Perspectives

FIRST QUARTER 2016

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6 Things Investors Should Remember During Times of Turmoil

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The start of 2016 saw an old-fashioned selloff in stock markets around the world, as various markets saw the year's first week of trading in the red.

In times like this, when volatility increases and clarity of information disappears, many investors sell first and ask questions later, making market corrections extremely vulnerable to the herding effect of human behavior and information cascades — a behavioral economics phenomenon in which individuals base their actions, such as investing decisions, on the actions of others regardless of their own beliefs, knowledge, situations, etc.

Market efficiency is lost when investors imitate one another or rely on the same information cascades. The actions of some market players induce others to take the same course of action (buy or sell) based on the same signals from the environment without consideration that others are doing the same. Most importantly, they may be ignoring clear signals that it's in their best interests to refrain from taking the same action as a large group of others.

In some sense, information cascades are related to herd behavior, exacerbated during periods of extreme negative sentiment. "That unintended system-level consequences arise from even the best-intentioned individual-level actions has long been recognized," behavioral finance pundit and prolific author Michael Mauboussin wrote in his book *Think Twice*. "But the decision-making challenge remains for a couple of reasons. First, our modern world has more interconnected systems than before. So we encounter these systems with greater frequency and, most likely, with greater consequence. Second, we still attempt to cure problems in complex systems with a naïve understanding of cause and effect."

It's during times of negative feedback cycles that restraint and thoughtfulness must prevail. Renowned sociologist Robert Merton concluded that the only way to break the cycle is to redefine the propositions on which the false assumptions were originally based.

Six Things Investors Should Remember

The market's recent fluctuations coincide with a rapid rise in investor uncertainty. Uncertainty means that investors will demand a higher risk premium — and, thus, lower asset prices — even in a world where economic fundamentals may be mixed but not necessarily collapsing. Hundreds of years of market history tell us that the current rash of uncertainty will eventually be dispelled; however, the time it will take to do so is unknown. In the meantime, investors should expect that markets will potentially experience bouts of volatility over the next few months, and the ultimate time frame for markets to find new levels to attract buyers is unknown.

When fear and uncertainty find their way into headlines, investors should remember these six things:

1. **Breathe, Don't Panic** — Making rash decisions during times of emotional stress often has negative consequences in the future and can potentially threaten long-term financial goals.
2. **Separate Fact from Opinion** — With thousands of "expert" voices in earshot, it's important to focus on the facts when reviewing stories on the market and the economy in the press.
3. **Remember Your Long-Term "Why"** — Why are you investing for the long term? Commonly, the reason is to set aside some current assets and income for future needs. Has that changed?
4. **Discuss Your Fears and Concerns** — Your financial advisor will help you navigate the short-term emotional swings of personal finance. The more you discuss your angst, fears and concerns with your advisor, the more they can tailor their professional guidance to your specific situation.
5. **Know Your Needs** — Investors should always know their needs for their money. If you need to use some of your investment assets in the short term for a major purchase or living expenses, it's wise to reassess where those monies are located and what they are invested in.
6. **Stay Diversified*** — When appropriate, a well-diversified portfolio can often alleviate concerns about being invested in the right place at the right time. Properly allocating your assets among various asset classes and diversifying your portfolio among several investment vehicles are meant to provide you with an efficiently diversified portfolio strategy that reduces volatility.

*Asset allocation/diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.

What to Do:

During this cycle of uncertainty, investors should actively engage their financial advisors to gather their valued perspectives and re-examine or review their long-term financial goals and plan to reach them. Unless life circumstances have changed, it's important to ignore the herd and "stay the course."

Why You Can't Afford to Wait to Save for Retirement

By Invesco

Do any of the following phrases sound familiar to you?

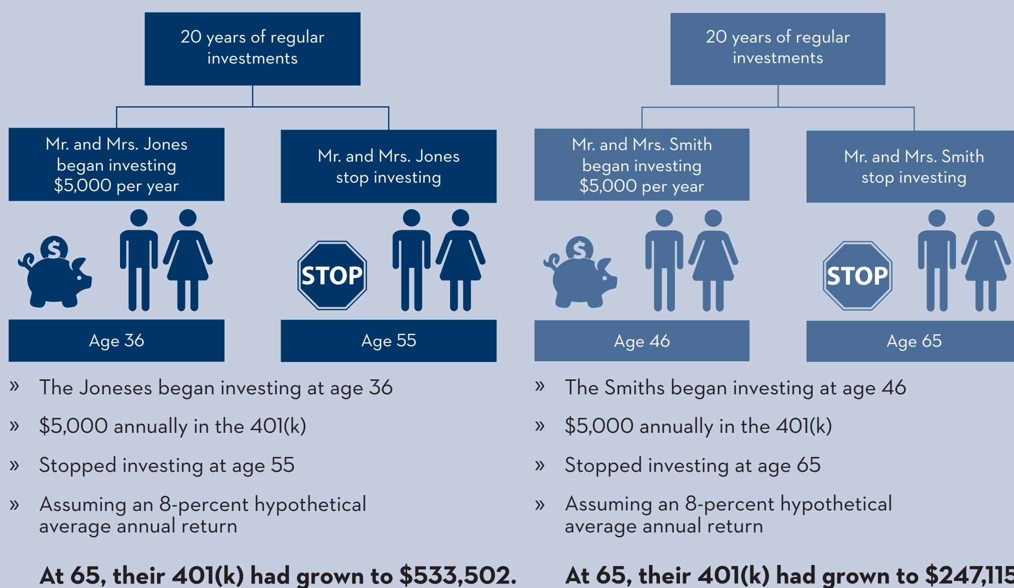
- "Retirement is still a long way off. There's plenty of time to save for it."
- "We have too many expenses right now to put anything aside."
- "I'll get around to saving — sooner or later."

It's common for people in their 20s — and even in their 30s — to feel this way about retirement saving. But it's never too early to start investing for your future. The sooner you start, the easier your path may be.

Below, we look at the hypothetical stories of the Joneses and the Smiths. Both couples had the same goal: to accumulate a retirement nest egg of $500,000 in their 401(k) plans by age 65. The Joneses started saving for their goal right away. The Smiths decided to wait.

The Joneses vs. Smiths:

Starting early can mean the difference between reaching your savings goals and coming up short.



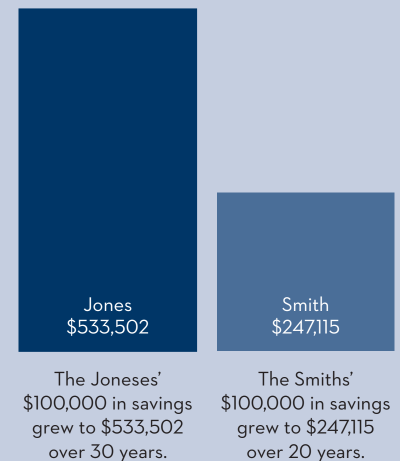
- The Joneses began investing at age 36
- $5,000 annually in the 401(k)
- Stopped investing at age 55
- Assuming an 8-percent hypothetical average annual return

At 65, their 401(k) had grown to $533,502.

- The Smiths began investing at age 46
- $5,000 annually in the 401(k)
- Stopped investing at age 65
- Assuming an 8-percent hypothetical average annual return

At 65, their 401(k) had grown to $247,115.

Because the Joneses started saving 10 years earlier than the Smiths, they ended up with $186,387 more in retirement savings.



The Joneses' $100,000 in savings grew to $533,502 over 30 years.

The Smiths' $100,000 in savings grew to $247,115 over 20 years.

Source: Invesco. This hypothetical example and estimate of an 8-percent average annual total return are for illustrative purposes only and are not intended to represent the actual performance of any particular investment product or real investor. Your actual return isn't likely to be constant from year to year, and there is no guarantee that a specific rate of return will be achieved.

Contact Your Financial Advisor Today

Building a retirement strategy may sound complicated, but your financial advisor can help you create a plan that's right for you. If you've been procrastinating about saving for your retirement, now's the time to begin.

Important Disclosures

Investors should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Fund prospectuses contain this and other information about the funds and may be obtained from your financial advisor. Please read the prospectus carefully before investing.

Investing in fixed-income securities involves special risks, including credit risk, which is the risk of potential loss due to the inability to meet contractual debt obligations, and interest rate risk, which is the risk that an investment's value will change due to a change in the level of interest rates. There is an inverse relationship between bond prices and interest rates specific to fixed-income securities. As interest rates rise, bond prices fall, and conversely, as interest rates fall, bond prices rise. Investing in a non-diversified fund that concentrates holdings into fewer securities or industries involves greater risk than investing in a more diversified fund.

An investment cannot be made directly in an index. Past performance is not an indication of future results.

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