May 16, 2016

Dear Valued Client,

Play Through or Take a Mulligan
(Apology to Non Golfers)

The 2016 Masters Tournament is in the history books and once again we witness that highly experienced professionals can have bad days. Whether you consider Ernie Els scoring a 9 on the first hole (he took 6 putts), or Jordan Spieth hitting 2 balls into the water on the 12th hole during the final round, both serve evidence that all it takes is one bad stroke (or decision) and your game is gone. Does this mean Els and Spieth will quit the game? Hardly. In a similar manner, the first quarter of 2016 was a challenging market, but investors should not give up because of one quarter.

Aiming For the Fairway

If an investor were to look at returns for the last quarter for the S&P 500 (-1.35%), he may come to conclude that first quarter results were "par for the course". This fails to take into account the fact that the S&P 500 declined 10.3% between the start of the year and mid-February, which is equivalent to hitting your tee shot in the water on the first hole. Just as golf is a game of patience (I can't believe I'm saying that) so is investing. For the patient investor who continued to play through, the S&P rebounded by almost 13%.

The MSCI Emerging Market Index also generated positive results, reversal from previous quarters' losses. This was partially the result of weakening US dollar, which also benefited the return of global bonds. However, I would caution investors to not extrapolate too much from these moves. As a golfer should know, just because he hits one shot straight does not imply and or guarantee that his next shot will be the same, and the same goes for the market. Referring to the S&P 500, had an investor determined that he wanted to sell at the market lows, he would have a permanent loss of capital. On the other hand, had he played through (stay the course) he would have finished the quarter slightly ahead of where he started.

Avoiding the Hazards

In the game of golf, the goal is to avoid the hazards – bunkers and water – and complete the hole in as few strokes as possible. As investors, the range of hazards is numerous, some known and others unknown. Often times, it is not the hazards that are the biggest risk, but how we as investors react. A good way to see how investors react to the market movements is to follow the flow of mutual funds. For example, investors redeemed assets away from high yield bond funds for the period of November 2015 through January 2016. Reason being, a concern with energy companies not being able to make interest payments plus the slow economic performance within the U.S. Just as the S&P 500 recovered from the February 2016 lows, high yield bonds have rebounded in price. For investors who chose to exit his high yield positions, he in effect played the wrong ball and took a two stroke penalty. Had he not let emotion get the better of himself, he could have taken a step back, noticed he was not hitting a Titleist and walked to the correct ball. In the same views, had he considered his long term allocation and why he incorporated high yield fixed income as part of his portfolio, he would likely not have sold when market conditions deteriorated.

Both investing and golf require patience, even after years of experience, a bad market event or a bad round of golf can shake ones confidence. After a period of market volatility, it's easy to second guess a decision, causing the investor to make unwarranted changes according to the direction of the market. In case of a declining market, an investor would become more risk adverse.

I, as your advisor, consider first and foremost, your objectives and risk tolerance when choosing your investments. Our clearly defined investment process has proven reliable over time.

New Law Changes

The Department of Labor (DOL) passed its' final rule last month requiring all investment advisors to act in their client's best interest when offering advice in retirement accounts. Another words, financial professionals who are not Registered Investment Advisors (RIA), must change their practice, to act as a fiduciary.

Really?

A big deal for a lot of advisors requiring a lot of changes.

We at M.K. Brown Wealth Advisory, an independent Registered Investment Advisor, have been for some time and will continue to act as a fiduciary with all of our clients' accounts, not just retirement accounts.

Not to worry, your interest comes first.

Thank you for your trust and confidence.

Sincerely,

Martin K. "Bo" Brown, CFP®, CIMA®
Financial Consultant

The S&P 500 is an unmanaged index of 500 widely held stocks The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. Keep in mind that indexes are unmanaged and individuals cannot invest directly in any index. Index performance does not include transaction costs or other fees, which will affect the actual investment performance. Individual investor results will very.