August, 2016
Investment
Notes

BeManaged

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Do Not Ignore Inflation's Impact on Your Retirement Portfolio

Purchasing Power for Your Investment Dollar Continues to Erode

A wise consumer consistently looks for the best deals on the stuff they buy every day. If steak prices get too high, maybe we consume more hamburger or chicken. Car prices get too high, maybe we opt to hold on the car we have a little longer. But when it comes to stock prices, the "experts" overwhelmingly recommend you keep buying, no matter the price.

Here's a look at how inflation has impacted your investment portfolio in recent years versus the long term:

Components of Stock Market Returns

	1926 Through 2015	2012 Through June, 2016
Start With Sustainable Components		
Corporate Earnings Growth	5.20%	0.75%
Plus Dividends Paid	4.30%	2.43%
Equals Total Return - Sustainable Components	9.50%	3.18%
Plus Unsustainable Components		
Asset Price Inflation	0.60%	11.30%
Equals Total Return	10.10%	14.48%

Source: Ibbotson Associates / Morningstar

The return components that have provided the overwhelming portion of investment returns over the last 90 years (earnings growth plus dividends paid) have provided less than one-quarter of the returns over the last 4 ½ years. The asset price inflation rate of 11.3% per year has overwhelmed this decline and led to overall investment gains above the long term averages.

We provide more details on the reverse side of this newsletter. One thing we keep in mind as we manage our client portfolios: Other than the tech bubble of the late 1990s, which ended very badly for investors, the prices we are paying for a dollar's worth of corporate earnings today is higher than only two other months in history, August and September, 1929.

Source: P/E analysis from Crestmont Research (www.crestmontresearch.com)

2016 Investment Returns

Stocks By Degree of World Stock Market Risk – Jan-July 2016*

20% Market Risk 5.57%
Dow Jones Conservative Portfolio Index

40% Market Risk 7.86%
Dow Jones Moderately Conservative Portfolio Index

60% Market Risk 7.81%
Dow Jones Moderate Portfolio Index

80% Market Risk 7.56%
Dow Jones Moderately Aggressive Portfolio Index

100% Market Risk 7.71%
Dow Jones Aggressive Portfolio Index

- *Dow Jones Relative Risk Indices are total portfolio indices that allow investors to evaluate the returns on their portfolios considering the amount of risk they have taken.*

Other Asset Classes

Real Estate Investment Trusts 18.10%
NAREIT All Equity REITs Index

Investment Grade Bonds 5.98%
Barclays US Aggregate Bond Index

Money Market Funds 0.05%
Average of 1,100+ Money Market Funds as reported by Morningstar

High Yield ("Junk") Bonds........... 12.01%
Barclays US Corporate High Yield Index

Emerging Market Stocks 8.56%
Morgan Stanley Emerging Markets Index

Commodities 7.46%
Bloomberg Commodity Index

Long Term Market Returns (Periods Ending July, 2016)

S&P 500

Three Years........................ 11.16%

Five Years 13.38%

Since Jan.1, 2000................ 4.38%

Foreign Stocks

Three Years.......................... 2.00%

Five Years 3.02%

Since Jan.1, 2000................ 2.27%

Investment Grade Bonds

Three Years.......................... 4.23%

Five Years 3.57%

Since Jan.1, 2000................ 5.55%

Conservative Index

Three Years.......................... 3.54%

Five Years 3.22%

Since Jan.1, 2000................ 5.30%

Moderately Conservative Index

Three Years.......................... 5.18%

Five Years 5.24%

Since Jan.1, 2000................ 5.51%

Moderate Index

Three Years.......................... 6.06%

Five Years 6.62%

Since Jan.1, 2000................ 5.72%

Moderately Aggressive Index

Three Years.......................... 6.60%

Five Years 7.65%

Since Jan.1, 2000................ 5.73%

Aggressive Index

Three Years.......................... 7.31%

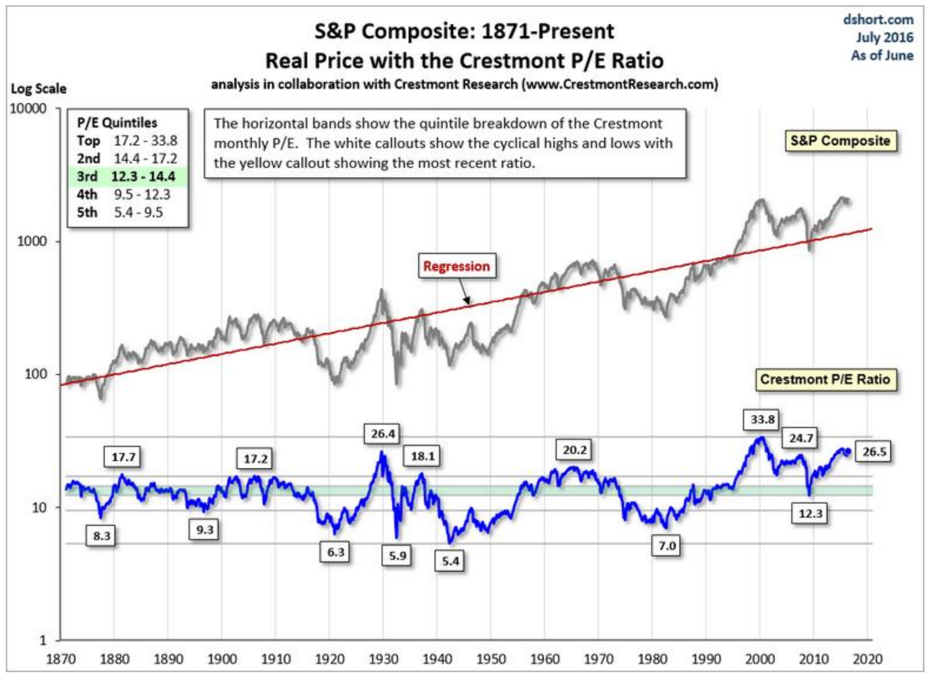
Five Years 8.78%

Since Jan.1, 2000................ 5.77%

What is "The Right Price" to Pay for a Stock?

The amount of money we decide to place in common stocks in your investment portfolio is partially driven by the prices we have to pay for those stocks. The higher the price we pay for a dollar's worth of earnings generated by a stock, the lower the chance that we receive the returns we need to keep you on a path toward a healthy retirement.

But exactly what is "The Right Price"?



Here is a very long term look at historical prices. On the top left of this chart, prices are broken out into quintiles. The highlighted quintile shows that we have paid between $12.30 and $14.40 for a dollar's worth of earnings 20% of the time since 1871. We have paid as little as $5.40 (in the early 1940s) and as much as $33.80 (during the tech bubble of the late 1990s). Only 20% of the time have we paid more than $17.20 for $1 of earnings. At the end of June, 2016, we are paying $26.50, more than 89% above the long run average!

For perspective, let's say we are doing our research to decide on the right price for a house that is for sale. History tells you that house would be worth $150,000 at fair value. You call the realtor and find out the homeowner has a $284,000 asking price. Are you a buyer?