

Olympic Spirit

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Q3-2016 Letter to Investors

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Charles Jock hit the ground running as a 3-year-old. Charles was born in an Ethiopian refugee camp after his parents fled the civil war and famine in Sudan. For over a year, Charles ran for his life, as his father, Dr. John Jock (dentist), trudged his family across the harshest terrain of mountains, jungles, and deserts to save them from the war and genocide of their homeland. The journey was ridden with life threatening encounters that came to a close when the Jock family was granted asylum in the United States. Charles grew up in San Diego. He was a natural born athlete and prolific runner. It is said that Charles' race, the 800 meter, is the toughest on the track. Charles won the state championship his senior year of high school. Running for the University of California, Jock ascended to the top in the field and won the NCAA Division-I title. Jock was projected to make the 2012 Olympics and contend for the USA 800 meter squad. Charles took the lead from the start; he led the race for 600 meters before he suffered a hamstring pull. Jock finished the race in last place; it was crushing. At this year's Olympic trials, with only 200 meters left in the race, Jock was in next to last place. He closed the gap with a finishing time of 1:45:48, fast enough for 3rd place and a trip to Rio!

Each of us has been dealt a hard blow or a setback at times in our lives. Whether health related, financial, personal, or psychosomatic, it can sure mess us up for a while. Investments, expenditures, incomes, jobs, education, governments, and markets are constantly changing. The manner in which we adjust to these never-ending changes is critically important. Wall Street, advertisers, companies, and the media are constantly filling our heads with distortions. During the dot-com bubble, the euphoria surrounding the stock market was unbridled. In the run up to the financial crisis, real estate was the new "gold rush," but in reality it was nothing more than "fool's gold."

Charles Jock

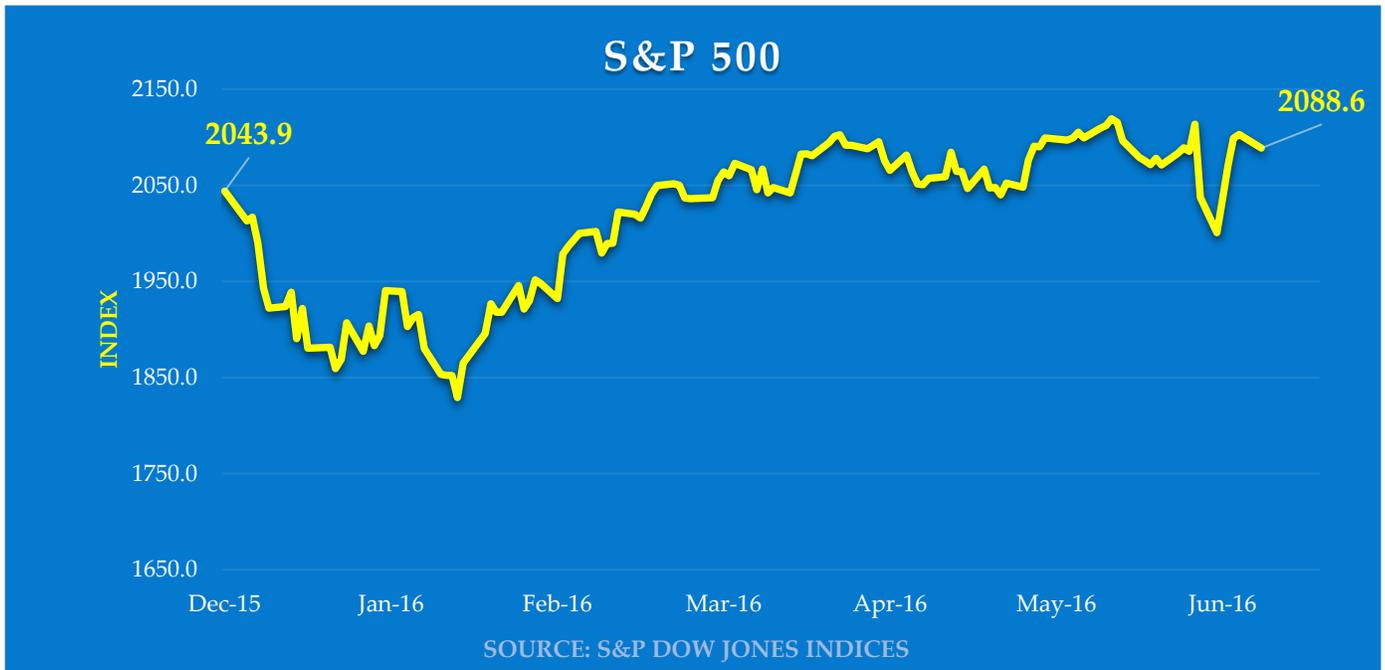
"Running at this speed is like running with a monkey on your back; a really heavy monkey, and then hitting a solid wall. And then going swimming with the monkey on your back, and then trying to get out of quicksand, and then running in a tornado. You can't move your arms. You can't move or lift your legs. It burns. It feels like someone detached your thighs and threw them in a fire. It's the worst pain ever."



Investment Markets Update

Thus far in 2016, the more things change, the more they stay the same. Our nation had a negative burn rate of over \$438 billion in its recent fiscal year. It has been nearly two decades since our nation ran a surplus or balanced budget. The nation's debt is over \$18 trillion with no end or solution in sight.

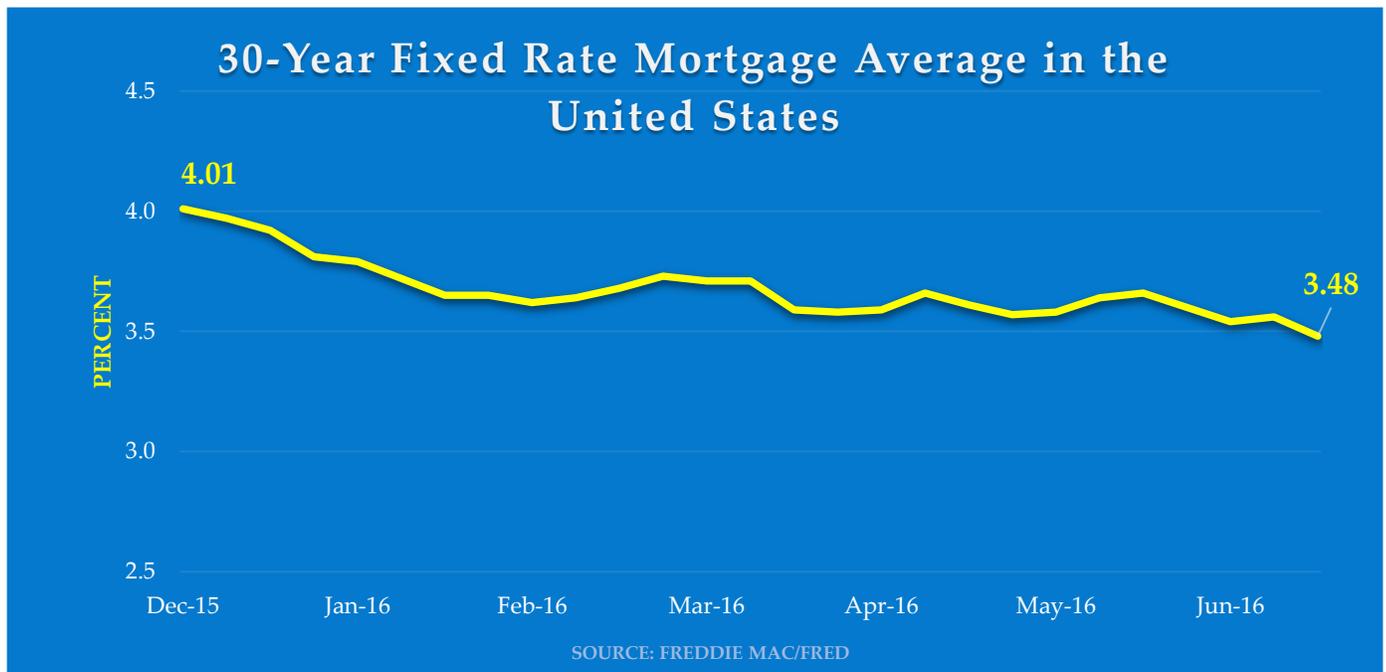
The S&P 500 is trading virtually at the same level now that it traded at during July of last year. The lackluster performance was accompanied by increased volatility. At the same time, the market has shown considerable resiliency. In February, stocks fell into correction territory on fears of the Fed escalating the frequency of interest rate increases, oil prices crashing, and deteriorating global growth.



These fears proved to be short-lived and the imminent fear of recession faded as GDP continued plugging along and consumer spending accelerated. Consumer spending increased by 1.1% in April, the best month since 2009, when consumers virtually stopped buying.

The next scare came via Brexit. Against all odds, the Brits voted against the power brokers of the world and chose to secede from the European Union. The immediate shock sent markets on a rollercoaster ride. Bonds, stocks, commodities, and currencies were affected. The S&P 500's movement was violently down on the news of this announcement and strikingly up on the subsequent days to follow. Bonds rallied around the globe, sending U.S. Treasury yields to generational lows. The 10-year treasury rate has declined from 2.3% at the start of the year, to below 1.5% presently. The bond market is supposed to be a bellwether for the economy at large. Is this time different? Yes. Central Banks in the developed world are full throttle when it pertains to quantitative easing. The central bankers continue flooding the world with cheap money by buying government and corporate debt. The FED, ECB and JCB have very deep pockets to buy as much public debt as they choose.

What can we expect in the near future from this abundance of cheap money? I suspect higher prices in multiple asset classes. If investors can earn 2% dividends from stocks or less than 1.5% from 10-year government securities, which or these two options, makes the most economic sense? Take a look at real estate and the housing market. Just this year, 30 year mortgage rates have contracted from 4% to 3.5%. According to the Census Bureau, the average cost of a new home as of May 2016 was \$358,900; the average cost was \$340,800 a year ago. At today's prices, a 30 year mortgage at 3.5% interest would cost about \$1,050 per month; at the beginning of the year, the payment would have been \$1,200. That's an \$1,800 yearly savings! Those extra dollars are going to end up somewhere: personal expenditures, savings and investments, and gifts to name a few. Take advantage of these rock bottom rates while you can.



Making a living, earning, saving and investing is never black and white; life and financial affairs are ever-changing. We are an evolving and aging society. Personal investing is just that, personal. No two investors are the same. I am your money manager because of the wise financial decisions you've made. You saved regularly; keep doing it! Invest in diversified assets: bonds, stocks, life insurance, annuities, real estate, and small businesses among others. Life is full of twists and turns, but it is wonderful. Invest according to your goals and risk tolerance. Next month, the best athletes in the world will compete in the summer Olympics. There will be athletes like Charles Jock trying to win a medal for Team USA. When the U.S. wins its first gold medal, reflect for a moment on your own financial affairs. Think about the gold that you've accumulated and the standard that you have lived by to achieve it. In that vein, you too are an Olympic Gold Medalist – you've earned it!

Have a spectacular summer!

—Chip