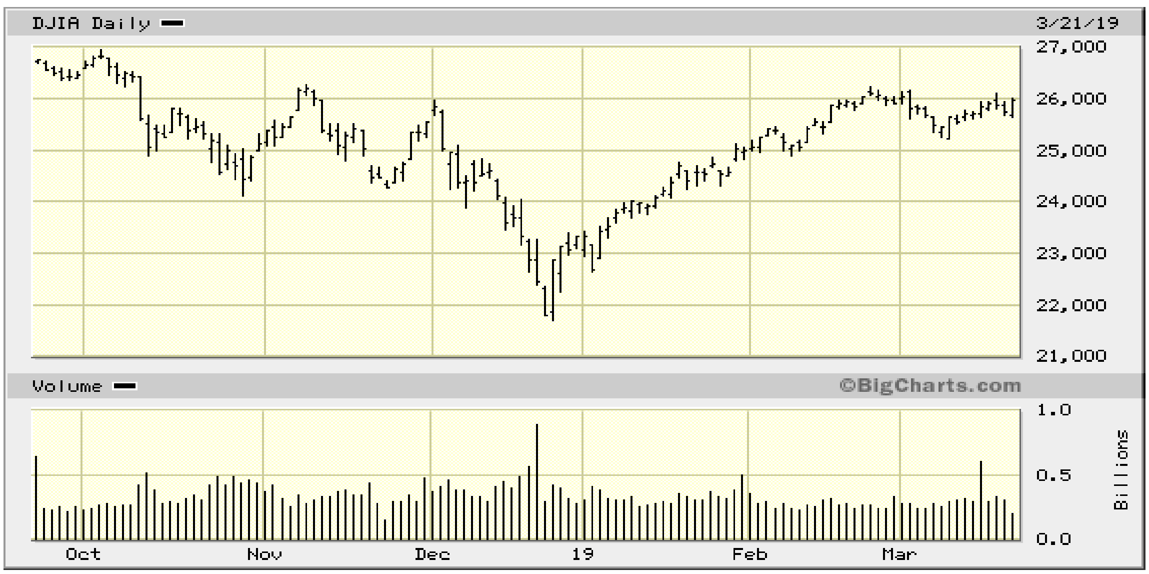
"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has." - Jack Bogle, founder of Vanguard -

April 9, 2019

After I received an email from a good client at 11:53am on December 24, 2018 saying "expect your advice is to hold positions in equities—just confirming". I promptly responded saying "yes, we advise clients with long-term goals to ride out the storms in a well-diversified portfolio. We know the news makes this hard to do, but history (and our own experience) clearly suggests this is prudent advice. As always, we'd be happy to talk through things with you—just let us know." What makes this story especially apropos for this leadoff to my letter is the timing—and outcome—which can be clearly seen in the chart for the Dow Jones Industrial Average (DJIA) below:



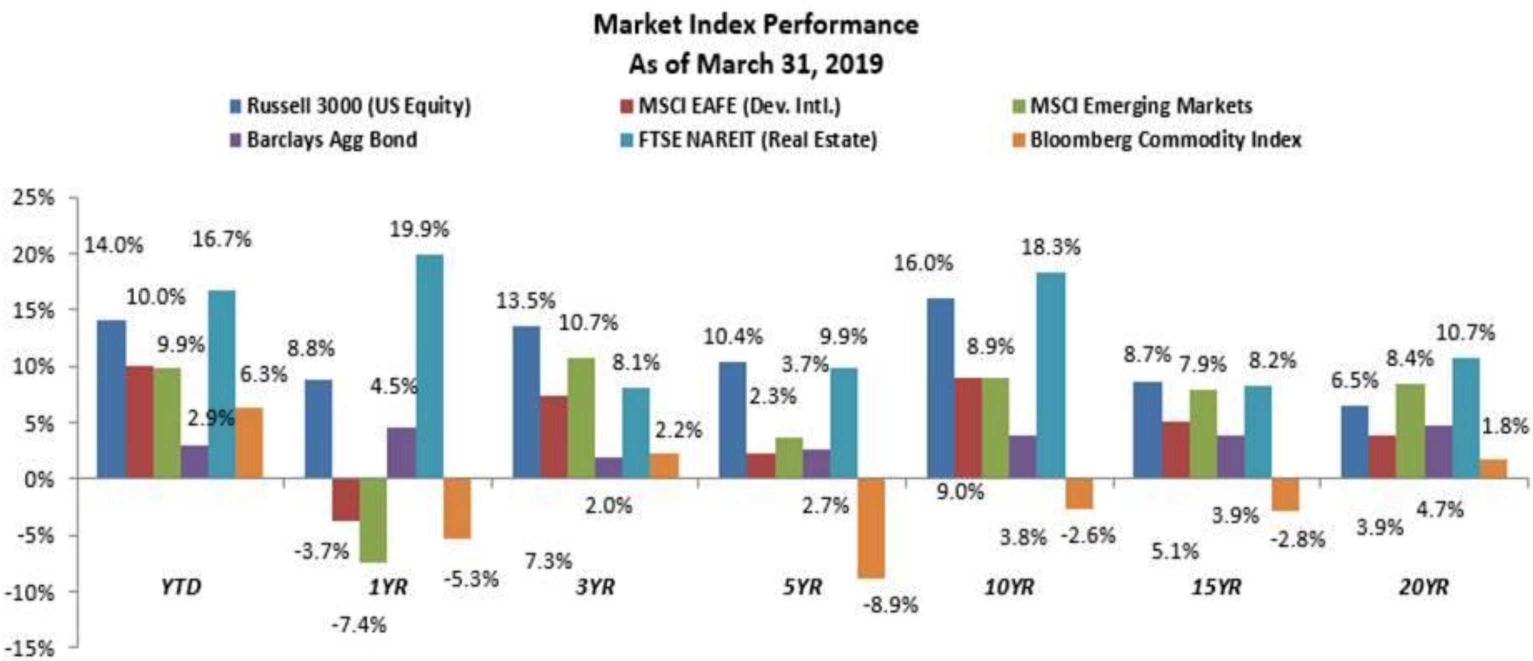
The chart vividly shows the big selloff in December—with trading volume increasing as market values fell. What you may not be able to tell is that December 23rd marked the low-point on the chart, with the biggest quarterly gains in nearly a decade following. Now to be sure, we did not know when the market would rebound—or that 12/23 would turn out to be a bottom—but once again patience was rewarded. As Vanguard noted recently "Financial markets, particularly stocks, are inherently volatile over the short term. To benefit from long-term performance, investors should temper their expectations and stay the course". Sound familiar?

In this report, I'd like to accomplish 5 important things:

1. Comment on the economy and markets
2. Introduce an important new service we now offer
3. Briefly discuss socially responsible investing
4. Mention tax-time and corrected 1099s
5. Ask if it's time for a planning review/update

Economy/Markets. There are growing signs of slowing global economic growth, plenty of geopolitical concerns, what will undoubtedly be a rancorous election cycle, and increasing signs of recession ahead. While 2018 was actually a year with about average volatility, we think investors would be wise to make sure they are buckled-up in anticipation of more volatility ahead. Using 2% up or down days in the S&P 500 as a volatility measure, the 20 days in 2018 was near the average of 16. But that seemed like a lot given that we only had 10 days in 2015, 9 in 2016, and none in 2017—and the fact that most of the 2018 volatility happened in the last quarter of the year. Keep all of this in perspective: 2018's volatility was a quarter of what we saw in the global financial crisis in 2008-09 and less than half of what we saw in the tech-bust in the early 2000's. The bottom line is that volatility is a natural part of investing. And remember that bonds can provide ballast in volatile equity markets. Fixed income is our traditional hedge against equity risk—and it worked again the end of last year. Both October and December 2018 fell into the worst decile months for US stocks since 1988. US stocks were down nearly 20% and international stocks were down 13%. By contrast, Treasuries were up 2.5%, certainly not eliminating the volatility, but clearly softening it.

Looking forward, US stocks still seems pricey under many valuation methods—which we think suggest lower returns over the next 5-10 years or more. By contrast, developed foreign markets look more reasonably valued, suggesting better expected returns over a decade and even longer. And while historically volatile, emerging market equity valuations are far below average, and with prospects for a falling-dollar provide a good case for optimism. Bond yields are still remarkably low in the US and even lower around the world—with a notable drop when the Fed recently announced a very dovish stance. So it seems hard to imagine very high returns for fixed income looking forward. Vanguard just recently shared their 5, 10, and 30 year market risk/return expectations with us that confirm these views—and forecasts from Russell are similar. Time will tell what the future will bring, but we think investors are wise to think in terms of 4-6% average annual returns for well-diversified portfolios with low inflation in planning for the next decade—and revisit risk/return expectations. Here is a look at what has actually happened for time periods ending 3/31/19:



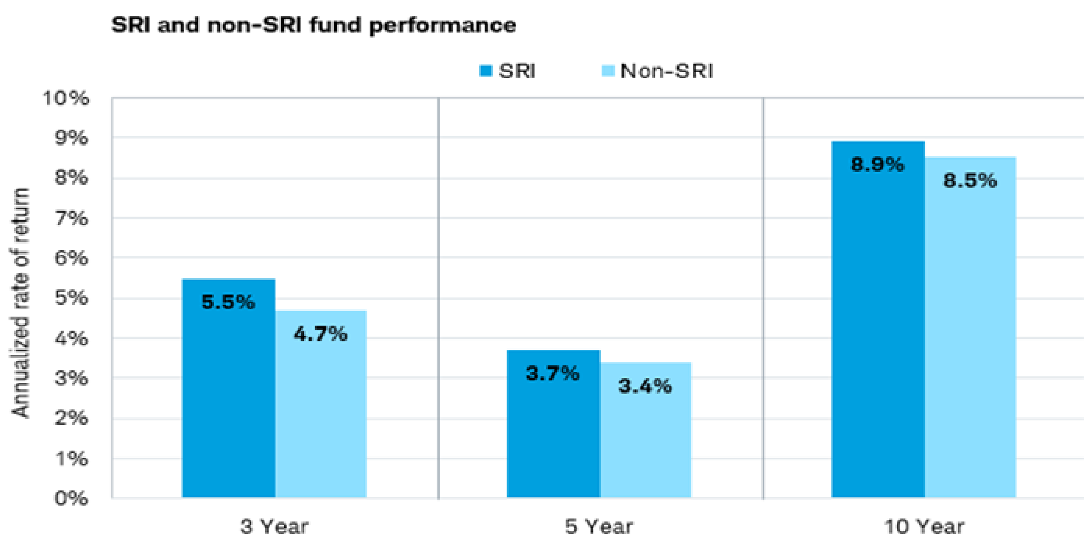
Important New Service. I'd like to turn to an important addition to the comprehensive wealth management services we already provide. Many of our client relationships are measured in terms of decades as we have worked together on what is truly a lifelong journey. We've helped clients protect their families, educate their children, retire comfortably, deal with aging, plan and even settle their estates, and more. With history's largest generational wealth transfer underway, we saw a need for Greene Wealth Management to provide clients with expert trust solutions that fulfill their life wishes and define/protect their estates. Trusts are a big part of estate planning—not only seeking to reduce taxes, but to provide a well thought-out plan for the ongoing management and distribution of assets for themselves and their family. Some of our clients have family members or friends who are able/willing to serve as trustees—but some do not, and everyone should have a back-up. We have long worked with individual trustees to plan and manage investments for beneficiaries. But we have been looking for a good corporate solution for our clients—one that will allow us to continue serving as advisor to the family while providing the benefits of an experienced professional trustee.

GWM recently signed an agreement with National Advisors Trust Company (NATC) to do just that. Under a unique Directed Trust Model, clients can enjoy the combined benefits of GWM wealth management services with administrative trust services provided by NATC, giving clients what they desire: control over disposition of their assets, trust and estate planning options, protection of assets, and the flexibility to respond to different and often changing family needs. This combination will allow us to continue trusted relationships, provide ongoing financial planning, investment management, and personal advice—with the benefit of an experienced corporate trustee. NATC is an independent national trust company, owned by Registered Investment Advisory firms, providing expert trust services to trusted advisors and the families they serve. For more information, check-out the Insights/GWM Perspectives section of our website at https://www.greenewealthmgmt.com/gwm-perspectives/

We have long worked with clients and their legal advisors to make sure estate plans are in good order—now may be a good time for us to review your current plans, talk about trust planning/options, and determine if some updating makes sense. This is an important conversation for you and your family—let's talk soon.

Socially Responsible Investing (SRI). Investors around the world are increasingly interested in environmental, social, and governance (ESG) issues. Matt Lowe, CFA, CFP® introduced this investment idea last May in his GWM Monthly Minute—and more clients are asking us about this. Whether called SRI or ESG, the issue focuses on trying to integrate an investor's goals, beliefs, and preferences into a portfolio. The list of potential ESG issues is extensive and growing—and individual investors often have different views on what this means. It is important to define goals, evaluate options, take action, and reassess periodically. Fortunately, socially responsible investment product options have grown dramatically.

We have implemented socially responsible strategies for clients over the years—and would be happy to have a conversation with you about this idea. We posted a study from Vanguard entitled "ESG, SRI, and impact investing: A primer for decision-making" on our website—so check it out at https://www.greenewealthmgmt.com/financial-resources/. Research is even beginning to show that responsible investing may not only underperform as was often thought in the past, but may actually offer some modest performance benefits as you can see from the chart below:



Source: Charles Schwab Investment Advisory, Inc., with data from Morningstar, as of December 31, 2018. Returns represent the average annualized performance of U.S. equity open-end socially conscious and non-socially conscious mutual funds. **Past performance is no guarantee of future returns.** The number of socially conscious funds with three-year returns is approximately 316, compared with over 6,500 non-socially conscious funds. Morningstar defines funds as socially conscious if they invest according to noneconomic guidelines such as environmental responsibility, human rights, or religious views.

Tax-Time—and those dreaded corrected 1099s. April 15th is the normal filing deadline for individuals—but we have long recommended that clients consider filing for an automatic 6 month extension due to the likelihood of getting corrected 1099s for investment accounts. Note this is NOT the fault of custodians (like Schwab, Fidelity, TD Ameritrade, and others)—as they are required by law to report any changes as notified by securities issuers (i.e. stocks, bonds, mutual funds, or ETFs). Corrections are especially likely for separately managed accounts given the large number of holdings—but we think this modest inconvenience is very much worth it given the tax-advantages provided. In some cases, the correction can be in favor of you the taxpayer, especially when the correction is for foreign taxes paid. In others, the correction can be a reclassification of the dividend as a return of capital. And some are corrections of cost basis. Bottom line: while we understand the frustration these corrected tax statements can cause, extending return deadlines can help avoid the need to file corrections. And please don't shoot the messenger!

Planning—Time for an Update? We are always mindful that financial, investment, and estate planning ("wealth management") is a **process—not an event**. When your doctor (hopefully) gives you a clean bill of health, that doesn't mean you don't have to go back for another annual check-up or if there's a change in your health. Such is the case for the planning we do with you. At minimum, an annual "financial check-up" is prudent—and especially if there is a big change in your situation (family, finances, health)—or if you just have questions. The graphic below does a nice job of illustrating the process—setting goals, understanding risks, accounting for resources, and creating a plan—all intended to help you on the path to financial security.

Figure 1. The roadmap to financial security

Source: Vanguard.

Remember, this process must be repeated as your situation and the world around us changes in trying to stay on-track. Your goals may change over the years—and plans need to adjust accordingly. And the conversation doesn't end with "financial security" which most people think of as retirement—as issues like long-term care and leaving a legacy take on greater importance. This work takes a team effort—and our team works closely with other professionals including lawyers, accountants, doctors, aging life care consultants, and others to help clients address the wide range of issues life can bring. That's all part of how we look at our commitment to serving you and your family.

Bottom line: this may be a good time for us to meet, revisit goals, talk about risk and return trade-offs, update financial/investment plans, and talk about what's next. We take this work very seriously and stand ready to help any way we can. Please give us a call—or just reply to this email—if you have any question and if you want to meet. If you're in town, we can meet in person. If not, we can meet "virtually" online—something clients are doing more often with busy schedules and travel. In the meantime, we will continue to watch over things for you. Thanks for your continued trust and business.

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The greatest compliment you can pay us is the referral of family and friends. Thank you for your continued trust and confidence.