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YANKE FINANCIAL, LLC NEWSLETTER WINTER 2018

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Everything old is new again!

The Trend is Our Friend... For Now

Happy New Year! The biggest news to share personally is a new address. Starting Feb 1st, I will be using the address, phone and fax numbers at the top. I will not be changing my email address, toll-free number or webpage address. Please use the information you currently have until the end of January and then update your address book with what is above.

Important Note—Account Statements

My newsletters grow out of the conversations I have with people. Here's something very important for all investors to note about account statements this month… you might see a line item suggesting a loss in value for the month of December—even though your balance grew. How can this be when markets are up significantly? This is a reflection of dividends and, especially, capital gains during December.

The statement line item "Change in Value" is calculated by taking the month's ending balance, subtracting deposits and income, adding withdrawals and expenses, and then subtracting the beginning balance. Mathematically, when income distributions are higher than growth in the account balance, the "Change in Value" will be a negative number.

		This Statement
Beginning Balance	**$**	**7,066,267.07**
Deposits	$	0.00
Income	$	197,737.34
Withdrawals	$	(75,764.85)
Expenses	$	(6.55)
Change in Value	$	(77,634.33)
Ending Balance	**$**	**7,110,598.68**

Change in Account Balance

When distributions are small, this change isn't very noticeable. With the rise of the markets last year, capital gains distributions are very noticeable.

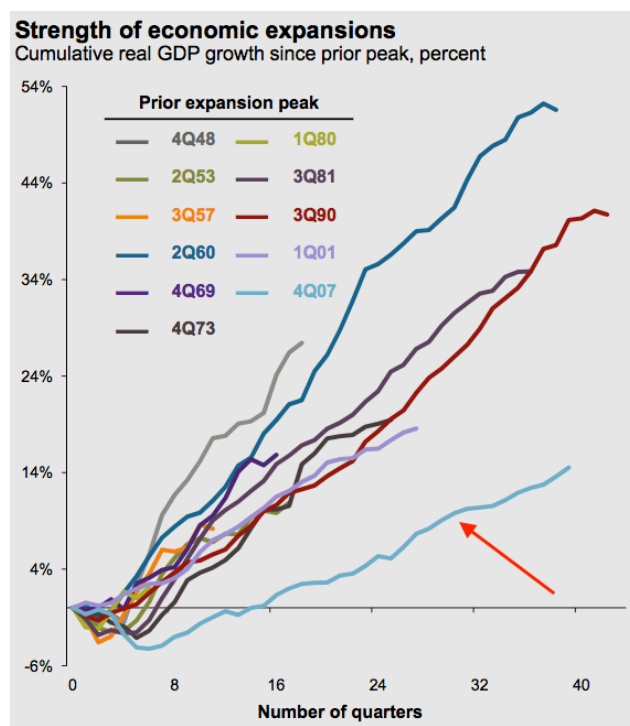
This means that investors may actually see a line item suggesting a loss of market value on their December statement despite strong returns! Offsetting the "change in market value" will be "income" paid out during the month. The difference between the ending balance and the starting balance gives a better measure of investment results.

Bear in mind, all of this depends on individual holdings in accounts. If you see values on your statements that you don't understand, let's talk about it. The worst investment plan is the one that is never reviewed or fully understood.

Changing Assumptions

It's a fact of life in America that we tend to have short attention spans in the age of information overload. Prognostications by pundits and economists are easy when the predicted result is too far in the future for the prediction to be remembered or when assumptions are valid for only short spans of time. Every quarter brings new assumptions with new prognostications. This can be a System Justification Bias where we naturally defend the status quo.

Last year at this time, economists were predicting a continuation of the last decade's status quo and forecasting less than 2% annual GDP growth as the "new normal." This year, the same economists are projecting 3-4% average annual GDP growth. What changed? The assumptions changed with a new presidential administration and new priorities. Pro-growth policies are having an effect on job-creation, investment, and risk-taking… and economists are now forecasting stronger economic models.



MY BUSINESS PHILOSOPHY	ONLINE RESOURCES
Do unto others as I'd have them do unto me. I don't like to pay people just to have a conversation with them. Let me do a confidential financial review for you. There is no obligation.	My webpage has a wealth of resources and calculators for the online investor. Go to www.yankefinancial.com. Clients can also access their accounts for statements and tax forms.

Continued from the front:

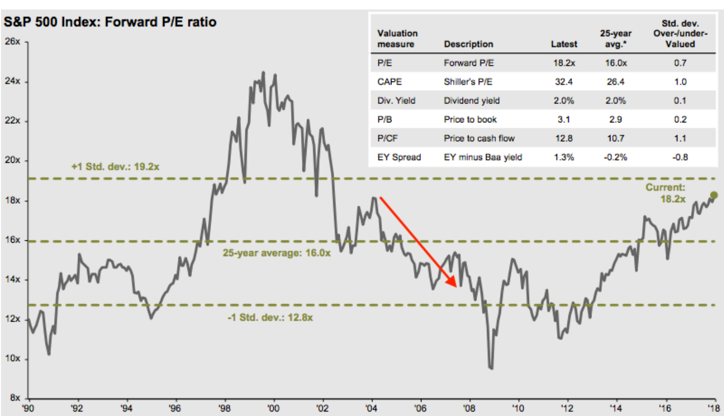
Are Stocks Still an Attractive Asset?

I have found that investors get a bit of paralysis when considering the equity markets. When rising, valuations are too high and headed to a correction. When falling, investors are afraid to join a "weak" market. The most important action to take is to participate… especially when it's difficult. Investments only work for the participants.

The current narrative is that valuations are too high. As the indices set new records almost on a daily basis, there is rising anxiety. I would simply point to history to show that there is real value in investing—even in rising markets.

I'll pause for a moment here and talk about PE ratios… what are they and why do they matter? It is calculated by dividing the price of a security by the earnings of the underlying entity. This ratio is a way of comparing the relative valuations of different securities and markets. It is considered high when historical values or alternative investment options are lower. The ratio has two components and both are important when considering valuations.

The last bull market extended from the Spring of 2003 to the Fall of 2007. During that time, the S&P 500 doubled. What's interesting is that the PE ratio during that time actually went from about the level it is now (less than one standard deviation above the long-term average) to lower than the average. Let me say that again… while the market doubled over 4.5 years, the market PE ratio fell!



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.2x	16.0x	0.7
CAPE	Shiller's P/E	32.4	26.4	1.0
Div. Yield	Dividend yield	2.0%	2.0%	0.1
P/B	Price to book	3.1	2.9	0.2
P/CF	Price to cash flow	12.8	10.7	1.1
EY Spread	EY minus Baa yield	1.3%	-0.2%	-0.8

This doesn't mean that the stock market will only rise from here. Volatility is a natural part of any market. History tells us that the average market correction during any given year is nearly 14% (over the last 38 years)—and that's just the average. Yet, 75% of the time, the stock market finishes the year positive. As long as we have economic growth (even moderate growth), markets should continue to expand. Don't panic when you see the market behave normally by falling during a long-term rising trend. "Normal" means a nerve-jarring market correction at some point in the average year—despite the relative calm of recent market experience.

Much of the weakness in the equity markets over the prior few years was due to the weakness of earnings. Looking deeply into the earnings numbers shows that they were significantly impacted by two main factors: the sudden rise of the dollar nearly three years ago and the sudden fall of the price of oil. Nearly half of S&P 500 earnings are from foreign sources. As both the dollar and price of oil have stabilized, earnings returned to their long-term trends and this will also bolster forward stock valuations.

The improved forecast for US GDP growth is reflected globally, as well. While valuations are high domestically, there is real value overseas. Although it didn't help as expected during recent years, keep a strong global allocation.

Greatest Risks

Right now, the greatest risks to the economy and the markets are the unknowns. The next crisis may be caused by political instability, bad actors, or acts of God. However, without those outside factors the current trend is one favorable to business, workers, and investors.

As the price of oil has recently risen, some inactivated rigs have been reactivated and brought back into service. This has bolstered crude oil inventories and should keep the price of oil in check for the foreseeable future.

Economic forecasts are only considered relevant when looking one year into the future. Beyond that, there are too many assumptions to claim accuracy. Currently, economists are not forecasting recession in the foreseeable future.

Do Something

What I've said so far shouldn't be an excuse for inactivity, though. Investors should still remain vigilant with their portfolios and review their holdings. I believe this environment is where the best managers will have an edge over "passive" managers seeking to match index performance. Sit down with financial advisors and make sure your investments are prepared for the future and consistent with your objectives.

Summary and Call to Action

My investment outlook favors equities over bonds. This is an environment for strong investment managers and careful stock selection. Income-oriented investments may struggle in a low—and eventually rising—interest rate environment. I think those investors doggedly holding traditional debt instruments will find that there are more ways to lose money in bonds than through issuer default.

What to do now? **Take the long view with your investment assets** and dust off financial plans. When was the last time you reviewed your plans? Your estate plan should be reviewed at least bi-annually and updated with every change of life. Most importantly, make sure you have carefully delegated who will execute your documents for you. To review existing planning documents or build new plans, make a resolution to work with an advisor this year.