

July 20, 2016

## **PWFS Update: New Office and an Open House – Alex III**

On Friday, May 13 we consolidated our two locations into one new office in Prairie Village, Kansas, near the Corinth Square shops. We are all moved in, but I still have a few pictures to hang and boxes to unload.

In June of 2016, we welcomed Rey Arellano as a financial planning associate. Rey comes to us from Wichita via Oklahoma, City. Please see the enclosed bio to learn more about him.

We will celebrate by having an open house on Thursday, September 22<sup>nd</sup>, 3:00 pm to 7:00 pm. There will be heavy hors d'oeuvres, libations and laughter. Watch for your invitation or just drop by. We hope to see you here!

## **What's Going On In Britain? – Sandi**

June brought us a surprise twist when 52% of the folks in Britain decided to leave the European Union (EU). The 48% of Brits who wanted to stay in the EU weren't too happy. Many attribute the possible loss of jobs to fresh immigrants as a chief factor swaying the vote. People can move about fairly freely among the EU countries. The mass immigration from the Middle East (Syria, etc.) has consequently raised fears among EU residents. Those working in Britain wanted to ensure no one else came to take their jobs.

Britain's Prime Minister Cameron resigned, and they have a new Prime Minister, Theresa May. EU's leaders have met in Brussels, with Cameron, to start initial steps on the road to England's divorce over the next couple years. Already the EU leadership is warning Britain that they must accommodate free movement of people if Britain wants to keep any remnants of free trade with the remaining countries of the EU.

What's next? Britain needs to invoke Article 50 to formally start the EU extrication process. Some have speculated that day may never come. There seems to be confusion on which British politicians will step up to lead the country out, now that Brexit has passed. The economic price, now increasingly visible, may alter people's perceptions. They will lose easy access to 500 million EU customers. Some politicians and strategists say that leadership may drag their feet and never actually invoke Article 50.

So what happened in the markets as a result of this drama?

Britain's stock market, when viewed through their FTSE 100 Index of big global companies, fell 6% and then actually recovered 10% higher the next week! But Europe's Stoxx 600 Index plunged 11% that Friday and Monday, and only recovered 7% the following week, reflecting concerns that further fallout may ensue if other countries contemplate leaving.

The British pound dropped about 10%, to its lowest level in 30 years. That will help Britain's large global companies export more. Overall, Britain's GDP projections have been lowered from 1.9% to .9% for 2017 policies typically dampens economic growth. Britain's economy is the 5<sup>th</sup> largest in the world.

The U.S. stock market dropped 6% on the surprise the following Friday and Monday, then moved on to regain that ground. Investors piled into US Treasuries as a safe haven, dropping the yield on the 10-year U.S. Treasury Note from

1.9% to 1.4%. The Brexit vote has diminished the likelihood of a second interest rate cut from our Federal Reserve System. Markets initially showed only a slight possibility late in the year. Now many see that as delayed until 2017.

What are we at PWFS expecting next for you? We may have volatile markets each time a step is taken towards exit. We may have rocky markets if an EU country makes headlines about leaving. We expect the central banks - our Federal Reserve, the ECB, Bank of Japan - to attempt to stimulate or maintain growth.

Our American companies get 70% of revenues from the U.S and 30% from overseas. Europe on the other hand is far more dependent on exports and international trade, getting 50% of revenues among themselves.

Corporate earnings for large companies in the U.S. for 2Q are projected to be down -4%, compared to last year's 2Q. Most economic indicators have been steady or improving; even consumer spending has been on the move. There are a very small handful of indicators that portend a break in this pattern, jobs created for instance. Most economists are sanguine.

In our diversified portfolios, where your money is invested, we've gotten good returns from U.S. stocks and bonds but not from overseas investments so far this year. We're pleased with overall portfolio returns compared to the markets themselves. We are still not expecting double-digit returns from portfolios at this stage in the business cycle.

As we've covered in your meetings, this is year 7 of the current bull market, the second longest we've had. The double-digit returns, back in 2012 and 2013, are likely behind us until the next cycle. As long-term investors, we know that garnering solid returns requires patience, and realistic investing strategies that work. It's important to know what you know and what you don't know, and invest accordingly.

## **Global Investing – Is it Worth it? – Alex**

The last several years we have discussed the disappointing returns we have experienced from our international funds. When we discuss your investment returns we are quick to point out that the overseas markets are underperforming our domestic stock markets. It is a reasonable question then to ask, "why invest overseas"?

For this discussion, our domestic market is represented by the S&P 500 Index and the overseas market, is represented by the MSCI EAFE Index. What is the MSCI EAFE Index? The MSCI EAFE Index is designed to represent the performance of large and mid-cap stocks across 21 developed markets, including countries in Europe, Australia and the Far East, excluding the U.S. and Canada.

The USA contributes 22% of the global Gross Domestic Product. The remaining 78% of global GDP comes from outside the United States. The United States has 36% of all stock and bonds in the world. If we do not invest in overseas markets, we limit our choices to invest in some of the great companies around the world.

The S&P 500 Index has averaged about 7.5% the past ten years. The MSCI EAFE Index has average about 3.5% over the same time frame. If an investor could invest \$10,000 in the S&P 500 Index for ten years and average a 7.5% return they would end up with \$20,230. The MSCI EAFE would have returned \$14,106 with the same investment and time frame. Again, why invest overseas?

The overseas markets did outperform our markets for six consecutive years from 2002 through 2007. Markets tend to move in cycles and the current cycle favors the USA. Our market valuations are now higher than its ten-year average, and the overseas averages are close to their ten-year average. At some point our valuations will cause investors to look for cheaper alternatives. The "credit crisis" of 2008-09 forced the Federal Reserve to act quickly and aggressively to stabilize our banking system. Interest rates were lowered in the USA to near zero. Europe moved slower than our Federal Reserve to support their economy. Investors reacted by buying USA equities and taking a wait and see attitude to overseas equities.

The MSCI EAFE countries have now taken more aggressive steps to stimulate their economies. It is hard to predict when their efforts will produce better results. We believe that investing overseas will bring better returns in the future. It is also our opinion and practice to diversify our clients' portfolios in high quality stocks and bonds across the globe. With that said, we are not increasing our exposure to international stocks at this time.

Below are the year-to-date returns of various standard market indexes for year-to-date of July 18, 2016:

<b>Asset Class</b>	<b>Index / Category</b>	<b>2015</b>	<b>YTD as of 7/18/16</b>
Cash & Cash Alternatives	Average 1-year CD rate	0.27% (annual yield)	.29% (annual yield)
U.S. Govt & Corp. Bonds	Barclays US Agg Bond TR Index	0.6	5.4
World Bonds	Morningstar World Bond Category	-4.0	6.9
U.S. Large-cap Stocks	S&P 500 TR Index	1.4	7.3
U.S. Small-cap Stocks	Russell 2000 TR Index	-4.4	7.2
International Developed Stocks	MSCI EAFE NR USD	-0.8	-1.8
Emerging Market Stocks	MSCI Emerging Markets PR USD	-17.0	9.6
World Allocation	Morningstar World Allocation Category	-4.2	5.1
Diversified Commodities	Morningstar Long-Only Commodity Index	-26.3	10.2
Multi-Alternatives	Morningstar Multi-Alternative Category	-2.6	1.0

Source: Morningstar.com, Bankrate.com

*Inclusion of these indexes and other information herein is for illustrative purposes only and should not be considered indicative of future results. Individual investor's results will vary. Information included herein has been obtained from sources considered to be reliable, but we do not guarantee that such material is accurate or complete. Expressions of opinion are as of this date and are subject to change. Nothing contained herein should be considered an investment recommendation. You should consider any tax or legal matters with the appropriate professional.*

## **Do You Have Children Who've Tied The Knot? – Sandi**

Summer is the season for weddings, tears of joy, gorgeous bridesmaids' dresses, Bob Marley tunes in Jamaica, champagne toasts, and dancing the wedding night away. If you have children who've recently married in the last year or two, take advantage of our "next generation" (free) consultation.

We are happy to sit down with them and review the financial steps they should address in the first year or so. As fun as weddings are, financial planners view the world differently! A wedding means getting the young adults off to a solid start.

At these consultations, we cover planning the wedding (who contributes what, how much, opening lines of communication), if that's still on the horizon.

We review cash flow management (yes, that's budgeting!), and some of the tools available to make it easy. We walk through two ways to approach budgeting as a couple, using the bucket approach (his, hers, joint) and the spending-limit approach (talking first if I want to buy an item over a set limit). Should they view it jointly or separately?

We go over existing student loans and credit card balances, how to best pay those off, and strategies to use. We lead them through handling money, incoming and outgoing, using a prorate approach or absolute limit approach.

Insurance is another area on which to focus: buying adequate auto insurance coverage, and homeowners or renters coverage. We help evaluate the better medical insurance option, especially if both employers have offerings.

In estate planning, we discuss changing beneficiaries from Mom and Dad to their new spouse on life insurance policies, 401k accounts, and other assets. We discuss the risks of commingling parental gifts and inherited assets.

You may find it difficult to broach these topics with your adult children. We are glad to talk with them, either here in the office or with a remote conference meeting. Just call!

## **PWFS 89.3 FM KCUR Radio Replays**

### ***Financial Planning for Your Wedding and Marriage***

On June 20th, Alex Petrovic, CFP® was a guest speaker on KCUR's *Up to Date!* discussing 1) navigating the big event; and 2) your married life, what all couples should consider as they start their financial lives together. If you would like to listen to the show go to <http://kcur.org/post/smart-money-experts-wedding-planning-without-going-broke>.



### ***Brexit Impact on Personal Finances***

On June 29th Sandi Weaver, CPA, CFP®, CFA was on KCUR's *Up to Date!* discussing this topic. The panel discussed how the events in the UK could affect the markets and your portfolio. If you would like to listen to the show go to <http://kcur.org/post/smart-money-experts-brexit-and-you>.

## **Inside & Outside of PWFS**

**Alex Petrovic III** – It's hard to believe that 2016 is half over! It's been a busy but very good past few months. Little Benny is 7 months old and is sitting up and crawling some.

He started to say 'da da da da' on Father's Day. Not quite 'dada', but I still considered it a great present for my first Father's Day! We celebrated the 4th of July in a low-key manner. We slept in the best we (read: Benny) could and went to my father's house to swim in the afternoon. We have taken Benny to my father's pool several times this summer and he seems to enjoy the water.

We started him on solids a couple of months ago. He has 6 teeth and is currently working on his 7<sup>th</sup> teeth, and as a result he has been a bit cranky lately. Overall, Benjamin has been healthy and in good spirits. He is sleeping well, a good eater and a sweet little boy. We hope this trend continues for the next 20 years! ☺



*First Father's Day!!*

Aside from taking care of Benjamin, my wife Dasha and I have enjoyed the great spring and summer weather. Dasha and I went to watch our boys in blue, the Royals, and Sporting KC, a couple of times this season. On the weekends, we usually try to walk to Heirloom Bakery, a nearby Brookside restaurant, for coffee and breakfast. We highly recommend their baked goods and its 'build your own biscuit'! Whenever possible we also try to go for runs and walks to the Brookside shops and Loose Park. It's been a good summer so far albeit more low-key than usual due to our little man.

**Sandi Weaver** – I spent a vacation week hiking on the Northern Cascade Mountains in Washington, compliments of the Sierra Club.

We had a wonderful group from California, Pennsylvania, Ohio, Texas, Oregon, and Washington crossing several different professions, which lent to vibrant in-depth conversations! Equally important, the chefs fed us well - organic, gourmet, locally-sourced. It was cherry time there ☺.



**Alex Petrovic** – Summer is always a busy season at our house. The pool is open, so our children and grandchildren are at our house swimming in the evening or on the weekends. I drained and power washed the pool in early May. Then with the help of family, primed it and then painted it with an epoxy-based white paint. The painting was long overdue, and I earned a few brownie points for saving a few dollars by doing it myself.



Last month I signed up my grandson, Aiden Petrovic, for a summer of First Tee. The First Tee of Greater Kansas City is a youth development organization teaching young people positive values such as honesty, integrity, sportsmanship and confidence while using the game of golf as a tool. We are using the Heart of America Golf course for his lessons. He is a quick learner, and it won't be long before he will hit the ball farther and straighter than me!

We picked blueberries again this year. Peggy and I were assisted again by Aiden and Jackson. The Berry Patch is located at 22509 S. State Line. We picked about three gallons, and over the next two days froze some of the blueberries for enjoyment this winter. Afterwards, we enjoyed barbeque at Jack Stack's in Martin City.



Peggy is helping her daughter, Sarah, complete the details for her September 10 wedding in Watercolor Florida. This will also be our vacation for the year!

*Aiden & Jackson picking blueberries!*

Lastly, we await our daughter Katherine's delivery of her baby boy sometime before August 2nd. Not to be out done, our son John and his wife Kara, have a due date for their third child on September 17th. They are letting this baby surprise them as to the gender. They are the parents of Aiden and Jackson, so we hear they would be open to a baby girl!

**Jim Stoutenborough** – My son wanted to go to Houston for his graduation vacation. The timing worked well because he got a job (yeah!) and the vacation ended up being perfectly slotted in-between his graduation and employment start date.

Houston is a great city as long as you don't have to drive on the interstates. The Johnson Space Center and Natural Science Museum were both spectacular. Another amazing site was the Waugh Bridge Bats. They are a bat colony that lives underneath a modest bridge, about the size of one across Brush Creek, and at sunset thousands and thousands of bats fly out into the night. A pretty popular event, about 100 people were at the bridge that night to see it.

**LaDonna Parker** – One of the loves of my life is my 15-pound, toy Australian Sheppard, Bailey. About a month ago we were taking a walk. I looked in all directions, saw no cars, and started into the crosswalk. About half-way through I looked over my left shoulder and to my horror saw a car bearing down on us. I could not get us out of the way! I was yelling at the car to stop, and it finally did, after hitting us.



Then I looked under the car and saw Bailey lying there with his little head pressed up against the tire. I could not see the rest of his body. I then started yelling at the lady who hit us to back up. When she did I pulled him out and saw that he was alive but severely battered. He had bruises, a deep cut between his toes, and one of his toe nails was gone.

The bottom line is we are both okay now. I still get a chill when I remember that little, unmoving face pressed up against that tire!

**Rey Arellano** - As a Wichita native, moving to the Kansas City area has been one of the most exciting decisions my wife and I have ever made. Just in the three weeks we've lived here, we have enjoyed a nice Royals victory at the Kauffman Stadium and eaten too much BBQ on the Plaza. I was dragged around as my wife shopped at Legends. We already have family members fighting over which weekend they could come visit us. I'm so thrilled we moved to such a great place, and I think my wife and I can easily make Kansas City our new home.

**Marsy Gordon** – The last few months have flown by! Earlier this month, most of our kids, and all of our grandkids were at our house for a long weekend to help us celebrate the 4<sup>th</sup> of July. It was a full house, and a whirlwind of activity. All of us enjoyed spending time with extended family, too, and everyone was exhausted when it was over. (I had to come back to work to rest up!)

**Jeannine Shaffer** – Twenty years ago, while on a family vacation, we stopped for lunch in the small town of Moab, Utah. We were amazed by the variety of outdoor activities, like biking, hiking, kayaking and canoeing through the rapids of the Colorado river. The scenery along the river was beautiful and Arches National Park was spectacular. We vowed we would go back someday – and this summer was the “someday”. However, after anticipating a return to Moab, we are left wondering why we had thought it so quaint. This time it seemed to be one big strip of tourist shops and outfitters. That was a bit of a letdown.

The initial purpose of our trip to Utah was a conference in Salt Lake City. We were fortunate to attend a live broadcast of the Mormon Tabernacle Choir on a Sunday morning. It was a truly inspiring sight and sound experience!

In 4 days, we drove 1097 miles across southeast Utah, visiting Moab and Arches again, plus the north and south entrances of Canyonlands, which are a 100 miles apart. We visited Natural Bridges National Monument and saw Capital Reef National Park, both in the same day. **We did a lot of walking and climbing!**

The US park system turned 100 years old this year and it is a National Treasure. We hope to visit many more of the parks, but for our next vacation, we're ready for a hammock on the beach somewhere.

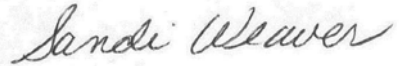
We hope you and your family are enjoying the summer!



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P.S. Our offices will be closed for Labor Day on Monday, September 5.