Shannon & Associates, LLP | 1851 Central Place S, Suite 225 | Kent, WA 98030 | 253.852.8500
KG Advisors, Inc. | 924 Capitol Way S, Suite 212 | Olympia, WA 98501 | 800.KGA.4916 | info@kgadvisors.com

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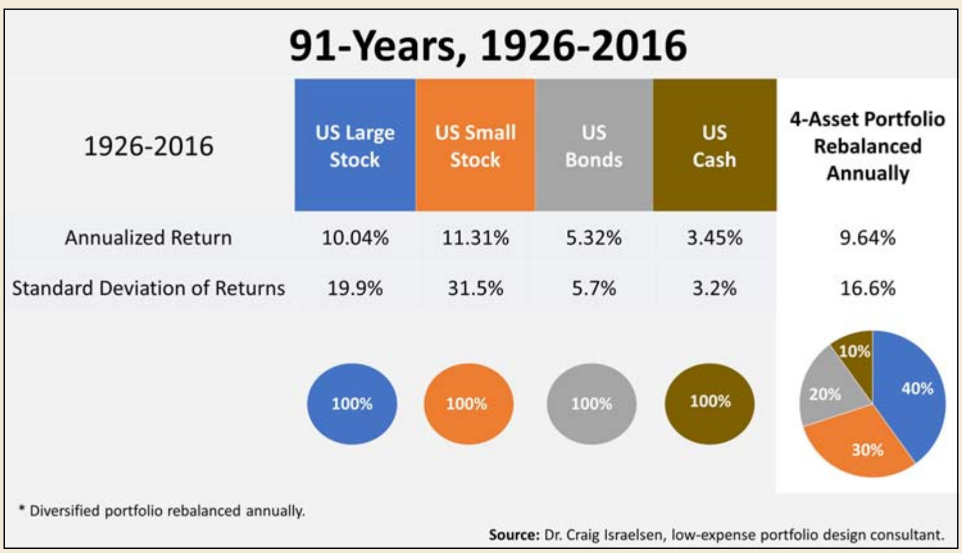
Investing For The Long Run Amid Volatility

With stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.



Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.

Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the eight-and-a-half-year bull market grows older, and the new tax law increased the chance of a Federal Reserve interest-rate policy mistake quashing growth for allowing

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The New Law Tax Gives Roth Converters A Little Less Wiggle Room

Retirement savers, give thanks! The recently passed tax plan doesn't harm you — much. Congress, for instance, did not lower maximum contributions for tax-deferred plans, like traditional 401(k)s and individual retirement accounts. Nor did Congress tinker with moving your money from a traditional plan into a Roth, where you pay the taxes up front and appreciation grows tax-free and your withdrawals won't ever be taxed.

With one small exception. Until Congress changed the law right before the holidays, some people who did a Roth conversion could decide they wanted to un-do it, which the tax experts call a recharacterization. Not anymore.

Backing out of a Roth conversion was a convenient deal. Maybe at year's end, you discovered that other unanticipated deductions, income or market conditions made the conversion look like a boneheaded idea. Maybe it turned out you lacked the money you thought you'd have to pay the Roth tax. Maybe the stock mutual fund you converted had slid since you moved the fund into a Roth IRA. Why pay taxes on higher-cost stock when you can make the conversion disappear – and maybe later convert at the lower level?

Under the new law, for tax year 2018, you can't have that flexibility anymore. Once you make the switch, you are stuck with your choice. The good news: if you want to recharacterize a 2017 Roth conversion, you have until Oct. 15, 2018 to do it.

Bitcoin, Chasing Your Tail, And Investing

Thinking about Bitcoin? Could be a good time to hop on, right? Wrong! Usually, by the time the average investor jumps on a gaudy, freewheeling bandwagon, it's too late. The price spike has already occurred. If the investment is a fad, a sickening plummet may well await you.

Bitcoin blasted to a record high at rocket speed, hitting $19,783 on December 17, 2017, before plunging 25% in the next 10 days. The crypt-currency may yet be destined for greatness over the long-term, but its supersonic ascent and subsequent nosedive look much like other notorious investment fads.

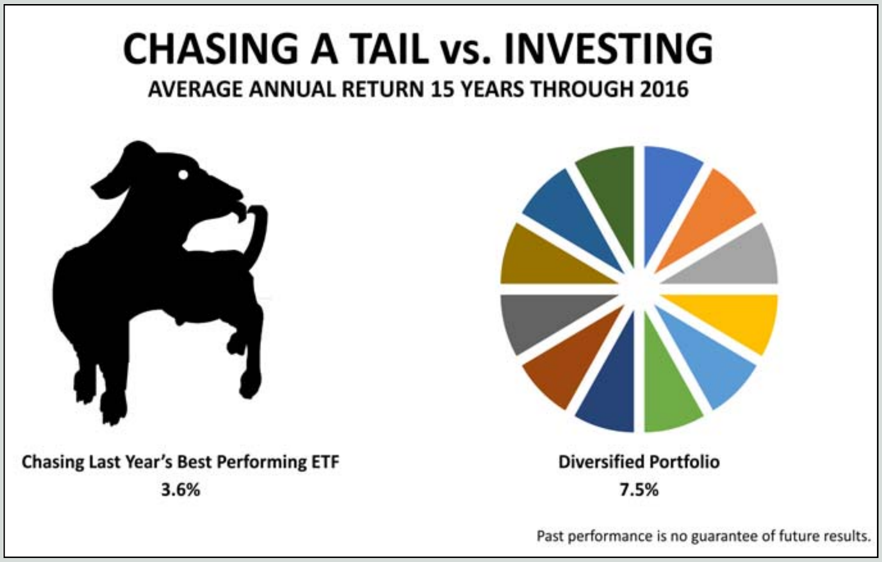
In 1637, Dutch investors lost their bloomers on tulip bulbs. During tulip-mania, prices for bulbs reportedly rose from November 1636 to February 1637 by 2000%, according to academic research published on Wikipedia.

These objects of desire were flowers. It made no sense. The crash of the bulbs shattered lives and has ever since served as a beacon in financial history, warning investors of the risk in chasing performance.

Investing in Bitcoin makes little sense considering that it is one of many crypto-currencies being mined on the Internet. The value of a crypto currency is set by supply and demand and supply is set by a software program that's not tied to a sovereign state. Transactions are easily hidden from tax authorities. Ultimately, crypto-currencies compete with sovereign nations, which is why some governments are starting to move to regulate them. In the time this was written, not only had the price of Bitcoin plunged 25%, but South Korea became the first nation to ban all anonymous crypto currencies and regulate the rest.

Bitcoin's ascent was easy to spot as a mania, but the modern-day danger inherent in chasing hot performing investments is often far less apparent. For example, say you bought the No. 1 performing Exchange Traded Fund annually for 15 years through 2016. Sound like it could be a strategy for success? Think again, according to Dr. Craig Israeslen, Ph.D., who teaches portfolio design techniques to financial professionals. Your average annual return was 3.6% — less than half the annual return of a broadly diversified portfolio invested across 12 different types of assets equally and rebalanced systematically every year over the same 15-year period through 2016.

Human nature makes people susceptible to investment manias, shiny bright objects like Bitcoin, and chasing last-year's winners. It's why people will always need investment professionals to stay focused on economic fundamentals, quantitative analysis, controlling fear and greed. ●



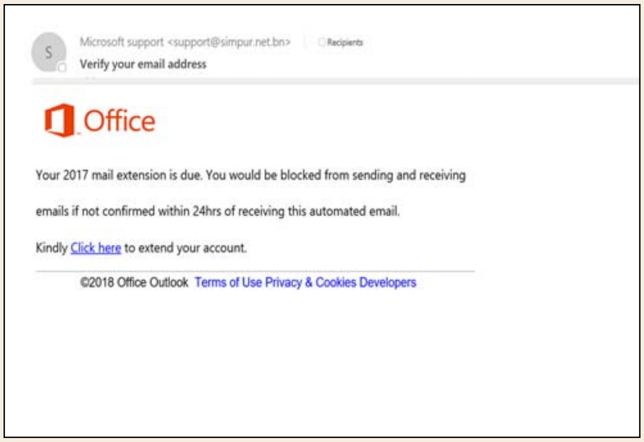
Six Tips To Avoid Phishing Scams

"Fake news" has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick even you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, and computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office use an improper style in "24hrs" and the capitalization of the phrase, "Kindly Click here" should arouse suspicion. When you look at this email's bottom line, the copyright is "Office Outlook." The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.

Reply email address. In this



You Don't Need Perfect Knowledge To Invest Well

If you had the power to predict which one of 12 types of investments representing wide range of assets was going to be No. 1 every year for each of the 15 years from 2002 through 2016, you would have averaged a 29.9% annual return.

Of course, no one has the power to predict which investments will be No. 1 every year. Surprisingly, accepting that you cannot predict the future and maintaining equally-weighted positions in the same 12 types of investments in the same period averaged a 7.5% annual return with less volatility.

To be clear, to get that 29.9% return every year from 2002 through 2016, you would have had to invest 100% of your portfolio in the No. 1% asset class on January 1 and held it until the end of the year, and then bought the coming year's leader. The yellow boxes highlight the No. 1 asset classes in each of those 15 years. On January 1, 2003, you would have had to choose which one of the 12 types of investments would be No. 1 again, and you would have had to do that annually for 15 years to average 30% return.

It's obviously totally unrealistic to have expected this. It would take a miracle to pull this off!

However, even more miraculous is that common sense, an understanding of the history of investing, and rebalancing annually, achieved an annualized total return of 7.5%, and that may be enough to achieve your financial goals in life.

This approach to investing is grounded in a large body of academic research developed over the past 70 years, generally called "modern portfolio theory." It's an approach we believe has merit, and it is very different from trying to predict the future or picking next year's No. 1 performer.

The lesson here is that you do not need perfect knowledge to succeed financially in life. You do not need a miracle in your portfolio. Sticking with a plan for the long-term that is not based on miracles but, rather, on moderation, may be enough to pay for all you need in life.

Withdrawing money from leading investments and deploying it in lagging types of assets to reset a portfolio back to equilibrium at the end of every year, lowered the risk of this portfolio and returned enough to enable financial independence.

It's counterintuitive but those are the facts. The data is from Dr. Craig Israelsen, an expert of low-expense portfolio design, whose research we license to share with you. Of course, past performance is not a guarantee of your future results. Nor is a quantitatively-driven discipline infallible.

However, with stocks appreciating sharply in 2017 and early 2018, be sure you are rebalancing properly. You can call on us for prudent portfolio management based on economic fundamentals and quantitative analysis or with any questions about your portfolio. ●

If You Had Perfect Knowledge And Picked The Top Asset Class Annually

29.88% Annualized, 2002 Through 2016

Year	Large U.S. Stock	Midcap U.S. Stock	Small-Cap U.S. Stock	Developed Non-U.S. Stock	Emerging Non-U.S. Stock	REIT	Natural Resources	Commodities	U.S. Bonds	TIPS	Non-U.S. Bonds	Cash
2002	(22.12)	(15.77)	(14.63)	(15.61)	(6.00)	7.88	(13.00)	22.01	10.25	16.57	19.59	1.65
2003	28.39	35.20	38.79	38.45	56.28	38.96	33.63	25.56	4.10	8.40	14.78	0.90
2004	10.75	16.14	22.65	19.75	25.95	33.80	24.24	36.38	4.34	8.21	10.33	1.11
2005	4.79	12.17	6.20	13.39	34.54	12.00	35.79	27.83	2.43	2.65	(6.66)	3.01
2006	15.69	10.05	19.40	26.00	29.53	35.20	16.30	11.47	4.33	0.29	6.44	4.88
2007	5.39	7.64	(6.96)	10.97	39.05	(16.38)	33.82	31.34	6.97	11.46	10.57	5.14
2008	(36.97)	(36.38)	(31.99)	(43.14)	(52.77)	(36.98)	(42.78)	(30.80)	5.18	(2.52)	4.41	2.77
2009	26.42	36.87	30.52	31.41	76.28	29.76	36.92	15.08	6.03	11.38	6.51	0.53
2010	14.93	26.17	24.97	7.52	18.99	28.44	23.23	11.86	6.51	6.10	4.13	0.06
2011	2.06	(1.99)	(4.05)	(12.18)	(18.68)	8.62	(7.81)	(2.71)	7.72	13.40	3.60	0.04
2012	15.84	17.58	18.78	17.22	18.84	17.67	1.71	3.31	4.04	6.80	5.85	0.04
2013	32.21	33.08	36.57	22.62	(5.00)	2.42	15.89	(7.57)	(2.15)	(8.65)	(3.66)	0.02
2014	13.53	9.42	10.55	(5.04)	0.60	30.29	(10.21)	(28.18)	1.32	(1.17)	8.83	0.01
2015	1.34	(2.40)	(4.67)	(0.90)	(15.35)	2.36	(24.52)	(18.64)	0.92	(0.15)	1.08	0.05
2016	11.80	20.33	24.80	0.96	11.75	8.53	30.13	4.27	1.42	2.69	4.67	0.33

Past performance is not a guarantee of your future results. Source: Dr. Craig Israelsen

US Large Cap represented by S&P 500 Total Return Index. US Mid Cap represented by S&P MidCap 400 Total Return Index. US Small Cap represented by S&P Small Cap 600 Total Return Index. Non-US Developed represented by MSCI EAFE Index NR USD. Emerging represented by MSCI EM Index GR USD. Real Estate represented by S&P Global REIT Index TR USD. Natural Resources represented by S&P North American Natural Resources Total Return Index. Commodities represented by Deutsche Bank Liquid Commodity Optimum Yield Diversified Commodity Index Excess Return. US Bonds represented by Barclays US Aggregate Bond Index TR USD. TIPS represented by Barclays US Treasury US TIPS Index TR USD. Non-US Bonds represented by Barclays Global Treasury Index TR. Cash represented by US-TREAS Stat US T-Bill 90 Day TR.

phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

Links. Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

KG ADVISORS

Shannon & Associates, LLP
1851 Central Place S
Suite 225
Kent, WA 98030
253.852.8500

KG Advisors, Inc.
924 Capitol Way S
Suite 212
Olympia, WA 98501
800.KGA.4916

info@kgadvisors.com

Investing For The Long Run

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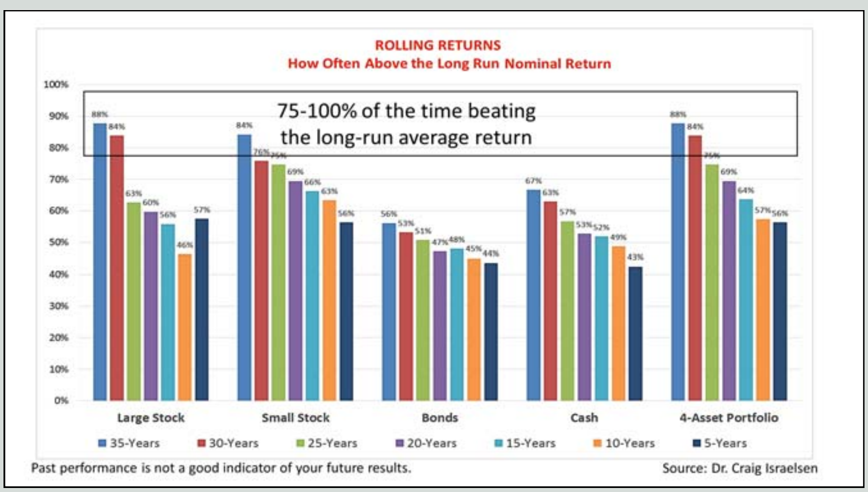
inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average company in the S&P 500 was expected to earn $131 a share in 2018, but that was revised to $152 and could be boosted again. S&P 500 operating earnings per share as of February 7, 2017 were $132.40 for 2017, $155.26 in 2018, and $170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, $146.19 and $160.69.



With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.