



Third Quarter 2017 Review

Dear Clients:

We are rather pleased with the performance of your assets. The growth allocations have year-to-date returns of 10% or more, and the balanced allocations returned 7.5% to 8%. Excellent returns from portfolios positioned to better withstand a market decline.

Are stocks overvalued? Are we about to fall into recession? It is tempting to get more defensive. We hear constantly in the financial news that the US is enjoying its longest-ever bull market and that the price-to-earnings ratio (specifically, Robert Shiller's cyclically adjusted ratio, the CAPE 10) is now two times its historical average. Surely the party can't go on forever!

But as Fed Chair Janet Yellen recently commented, expansions do not just die of old age. And a thoughtful article by Larry Swedroe, Director of Research for the BAM Alliance, laid out five reasons why the historical average of the price-to-earnings ratio is a poor indicator of whether investments are overvalued:

1. America's historical progression to a developed economy;
2. Financial accounting standards changes;
3. Far fewer companies paying dividends;
4. Some high PE ratios caused by ample cash and limited debt;
5. A declining liquidity risk premium.

Chief Allocation Strategist Steve Bobo and I refuse to bet our clients' money on visceral fears cloaked in questionable market indicators. We insist on considering multiple scenarios. While the longest ever bull market runs longer, we want our clients to participate in the gains. When markets pull back (hopefully for a brief and shallow breath), we expect our clients' assets to hold up better. We will continue to control what we can, especially costs, in a methodical and disciplined manner.

Please refer to the following statements for the performance of your assets and their quarter-end balances, and please contact us if you have concerns about your accounts or if you want to geek out with us on p/e ratios. Our money continues to be invested alongside yours.

Sincerely,

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