Your life could eventually take a much different turn into a different world in your later years. Make sure your plan takes the above into account focusing not just on your joint vision of retirement but also one that projects the reality of what may await you late in your retirement.



Dodd-Frank Act Under Review

Initiated in 2010 as a response to the financial crisis of 2008-2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, intended to decrease various risks inherent within the US financial system. The act established several government agencies that were tasked with overseeing various components of the banking system.

Today, the Dodd-Frank Act is among several pieces of financial regulation under review. While some believe that financial regulation has become too restrictive and is thus reducing economic growth, others believe the law is working. Despite the dissention between the political parties, it appears talking heads agree on certain aspects of the reform, primarily regarding small community banks and credit unions. And, it is not unusual to see reform of financial regulation like that set forth in the Dodd-Frank Act occur a few years after regulation is enacted. That said, it will be interesting to see how things take shape on this matter.

Reminder - ID Requirements Are Changing - Act Now

Passed by Congress in 2005, the REAL ID Act instituted minimum security standards for license issuance and banned Federal agencies, such as TSA, from accepting such documentation.

Beginning January 22, 2018, as part of a phased enforcement plan established by the Department of Homeland Security, **Washington residents will no longer be able to use their standard driver's license for domestic travel.** Instead, passengers will need to present an alternate ID, such as a US passport, global entry card, border crossing card, or enhanced driver's license.

For a comprehensive list of acceptable forms of identification as well as additional information regarding these changes and the REAL ID Act, please visit tsa.gov.

DISCLAIMER: This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events. Index returns are for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Securities and advisory services offered through KMS Financial Services, Inc.

Client Corner – Diane and Daryl

This month's *Client Corner* highlights Daryl and Diane, clients of mine that live an active lifestyle. I am always inspired hearing what new adventure, hike, or marathon they are embarking on next! I recently left a meeting with the couple wondering what drove them to live such a lifestyle and whether it had been a lifelong habit.

"We run to eat," laughs Diane. Her father had struggled with his weight when she was young, but became fit and active at age 30 and thus encouraged his kids be active. Daryl learned at an early age that he was happiest and most energized when he was active. Running quickly became his regular workout. As fate would have it, the couple met out of college when they were simultaneously training for a marathon. While this was just the first of many for Daryl, it was the first and last for Diane – she enjoys half marathons more. As they built a life together and children came along, they found running efficient and effective. Initially, their kids rode in a baby jogger, then biked alongside, and eventually ran with their parents. Graham now runs for his college team and Claire has begun running half marathons herself.

The couple greatly appreciate and enjoy being active with their kids. It is no surprise that family trips are planned and taken with their various athletic pursuits in mind. An upcoming trip to Costa Rica is a favorite destination due to the many activities they have enjoyed in the past. When asked what an ideal day entailed, Diane commented: "A perfect vacation day might include a run in the morning followed by surfing and a bike ride in the afternoon when it becomes too hot to do anything else."

Daryl and Diane continue to run regularly as their "go to" form of conditioning for fitness and stress relief with Daryl adding long distance training for the marathons he enjoys competing in. He shared he is driven by the sense of accomplishment he feels from creating a training schedule and race strategy and then executing that strategy during the marathon. It certainly does not hurt that he does exceptionally well for a guy his age including multiple Boston and New York finishes. So, what is next for this dynamic duo? Diane would like to see Daryl run the Chicago Marathon or even venture further afield and run the Berlin Marathon. They have discussed another safari or even a bike trip. I look forward to keeping abreast of their pursuits and accomplishments. Maybe I'll hike Mt. Si this summer...



Good Luck, Kate!

As you know, my daughter Kate has been working with me and many of you for the past 8 months. She has been of great assistance in fine tuning administrative processes and servicing clients, and I have thoroughly enjoyed working with her. However, as you know, it is important for young adult children to expand their horizons in order to learn different business practices, processes and make new connections. And so, on April 17th, Kate will start a new job with a well-reputed wealth management firm in Bellevue. She is excited to begin her new journey but it is not without a pang. She shared that the highlight of her work at KSH Advisors has undoubtedly been getting to know you all. I will certainly miss her, but am excited to watch her grow, learn and develop in new ways.

Kathy's Corner - Iditarod

My husband Jay and I spent a few years after college graduation in Alaska during the mid-80's. It is where Jay grew up and if he returned to live post-college some of his school loans would be forgiven. It is also where I got my official start in the finance business as a stock broker at Merrill Lynch. But it was so much more. We built enduring friendships and enjoyed many adventures throughout the state including kayaking in uninhabited Prince William Sound, summer camping at Mt. McKinley, halibut fishing in Homer and snowshoeing at the abandoned Hatcher's Pass gold mines. It is truly "The Last Frontier" and I have immense affection for Alaska.

As Jay's parents have aged, we have begun to take annual trips to Anchorage to visit them and other family. And, although we adore the "Midnight Sun" of the Alaskan summers we are traditionally visiting during the Alaskan Iditarod which occurs in early March. If you do not know the story, it is a special one.

Almost 100 years ago, the nation was captivated by Nome, a little town in Alaska. A diphtheria outbreak had occurred and not enough vaccine was available to treat the ill. Stories filled the front pages of newspapers, it was all the talk in barber shops, homes and schools across the country. Would the town's people be saved?

Balto was a lead dog on one of the sled teams that braved blizzard conditions to get to Nome in time to save the ill. A sculpture of Balto sits in New York's Central Park commemorating the effort and Balto himself even attended the unveiling of the statue over 90 years ago.

The Iditarod Race today commemorates both the race to save lives and the large role that sled teams and mushers played in settling a growing Alaska territory purchased from Russia in the 1870's. The race is 1,049 miles long and one of the most demanding athletic feats today.

The Ceremonial Start to the Iditarod takes place on 4th Street in Downtown Anchorage and the energy and excitement is palpable as each of the sleds, mushers and dog teams approach the start one at a time. It is amazing to see the different personalities and roles each dog must fill to help the team: lead (fast, intuitive, and responsive), swing (lead dogs in training), middle (most dogs run here) and wheel (strongest and biggest). It is heartwarming to see the mushers interact with their dogs, touching, talking, encouraging, and/or settling them down. The dogs are ready to run, they've practiced, trained and they are ready to go just as the mushers are. And we are always delighted to be a part of this lovely tradition commemorating such an incredible story and the culture of old.

