

# PLANNING POINTS...

December 2015

	<u>12/31/2015</u>	<u>2015 4th Quarter Change</u>
S&P 500 *	1998.70	+ 6.45%
Russell 2000 **	1135.89	+ 3.59%
Barclays Capital Aggr. Bond Composite Index***		+ 0.55%

\*The S&P 500 is an unmanaged index of the largest 500 companies weighted by capitalization.

\*\*The Russell 2000 index is comprised of the smallest 2000 companies of the Russell 3000 Index which measures the performance of the largest 3000 U.S. companies based on total market capitalization. The Russell 3000 represents approximately 98% of the investable U.S equity market. Past performance may not be indicative of future results.

\*\*\* Barclays Capital Aggregate Bond Composite index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors

\*\*\*\*MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

**All of us at Gavin & Associates wish you and your family a happy and healthy New Year!**

## STOCK MARKET REVIEW

Stocks rose during the fourth quarter. The S&P 500 advanced 6.45%, but finished down .73% for the year. The smaller stock based Russell 2000 Index also moved higher by 3.6%, but finished down 4.4% for the year. The MSCI EAFE Index of international stocks gained 4.7% in the fourth quarter, but was down .81% for 2015.

We mentioned last quarter that the stock market had been trading in a very narrow range for quite some time before the sharp decline in August. At that time, investors feared the possibility of a new bear market. However, the market subsequently rallied and we have now returned to that same narrow trading range, waiting for some news or event to cause a breakout.

In addition to the narrow trading range and lackluster return for stocks in 2015, there were some wide differences of return for different investment styles. Large value stocks significantly underperformed large growth stocks. The difference in performance was about 10%. It will be interesting to see if value stocks can play "catch-up" after several years of underperformance.

The S&P 500 index is a capitalization-weighted index of 500 companies, meaning the largest companies have a significant impact on the performance of the index in 2015.

In 2015, the ten largest companies were up about 20% as a group; however the remaining 490 stocks averaged a loss of about 3%.

Many people will be offering their predictions for 2016. Keep in mind that the ability to predict the market in the short-term is nearly impossible. We believe clients should own equities for the long-term and they should not try and "time the market". Diversification and patience are the keys to successful investing and we encourage clients to have both.

## BOND MARKET REVIEW

Interest rates rose in the fourth quarter. The ten-year bond rate moved up about .25% to 2.30%. The FED finally raised interest rates for the first time in 9 years. We will no longer have to hear repeatedly about whether they will raise rates or not. The FED speculation will now focus on rising rates, over what time period, and by how much. The interest rate debate is far from over.

We continue to advise clients to focus on short to intermediate maturities if appropriate. Fixed income diversification is very important in this environment. Please let us assist you with an appropriate mix of bonds for your portfolio.

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## **PLANNING STRATEGIES**

### **FIDUCIARY DUTY VS. SUITABILITY STANDARD**

Your financial advisors, Dan and Michael, are governed by fiduciary duty (the highest legal obligation) and are bound by law to act in the best interests of their clients at all times. This statement should hopefully come as no surprise to you because we have been cultivating this principle for decades at Gavin & Associates, creating a culture of integrity, independence and trust.

Many advisors and brokers are not subject to fiduciary duty but to a lower standard called the suitability standard. There is a significant difference between the standards and we feel it is important for you to understand, especially as this topic continues to generate press. There has been ongoing discussion in DC about reforms for the financial industry that address fiduciary duty.

We want to assure you that Dan and Michael are held to the highest standards in the industry. The CFP Board (Dan and Michael are Certified Financial Planners™) and the Chartered Financial Analyst Institute (Michael is a member) are two of the strongest financial organizations that support fair practices. Both organizations develop, administer and enforce codes and standards that often exceed those from the regulatory bodies. In all cases, Dan and Michael must abide by the strictest requirements provided by either regulators or their membership.

#### **From the CFP Board website:**

When it comes to ethics and professional responsibility, CFP® professionals are held to the highest of standards. They are obliged to uphold the principles of integrity, objectivity, competence, fairness, confidentiality, professionalism and diligence as outlined in CFP Board's Code of Ethics. The Rules of Conduct require CFP® professionals to put your interests ahead of their own at all times and to provide their financial planning services as a "fiduciary" acting in the best interest of their financial planning clients. CFP® professionals are subject to CFP Board sanctions if they violate these standards.

CFP Board's rigorous enforcement of its Standards of Professional Conduct including releasing disciplinary information to the public distinguishes the CFP® certification from the many other designations in the financial services industry. Everyone who seeks CFP® certification is subject to a background check, and those whose past conduct falls short of CFP Board's ethical and practice standards can be barred from becoming certified. After attaining certification, a

CFP® professional who violates CFP Board's ethical and practice standards becomes subject to disciplinary action up to the permanent revocation of certification. Through diligent enforcement of its ethical and practice standards, CFP Board provides you with the confidence that your CFP® professional is both competent and ethical.

#### **From the CFA Institute Standards of Practice Handbook, 11th Edition:**

Standard III (A) clarifies that client interests are paramount. A member or candidate's responsibility to a client includes a duty of loyalty and a duty to exercise reasonable care. Investment actions must be carried out for the sole benefit of the client and in a manner the member or candidate believes, given the known facts and circumstances, to be in the best interest of the client. Members and candidates must exercise the same level of prudence, judgment, and care that they would apply in the management and disposition of their own interests in similar circumstances.

#### **BROKERCHECK®**

Have you seen those funny TV ads that start with...

*You wouldn't haul a load without checking your clearance (as a semi-truck loses its trailer after hitting an overpass)*

*You wouldn't take medicine without checking the side effects (as a husband asks his concerned wife about his gorilla-looking arms)*

...and end with...

*So why would you invest without checking BrokerCheck®?*

These commercials from FINRA (Financial Industry Regulatory Authority) are being used to promote a free online database that includes the employment history, credentials, licenses, as well as regulatory actions, violations, criminal activity and complaints for financial professionals.

The BrokerCheck® tool is very easy to use and should be utilized by all investors to evaluate their current and prospective advisors. Check us out on BrokerCheck® and encourage your loved ones, friends and co-workers to do the same.

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