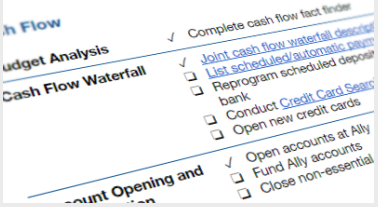
Q2 2016 NEWSLETTER

Announcements



Planning Curriculum

We created a comprehensive, tailored curriculum to better help clients plan, implement, and monitor their finances.

Arete Wealth Australia

We have launched a separate brand and website to more specifically cater to our Australian expat demographic. Visit us at www.arete-wa.com.

Named to ANZAA Board

Ashley is honored to accept a board position in the Australian, New Zealand, & American Association of Minnesota.

Second Quarter Market Recap: The Shadow of Brexit

Synopsis:

World markets rocked by Brexit have since recovered as S&P500 touches record highs. While US market indicators continue to be positive (e.g., strong jobs report), global markets less so, with uncertainty in Europe and East Asia

Body:

It certainly feels like we're in a bear market, what with the surprising "Brexit" vote in the UK, the dismal first few days of the year and increased volatility across the board. So it may come as a surprise that the second quarter of 2016 eked out small positive returns for many of the U.S. market indices, and most of them are showing positive (though hardly exciting) gains over the first half of the year.

On the first day of July, the Dow, S&P 500 and Nasdaq indices were all higher than they were before the Brexit vote took investors by surprise, which suggests that, yet again, the people who let panic make their decisions lost money while those who kept their heads sailed through. There will be plenty of other

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A New Partner

We partnered with leading disability insurance specialist Corey Anderson (aka DI Geek). Corey brings a wealth of experience and knowledge in assisting clients obtain better coverage, often at lower costs.

Travel Plans

Bay Area: Aug 8th - 10th

Australia: November

opportunities for panic in a future where terrorism, a continuing mess in the Middle East, a refugee crisis in Europe and premature announcements of the demise of the European Union will deflect attention away from what is actually a decent economic story in the U.S.

Index	Category	2nd Qtr Return	Year to Date
Wilshire 5000 Total Market	Total Market	2.84%	3.69%
Russell 3000	Total Market	1.52%	2.20%
Wilshire U.S. Large Cap	Large Cap	2.65%	3.94%
Russell 1000	Large Cap	1.44%	2.34%
S&P 500	Large Cap	1.90%	2.69%
Wilshire U.S. Small-Cap	Small Cap	4.09%	4.98%
Russell 2000 Small-Cap	Small Cap	1.96%	0.41%
Nasdaq Composite	Technology	(0.56%)	(3.29%)
Wilshire U.S. REIT Index	Real Estate	5.60%	11.09%
S&P GSCI Index	Commodities	12.67%	9.86%

How decent? The American economy is on track to grow at a 2.0% rate this year, which is hardly dramatic, but it is sustainable and not likely to overheat different sectors and lead to a recession. Manufacturing activity is expected to grow 2.6% for the year based on the numbers so far, and the unemployment rate has fallen to 4.9%, which is actually below the Federal Reserve target. Inflation is also low: running around 1.4% this year. The unemployment statistics are almost certainly misleading in the sense that many people are underemployed, and a sizable number of working-age men are no longer participating in the labor force, but for many Americans, there's work if you want it. Historically low oil prices and high domestic production have lowered the cost of doing business and the cost of living across the American economic landscape.

Despite all this good news, the market is struggling to keep its head above water this year, despite breaking the record highs set in May of last year.

Ashley Murphy, CFP®

Questions remain. The biggest one in many peoples' minds is: WILL the European Union break up now that its second-largest economy has voted to exit? There is already renewed talk of a Grexit, along with clever names like the dePartugal, the Czechout, the Big Finnish and even discussion about Texas leaving the U.S. With active political movements in at least a dozen Eurozone countries agitating for an exit, it's possible that someday we'll view the UK as the first domino?

A recent report by Thomas Friedman of Geopolitical Futures suggests that the EU, at the very least, is going to have to reform itself, and the vote in Britain could be the wake-up call it needs to make structural changes. The Eurozone has been struggling economically since the common currency was adopted. It is still dealing with the Greek sovereign debt crisis, a potential banking crisis in Italy, economic troubles in Finland, political issues in Poland and, in general, a huge wealth disparity between its northern and southern members. Is it possible that a flood of regulations coming out of Brussels is imposing an added burden on European economies? Should different nations be allowed to manage their policies and economies with greater independence and focus?

Friedman thinks the UK will be just fine, because Europe needs it to be a strong trading partner. Britain is Germany's third-largest export market and France's fifth largest. Would it be wise for those countries to stop selling to Britain or impose tariffs on British exports? And more broadly, with the political turmoil in the UK, is it possible that there will be a re-vote, particularly if the European Union decides to make reforms that result in a less-stifling regulatory regime?

You'll continue to see dire headlines, if not about Brexit or the Middle East, then about China's debt situation and the Fed either deciding or not deciding to raise rates in the U.S. economy. Oil prices are going to bounce around unpredictably. The remarkable thing to notice is that with all the wild headlines we've experienced so far, plus the worst start to the year in U.S. market history, the markets are up slightly here in the U.S., and the economy is still growing. Yes, your international investments are down right now, but eventually, you can expect them to come to the rescue when the American bull market finally turns.

When you look at the global markets, you realize that the U.S. has been a haven of stability in a very messy world. The broad-based EAFE index of companies in developed foreign economies lost 2.64% in dollar terms in the first quarter of the year, and is now down 6.28% for the first half of the year. In aggregate, European Union stocks lost 7.60% in the first half of 2016. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, lost 0.32% for the quarter, but are sitting on gains of 5.03% for the year so far.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, was up 5.60% for the second quarter, with a gain of 11.09% for the year. Commodities, as measured by the S&P GSCI index, gained 12.67% of their value in the second quarter, giving the index a 9.86% gain for the year so far. The biggest mover, unsurprisingly, is Brent Crude Oil, which has risen more than 15% in price over the quarter.

Meanwhile, interest rates have stayed low, once again confounding prognosticators who have been expecting significant rate rises for more than half a decade now. The Bloomberg U.S. Corporate Bond Index is yielding 2.88%, while the Bloomberg U.S. Treasury Bond Index is yielding 1.11%%. Treasury yields are stuck near the bottom of historical rates; 3-month notes yielded 0.26% at the end of the quarter, while 12-month bonds were yielding just 0.43%. Go out to ten years, and you can get a 1.47% annual coupon yield. Low? Compared with rates abroad, these yields are positively generous. If you're buying the German Bund 10-year government securities, you're receiving a guaranteed -0.13% yield. The 5-year yield is actually worse: -0.57%. Japanese government bonds are also yielding -0.3% (2-year) to -0.23% (10-year).

When will that be? No one knows – no one can possibly know. All of us are going to have to resign ourselves to being surprised by whatever the rest of the year brings us, headline by headline.

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Are Brexit Fears Overblown?

Synopsis:

In the wake of the so-called "Brexit" vote in the United Kingdom, and the possibility (though not the certainty) that the U.K. will leave the European Union, you're likely reading a lot of alarmist stories about the vote's impact on the U.S. and your portfolio.

Body:

Don't believe half of what you read. Here is the reality behind some of the most alarming headlines.

1) The Brexit vote has already caused a stronger dollar, which will hurt U.S. exports.

True, the dollar gained dramatically against the British pound, which means exporters to the U.K. might be more than a little bit less competitive than they were a couple of weeks ago. But the U.K. only accounts for 0.5% of total U.S. exports. And there is no reason why the dollar should appreciate in strength against the euro, yen or other global currencies simply because the U.K is less likely to remain in the European Union.

2) The Brexit confusion will cause stock market turmoil because investors hate uncertainty.

When was the stock market NOT in turmoil over one thing or another? When have investors NOT hated uncertainty? We've been uncertain about the Fed raising interest rates for the better part of two years, and also about how long interest rates will continue falling, credit and stock market problems in China and Japan's economic woes for two and a half decades. Let's just add Brexit to the list and move on to the next so-called "crisis."

3) Brexit signals the imminent collapse of the European Union.

Remember this prediction a year or two down the road, and realize that sometimes 'journalists' should be renamed 'alarmists.' The reality is that the U.K. vote has forced the bureaucrats in Brussels to come face-to-face with the unrest caused by their costs and their stifling policies. There are already indications that the EU members will come together and make decisions that would head off other "leave" movements in France, Spain, Italy and Greece. In fact, in the next few weeks, we will almost certainly see the EU relax one of its rules and allow the Italian government to recapitalize its ailing banking system with public funds. Would that have happened pre-Brexit? It's doubtful.

4) Brexit will force the Fed to rethink raising interest rates in the U.S., for fear it would trigger added market volatility and concern that the U.S. might slip into a recession.

Lower interest rates for a few months longer is a BAD thing? And it's not unexpected; after all, the Fed entered the year with a firm plan to raise rates four times, and then, pre-Brexit, scaled the plan back to one rate rise.

We may have to live with low interest rates for another year. Somehow we'll survive.

5) U.S. investment in the U.K. will decline.

It's true that if the U.K. does apply for exit under Article 50 of the Lisbon Treaty, U.S. companies that have significant operations on British soil, primarily to take advantage of tariff-free exporting to the EU nations, might start checking out office space in Frankfurt or Dublin. But there's plenty of time to make that transition. After the U.K. sorts out its government, it may notify the EU that it's leaving, and after that, even the most optimist estimate suggests that the full details of leaving, and any new tariff regime, are at least two years down the road. Nor is it a sure thing that there WILL be higher taxes on exports from the U.K. to the continent.

The main point here is that there is a lot of alarmist speculation and short-term thinking about a long-term phenomenon that will require years to play out. People who sold in a panic (including a lot of Wall

Street traders) right after the Brexit news hit the Internet have egg on their face and real losses in their portfolios. The news media seems to want more of the same.

Sources:

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Fiduciary Protection for Pensions and IRAs

Synopsis:

You might be surprised to learn that your pension and IRA assets are protected from fraud, malfeasance and sly predation by an entirely different government agency than your taxable and brokerage accounts. Retirement accounts are policed under the Employee Retirement Income Security Act (ERISA) of 1974, by the U.S. Department of Labor.

Body:

Recently, the Department of Labor created new rules which offer additional protections for retirement plan participants. The rules are spelled out in a document that runs to more than 1,000 pages, but the gist of it is that firms and individuals who provide investment advice to these plans, and recommend investments for the plan participants, must act as fiduciaries—which, broadly speaking, means that they are required to give advice that will be in the best interests of their clients, rather than lining their own pockets or selling what the brokerage firm wants to unload. The rules extend to rollovers into IRA accounts, and specify the types of compensation that these advisors may charge when they make recommendations.

In recent years, a variety of class-action lawsuits have challenged companies which were either accused of being careless about the fees they paid to consultants out of the accounts of plan participants, or included company stock as a prominent investment in the plan, or simply discriminated against one type of employee versus others. The list of defendants reads like a Who's Who of the Fortune 500, including Lucent, WorldCom, Household International, Dynegy, AT&T, CMS Energy, HealthSouth, Macy's, New York Life and Colgate.

In the past, these suits were typically brought against corporate giants, but that trend may be changing with the change in rules and increasing scrutiny of fees. A recent class action suit was filed against the plan sponsor and fiduciary advisors of the LaMettry's Collision, Inc. 401(k) Profit Sharing Plan, which has only 130 participants and just $9.8 million in assets. The suit claims that the turn-key retirement plan package created and administered by Voya (formerly ING Life Insurance) was loaded with expensive investments, and that there were unnecessary revenue-sharing charges which, together, cost plan participants millions of dollars in lost retirement plan growth.

Among the particular irritants was the fact that Voya assessed a daily asset fee whenever employees invested in non-Voya funds, and then added on a monthly administration fee which resulted in costs that ran to 112% more than the cost of similar funds in the marketplace. (ING, now Voya, had also been named in the HealthSouth ERISA lawsuit.)

The lesson for businesses of all sizes is that it is more important than ever to take a hard look at the costs of your 401(k) plan provider, and see if there are hidden fees, preferential pricing for in-house funds and too much emphasis on company stock as the preferred investment. Employees are more empowered than ever to use the courts to rectify situations that deviate from best practices pricing in the retirement plan marketplace.

Bigger picture, does it make sense that assets in a 401(k) are better-protected than retail taxable investment accounts policed by the SEC? Should advisors to a qualified retirement plan have to be more careful, and frugal, in the advice they give than people who make investment recommendations to your taxable portfolio?

Obviously not. The SEC is considering changes to its own regulatory structure, and has announced that it will propose new rules next April. Professional advisors have been waiting for decades for rules that would rein in sales practices where agents and brokers are posing as "advisors." Based on the track record so far, nobody is holding their breath.

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Six Steps to Better Habits

Synopsis:

Chances are, you made a number of firm resolutions at the start of the year—and, if you're normal, you failed to live up to several of them. Is there a better way to stick to your sincere resolutions to get more exercise, eat better, floss more often and lose weight?

Body:

A recent report suggests that there are actually six ways to improve your follow-through on self-improvement. The first is to start with a keystone habit, like exercise. A keystone habit is one that improves a variety of other habits by helping you see yourself in a different way. If you exercise, you tend to feel better about your body, eat more healthfully and procrastinate less often—a three-for-one deal.

Second, start small. If you want to floss more often, start by flossing just one tooth. Yes, that sounds silly, but eventually, if you start lazily, you'll get in the habit of having the floss in your hand once or twice a day, and you'll address those other teeth in your mouth. If you start off too ambitiously, meanwhile, the habit is never formed in the first place.

Third: make a plan for how you're going to follow though on the resolution. One interesting study showed a group of students photos of what could happen to them if they failed to get a preventive tetanus shot. Another group were given a map to the clinic and were helped to put an appointment on their calendar. Guess which group showed up to get the shot? 28% of the students who left with a plan followed through on it, while only 3% of those who saw the awful consequences of contracting tetanus got the shot. Writing down your goals, and putting your times to exercise on your calendar, can improve your odds of keeping your resolution.

Fourth: bribe yourself. Pick something you want, and give it to yourself only if you follow through on your resolution. One study participant wanted to listen to the audio book of the Hunger Games, so she only allowed herself to listen to it at the gym. Suddenly, she was looking forward to sitting on the exercise bike.

Fifth: remind yourself. You can set the alarm app on your phone to encourage you to save money, reduce smoking or go to the gym. You can make a checklist of the things you want to do every day.

Finally: Get your friends to help you keep your promises to yourself. Your support network can hold you accountable for stopping smoking or spending more time at the gym. They might even agree to accompany you.

And if you fail to follow through despite all these tips? The research says that you should follow the advice of the great Stoic philosopher Marcus Aurelius: forgive yourself and try again.

Source:

- http://www.bakadesuyo.com/2016/05/personal-habits/

The Best Ways to Buy Happiness

Synopsis:

We all know that money can't buy you happiness, right? As it turns out, this is not exactly true. A recent study by University of Michigan economists Betsey Stevenson and Justin Wolfers, examining data from more than 150 countries using World Bank data, has shed new light on the interaction between happiness and the size of your bank account.

Body:

We all know that money can't buy you happiness, right? As it turns out, this is not exactly true.

A recent study by University of Michigan economists Betsey Stevenson and Justin Wolfers, examining data from more than 150 countries using World Bank data, has shed new light on the interaction between happiness and the size of your bank account. Their first conclusion: the more money you have, the happier you tend to be, regardless of where you are on the income spectrum. They concluded that multi-millionaires don't think of themselves as "rich."

However, there do seem to be income levels where a person's happiness can be increased faster than others. Princeton University economist Angus Deaton has found that peoples' day-to-day happiness level rises until they reach about $75,000 in income—a point where a person can comfortably afford the basic necessities of life without worrying where his or her next meal is going to come from. After that, this type of happiness levels off.

In fact, a report in Psychological Science magazine found that the wealthier people were, the less likely they were to savor positive experiences in their lives. Another study found that lottery winners tended to be less impressed by life's simple pleasures than people who experienced no windfall. Once you've had a chance to drink the finest French wines, fly in a private jet and watch the Super Bowl from a box seat, then a sunny day after a week of rain doesn't produce quite the same jolt of happiness it used to. The additional money tended to have a cancelling effect on day-to-day happiness.

It's another kind of happiness, which focuses on something the researchers call "life assessment," that continues to rise at all levels of wealth. The more money people have, the more they feel like they have a better life, possibly (Deaton hypothesizes) because they feel like they're outcompeting their peers.

Is there any way to more efficiently buy happiness with money? A study by the Chicago Booth School of Business found that people experienced more happiness if they spent money on others than when the money was spent on themselves. Treating someone else—or, more broadly, charitable activities—are among the most powerful financial enhancements to personal happiness.

Other research has shown that you get more happiness for your buck if you buy experiences rather than things. An epic trip to Paris, or a weekend at a bead and breakfast near the cost, can be more enduringly pleasure-inducing than buying a new watch or necklace. The watch of necklace quickly become a routine part of your environment, contributing nothing to happiness. But your travel experience can be shared with others and reminisced about.

Finally, you can buy time with money—decreasing your daily commute by moving closer to work, hiring somebody to help around the house, hiring an assistant to clear your desk—all giving you more leisure time to pursue your interests. With the free time, take music lessons or learn to dance—and you'll be happier than somebody with millions more than you have.

Sources:

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Does Wealth Equate to Quality of Life?

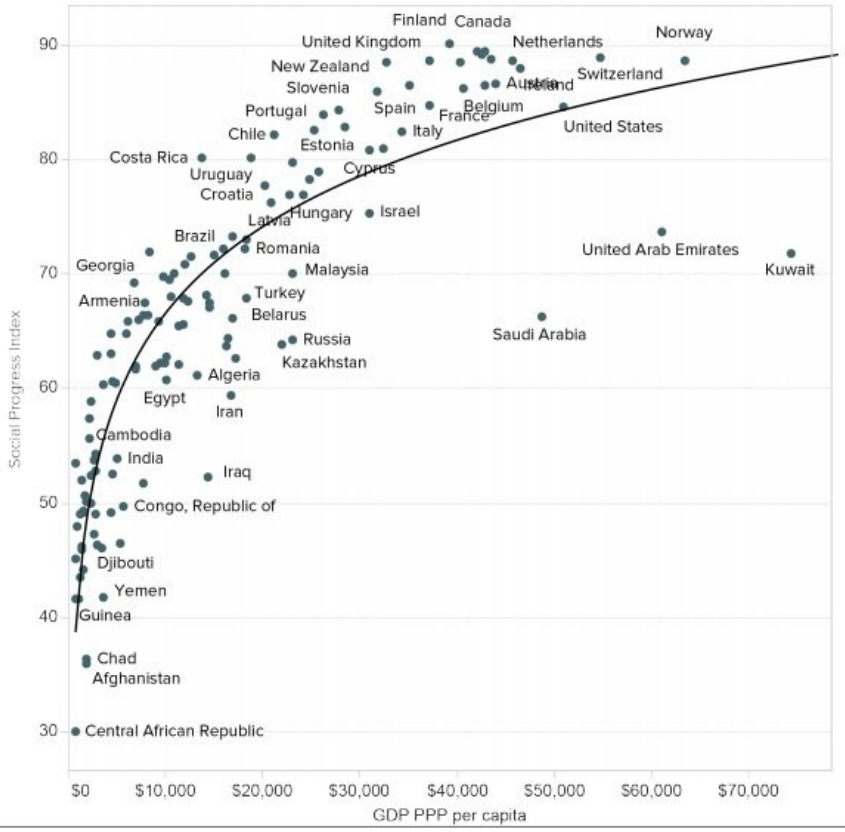
Synopsis:

The correlation between economic wealth and social progress is interesting. An article from the U.K. Business Insider focuses on the fact that some countries (like Finland, Canada, New Zealand and the Netherlands) are enjoying more social progress with less wealth, while others (United Arab Emirates, Kuwait, Saudi Arabia) have more wealth and less social progress.

Body:

If you want to see a fascinating chart, take a look at this graphic which charts each country's GDP per capita with its "social progress," defined by a cumulative measure of economic opportunity, access to quality healthcare and education, tolerance of minorities and general quality of life. This is a subjective measure, but if you look at the countries toward the bottom of the chart, you'll see that the Social Progress Index mostly gets it right.

SOCIAL PROGRESS DOES INCREASE WITH GDP PER CAPITA
BUT ECONOMIC GROWTH IS NOT THE WHOLE STORY



What's interesting is the correlation between economic wealth and social progress. Interestingly, the article describing this chart from the U.K. Business Insider focuses on the fact that some countries (like Finland, Canada, New Zealand and the Netherlands) are enjoying more social progress with less wealth, while others (United Arab Emirates, Kuwait, Saudi Arabia) have more wealth and less social progress.

But if you look at the line that curves through the data, and especially if you imagine that the line were curved a bit higher on the top end, you see that the correlation between the two is pretty close. The other interesting thing is how the United States, while high on the scale, ranks behind at least a dozen other countries on the Social Progress Index. Is it really less pleasant to live in the U.S. than Slovenia?

Culture clearly plays a part in the rankings, which tells us that wealth isn't everything. The Scandinavian countries, Canada, New Zealand and Australia clearly put more emphasis on quality of life than on per-capita wealth, while many Arab nations plus Russia have relatively high incomes but fall below the Social Progress curve.

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