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LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

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Outlook & Trends

As Alphonse Karr wrote in 1849, "plus ça change, plus c'est la même chose" -- "the more things change, the more they stay the same". And so they have, despite central bank policy pronouncements, competing international attempts to devalue currencies, and a financial market roller coaster, the US economy continues to mope along, with other countries faring worse. The S&P 500 average is close to where it was at both the beginning of the year, and also back in 2014.

The Economy

The US economy continues to tread water, buoyed by the services sector. The stronger dollar and retrenchment in the oil industry have caused the production portion of the economy to contract. In the last quarter, corporate profits were down 11% vs. the year before. GDP growth closed out 2015 at 1.4%, but the current real-time estimate is .6%. The slower growth trend, which has existed since mid-2014, remains firmly in place. Leading economic indicators may be getting tired, showing declines in two of the last three months, but employment growth continues steadily, and the housing market remains reasonable.

As we mentioned last time, the Federal Reserve decided to raise their overnight funds rate last December. They manage this rate by intervening in the short-term financial markets. That decision gave the stock market an excuse to sell-off by 10%. Interestingly, it also caused longer-term rates, which are not controlled by the Fed, to fall, as the markets became less concerned about long-term implications of the Fed's monetary largesse. Japan and the European Union doubled-down on their free money policies by establishing *negative* interest rates to coax more money into their economies. In essence they told banks to make loans with their capital, or pay a price if they don't. Low rates also have the effect of weakening a country's currency, making the relative price of their exports more attractive. Many observers are looking at these competitive devaluations and are questioning where all this will finally end, and what the implications are. Generally speaking, being strongly encouraged to make loans that otherwise would not be made, leads to a misallocation of capital at the overall economic level, and significant risk at the market and institutional levels. This is not unlike the root causes of the 2008-housing crisis. We know how that turned out. Maybe this time will be different.

The Markets

According to Jim Paulson, the stock market is not in a bull market or a bear market. It is in a "bunny" market – one that hops around a lot, but does not go anywhere. He says these usually occur in the latter part of an economic recovery. Of course his bunny characterization is referring to the large-cap stocks that make up the Dow Jones Industrials and the S&P 500. The Russell 2000 index of small cap stocks is off 15%, after being down 26% recently. Some other sectors have fared the same or worse – Financials –22%, Pharmaceuticals –28%, Energy –49% to mention a few. The tone has not been particularly good underneath the surface of the headline indices, and broadly diversified portfolios are lagging.

On the other hand, bonds have made a comeback, with the aggregate bond index rising 2% after the Fed transitioned from talking about raising rates to actually committing to a policy shift, so portfolio diversification has helped here.

New Briefs

File and Suspend - You have probably heard about the change in Social Security to eliminate the benefit of using "file and suspend" for married couples. Rather than go into the details, let me just remind readers who are married and have work records, with one age 66 or older, and the other age 62 or older, one of whom has not yet filed for benefits, to check and see if this strategy can help before it expires on April 29.

Department of Labor Fiduciary Rule – Long time readers of *Outlook & Trends* know that we have often discussed the importance of working with an advisor who is a fiduciary. The Department of Labor will officially agree when they release a rule requiring people who give advice to holders of retirement accounts (401(k)s, IRAs) to act in a fiduciary capacity, that is: to put the client's interest first before their own. The final form of the rule should be released in April or May, and implemented by year-end.

Currently, those who give financial advice, but are not a Registered Investment Advisor, are expected to make sure that the products they sell are "suitable", but not necessarily in the best interest of the buyer. This group includes stockbrokers, who recommend a financial product or service. Insurance agents, who sell annuities for use in retirement accounts, will also be required to adopt a fiduciary responsibility.

The rule has been in the making for a long time, for there has been much opposition from the financial industry. A primary objection was that it would be difficult to offer advice to small accounts and maintain profitability. It is argued that less wealthy retirement savers would be cut-off from access to much-needed financial advice. This may or may not turn out to be true, but it exposes the inherent conflicts in the current suitability standard. The business model of non-fiduciary advisors apparently must rely on acting in their own interest in order to be sustainable, especially for smaller accounts. Caveat emptor.

While the newly required fiduciary requirement sounds good, it may in fact be misleading. After public comment, the DOL watered down the requirement a bit. It allows an advisor to provide retirement account advice on a conflicted basis, if the they and the client execute a "best interest contract". This agreement will acknowledge the advisor's fiduciary duty to the investor, but then disclose, and provide a "carve out" exemption for the conflict of interest requirements. After the rule goes into effect, you may hear and read about the new fiduciary rule, but be aware, and read any disclosure agreements carefully. Also be aware that this regulation does not extend to non-retirement insurance and investment accounts.

Fee-*only* (not fee-*based*) investment advisors, including all members of NAPFA, have been acting as fiduciaries voluntarily for years. *LFM&P* chose to provide fee-*only* advice since we began in 2002, to avoid just the conflicts that have now been highlighted by the Department of Labor. If you would like help managing your investments, looking into your financial future, or planning to manage your income effectively, please call or e-mail. We invite you to visit our website www.linnardfinancial.com.

Dave
David C. Linnard, MBA, CFP®
President

Barby
Barbara V. Linnard
Vice President

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.
46 CHESTER ROAD
BOXBOROUGH, MA 01719

LFMP@LINNARDFINANCIAL.COM
WWW. LINNARDFINANCIAL.COM
978-266-2958

A Registered Investment Advisor and NAPFA-Registered Financial Advisor