

2019
Happy New Year



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THE "GOD" PORTFOLIO

by Lisa Mesquit

Volatility like we experienced in the 4th quarter of 2018 isn't fun for anyone, even if we know to expect it. We spend a lot of time discussing probability ranges of portfolio returns and have an intellectual knowledge that the returns vary depending on market conditions. Still, seeing a down market can be an emotional challenge. What if you did know to expect it though? What if you knew exactly when the market would go up and go down? What if you knew the exact companies that would outperform?

That premise is the subject of a white paper written by Wes Gray, PhD. (<https://alphaarchitect.com/2016/02/02/even-god-would-get-fired-as-an-active-investor/>). In his research, he explores how an investment portfolio built by "God" would perform. With perfect foresight, Dr. Gray took the 500 largest US companies and divided them into 10 groups ranked from worst performing to best performing based on their five-year returns. Beginning in 1927, "God" would hypothetically buy the 50 companies that would have the best performance at the end of the initial five-year holding period. In order to further enhance returns, "God" would short (sell) the 50 worst performing companies (also with perfect foresight). Every five years through 2016, "God" would rebalance and reinvest buying the new 50 best companies and selling the new 50 worst companies.

The results are fascinating. As you might expect, "God" had phenomenal returns. While the S&P 500 returned 9.87% on average, God's portfolio had a compound annual growth rate of 46.3% per year. WOW! However, the next part was decidedly not expected – at least not by me. The average difference between the highs and the lows of the "God" portfolio was about 20%, which is slightly higher than the roughly 19% difference experienced by the S&P 500. The "God" portfolio was MORE volatile than the S&P 500. Worse than that, the widest distance between a high and a low (drawdown) that the "God" portfolio experienced was about 47%. In this case, the 47% of the "God" portfolio was better than the 85% worst drawdown of the S&P. So, even with perfect knowledge of the ups and downs of the market and the fate of companies, the portfolio had a moment where it was down over 40%. It had several other instances where the portfolio was down over 20%. In short, it was a bumpy ride.

All this to say, volatility is normal and time horizons matter. What happened last quarter has happened before and will happen again. Fear sometimes enters the

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PHASED MAILING SCHEDULE FOR 2018 TAX REPORTING

The mail dates for IRS Form 1099 (B, DIV, INT, OID and MISC) tax statements for the 2018 tax year are below. We will continue with our phased approach, ensuring your clients receive their tax forms as early as possible with complete information.

BNY Mellon's Pershing will evaluate each account to determine whether we have received final tax information for each security. This method accelerates the issuing of original 1099 forms and reduces the publishing of revised forms.

During this phased mailing, 1099 drafts will be available via e-Document Suite™ for accounts pending final reporting. The securities pending 1099 reporting will be provided on a waiting for data page within the 1099 draft. The drafts will be available to entitled advisors and will not be mailed to or viewable by your clients via NetXInvestor®.

MAILING PHASE	SCHEDULED MAILING END DATE	MAILING EVENT
1	01/31	<p>> Form 1099 will be mailed for accounts with holdings and income that typically do not require reclassification or additional information from issuers.</p> <p>Generally, this includes accounts holding stocks, bonds and options.¹</p>
2	02/15	<p>> Form 1099 will be mailed for accounts holding mutual funds, certain unit investment trusts (UITs), real estate investment trusts (REITs) and certain equities, because the issuer provided its final tax information after the January 31 mailing was prepared.</p> <p>> Pending 1099 Notices will be mailed for accounts where we are awaiting data from issuers or in cases where we have not completed processing and review of all information. The notice will list investments that are awaiting information from issuers or trustees or final review and will indicate the possible mail date of an investor's 1099. This notice, which will be in e-Document Suite, will be mailed when information is not finalized before the February 15 mailing is prepared.</p> <p>> Revision mailing for 1099s sent in Phase One, as required.</p>
3	02/28 ²	<p>> Form 1099 mailing will occur for accounts for which we can now include information that was previously pending income reclassifications from issuers of mutual funds, REITs and certain equities, because the issuer or trustee has provided Pershing with final tax information.</p> <p>Generally, this includes remaining mutual funds, REITs and certain equities.¹</p> <p>> Revision mailing for 1099s sent in Phases One and Two, as required.</p>
4	03/15 ²	<p>> Form 1099 mailing will occur for all remaining accounts, regardless of whether pending income reclassifications for the account's income have been received from issuers.</p> <p>Generally, this includes accounts holding complex non-equity securities, such as real estate mortgage investment conduits (REMICs), widely held fixed investment trusts (WHFITs) and some UITs.</p> <p>> Revision mailing for 1099s sent in all previous phases, as required.</p>

1 - Holding only these types of securities does not guarantee that your clients' tax statements will be mailed on the indicated date.

2 - Pershing's 30-day extension to the mailing requirement will accommodate these phases of the mailing.

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THE “GOD” PORTFOLIO

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the market and causes assets valuations to decline. Overall, this is a healthy counterbalance to exuberance that can lead valuations to be higher than their true economic value. Since the beginning of 2019, we've seen some reprieve from the 4th quarter's fear. The Federal Reserve has indicated clearly that it will change rates based on data, not a pre-set formula that some had supposed. The jobs report surprised many by showing that the economy added 304,000 jobs, even during the Government shutdown. Similarly, initial claims for jobless benefits hit 199,000 which is the lowest level since 1969. Also, as companies are reporting Q4 earnings, their earnings are coming in better than expected. Although we are still growing at a slower pace than last year, so far earnings of S&P 500 companies that have reported are up almost 14%, and the broader market earnings are up 19% year over year. Revenue is higher, too. Again, lower than last quarter, but still positive. Almost 67% of S&P 500 companies are beating earnings.

Does the positive economic news mean that the volatility is over? Unfortunately, it does not. As the study showed, volatility is here to stay, but so are the long-term benefits of staying in the market, even if you're not God.

THE SUMMIT FAMILY PICTURES



Denise's husband Mike at beach



Sheelagh & Fiona Bandettini



Mesquits Skiing at Lake Tahoe



Bodens & Brett Skiing



Brezlyn OJVA
Volleyball Club



Keith's Man-Shed



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FAVORITE RECIPES

Spaghetti Super Gravy with Pot Roast by Keith Bandettini (Italian Grandmother)



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Branch Manager & Financial Advisor

Keith Bandettini, CFP*
Financial Advisor

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Ingredients

- 3-4 lbs Pot Roast
- 1.5 lbs hamburger
- 28 oz can Whole Tomatoes (chopped fine)
- Two 8 oz cans Tomato Sauce
- 12 oz can Tomato Paste
- 1 cup chopped celery
- 1 cup chopped carrots
- 1 cup chopped onions
- Fresh rosemary, sage, thyme, parsley, and garlic
- Two 4 oz cans of Mushrooms or 1/2 lb fresh mushrooms cut up

Instructions

1. Use a 3 to 4 pound pot roast. Brown meat on all sides in peanut oil (or oil of choice). When roast is golden brown, set aside.

2. Break up 1.5 pounds of hamburger. Using the same pot, heat oil and simmer hamburger for about 10 minutes. Add the following finely chopped vegetables: celery, carrot and onion. Simmer until vegetables are softened and the hamburger is golden brown. 3. Lower heat and add chopped: rosemary, sage, thyme, parsley and then garlic. 4. Then add whole tomatoes (chopped fine), Tomato Sauce and Tomato Paste. 5. Place the Roast back in pot and simmer slowly. Add (2) 4 ounce cans of mushrooms or ½ pound fresh mushrooms, cut up. 6. Salt and Pepper to taste. Add a very small amount of cinnamon, nutmeg and sugar if you like for a little different taste. Continue to simmer slowly for about 1.5-2 hours, stirring occasionally.

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