PLANCORP™
Your Financial Life Advocate.

Quarterly Newsletter
Financial IQ - January 2017

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In this Newsletter

All,

It's hard to believe it's already 2017. But, whether I'm ready for it or not, the new year is here—and with it has come a fair amount of personal reflection on my part. I've been giving much thought to how grateful I am for Plancorp's clients, colleagues and continued growth.

*Looking back on 2016, it's exciting to consider where we've been as a firm, as well as where we're headed. Plancorp earned a number of awards and recognitions, a full list of which can be found at **www.plancorp.com/awards-recognitions**. We added two new shareholders, Peter Lazaroff and Steven A. Frank, and hired eight employees. And we celebrated four promotions: those of Sara Gelsheimer, Ben Schwartz and Jessie Weiss to wealth managers, and of Mike Vredenburgh to senior planning associate. Please join me in congratulating all four on their outstanding work and commitment.*

We at Plancorp look forward to serving you in the new year. Thank you, as always, for your continued support.

Sincerely,

Chris Kerckhoff, AIF®, CFP®
President

A "Normal" Year for Volatility

Peter Lazaroff, CFA®, CFP®, Director of Investment Research

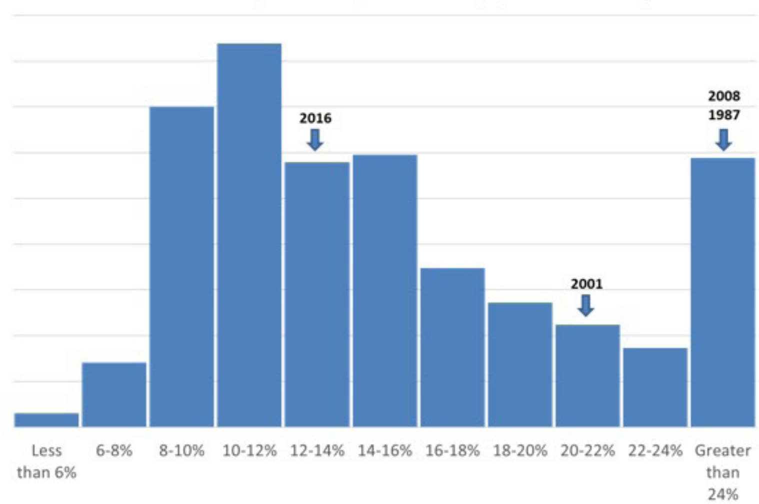
I'd forgive you for thinking 2016 was a wild year for the stock market.

Major headlines included a bear market in global stocks, Great Britain leaving the European Union, Donald Trump winning a poorly predicted US Presidential election and the second interest rate hike in a decade. These headlines ranged from surprising to scary, but they are only headlines.

Market returns and volatility told a very different story. The S&P 500[1] finished the year up 11.96% while volatility actually declined from a year ago. Annualized daily volatility for the S&P 500 was 13% percent – reflective of a year that shouldn't be considered wild, but instead incredibly normal.

The image below groups volatility levels for the S&P 500 for all one-year periods going back to 1929. For historical reference, we've pointed out where 2016 falls relative to some recent years of heightened volatility.

1-Year Daily Rolling Volatility (1929-2016)



If we ranked the volatility for all the one-year daily rolling periods in the chart above, 2016 volatility would rank in the 46th percentile – in other words, incredibly average. There are four lessons to draw from 2016:

1. Predicting the future is extremely difficult.

It is extremely difficult to predict the outcomes of macroeconomic events and even more challenging to predict how those events will impact financial markets. The markets are made up of millions of participants, each using all available information and expectations of the future to drive asset prices to a very close estimate of the present value of future cash flows.

To make an investment based on a prediction is pitting your knowledge against the collective knowledge of all market participants. It is important to realize that your opinions and any information you hold (unless it is non-public information) are already mostly incorporated into current prices.

2. There is always uncertainty in investing.

The future is unknowable, and there are risks inherent to that. Our success in managing those risks will determine how successful we are financially. We never know when the next correction or bear market will happen, but we manage our portfolios knowing that downturns happen regularly.

We believe in building a portfolio that focuses on the sources of return rather than the timing of return. Our portfolios are designed to lose value in down markets, but they will also capture those sources of return as efficiently as possible.

3. Disciplined investing isn't easy.

If you thought that 2016 was wild, imagine how you will feel when volatility truly picks up. Our financial planning models incorporate all levels of historical volatility – high, low and average – which allows us to build a portfolio that will help protect the comforts of your lifestyle, regardless of market environment.

When volatility does inevitably pick up, it is important to remember that stock investors are compensated for assuming the uncertainty of short term returns. In order to receive a rational premium for owning stocks over bonds and cash, stocks occasionally need to lose value. The long-term feels like an eternity to live through in the moment, but those that maintain discipline will be rewarded over time.

4. Your financial plan needs to consider the good and bad times.

Our financial models run one thousand scenarios, randomly drawing from historical levels of return and volatility, to generate a probability that your financial plan will be successful. That means your financial plan does all of the prediction work for you.

> *"It is important to realize that your opinions and any [invesmtent] information you hold ... are already mostly incorporated into current prices."*

When market volatility seems higher, you are better off reviewing your financial plan than you are your portfolio performance. Your portfolio is supposed to go down in value, but a thoughtfully crafted financial plan takes those periods of bad performance into account, and does so without emotion. As a result, you can know the comforts of your lifestyle are protected.

"DOW 20K": Psychological, Not Material

Kyle Attarian, MBA, CFA, CFP®, AIF®, Wealth Manager

When it comes to money, a certain hype exists around hitting psychological thresholds.

Think about the first time your bank account reached $1,000, and it wasn't already "spent." I remember feeling a sense of accomplishment: I had finally arrived. Or consider your salary expectations. My college buddies and I used to joke that we'd surely be making six figures by age 30. But in reality, is $900 in the bank much different than $1,000? Is making $90,000 that different from $100,000?

And in the stock market, is 20,000 in the DOW[2] really so different than 19,000?

As an investor, it's important to understand that the "DOW 20K" mark is really just a psychological benchmark, similar to the bank account or salary examples.

The number itself doesn't suggest anything concrete about what the future may hold, especially considering that the DOW isn't representative of the business landscape or overall U.S. stock market.

The DOW's weighting methodology can also make milestones appear more significant than they are. In reality, each 1,000-point benchmark actually becomes less meaningful as the DOW increases. For example, the move from 2,000 to 10,000 required a 400% return—but the move from 10,000 to 20,000 required only a 100% return.

It can be difficult to tune out media hype. However, eschewing it for a long-term investment approach (and, in this case, a realistic perspective of indices) will ultimately benefit you as an investor. Rather than making emotional- or media-driven investment decisions, focus on the things you can control: asset allocation, risk exposure, investment costs and taxes.

Fresh Faces

As our firm grows, it's our pleasure to welcome new members to the Plancorp team. Meet our newest hires:

Jason Co, Financial Planning Associate

Jason joined the Plancorp team in 2016 with a technical background in both engineering and financial planning—as well as a passion for helping people get their financial lives in order.

Jason graduated from the Missouri University of Science & Technology (formerly the University of Missouri-Rolla) in 2012 with his B.S. in Engineering Management. Even while working as an engineer, Jason often helped his colleagues set up their 401(k)s and IRAs. In 2014, Jason joined Morgan Stanley as a technical financial planner. His appreciation for unbiased and data driven financial planning eventually drew him to Plancorp.

Originally from Hong Kong, he is fluent in both Mandarin and Cantonese and makes an annual trip back to China with his wife to visit family. Outside of work, Jason enjoys playing guitar and lifting weights. Although he has stepped off the dance floor for a while, he made it as a finalist in the amateur division of the 2012 "Meet Me in St. Louis" swing dance championship.

Wesley Leftwich, Financial Planning Associate

Wesley first joined the Plancorp team as a summer intern in 2016. His passion for helping clients achieve their life goals was immediately apparent, and we were thrilled to welcome him back full time in 2017.

Wesley graduated from the University of Missouri in 2016 with his Master's in Personal Financial Planning and a B.S. in Nutrition and Fitness. As an undergrad, he played for the school's football team as a wide receiver, even holding a starting position during his senior campaign. In graduate school, Wesley also served as a financial planning teaching assistant and interned at Krilogy Financial.

Born and raised in Columbia, Wesley enjoys exploring his new city and learning about St. Louis' rich history. Recently, he's become especially fond of the Delmar Loop, golf courses and plethora of local parks. He actively pursues community volunteer opportunities, particularly those promoting safer neighborhoods and environmental awareness.

Resolutions vs. Financial Life Goals

Chris Arnold, Financial Planning Associate

The holidays have passed, kids are back in school and you're starting to get back into a routine. If you are like most individuals, you have allocated your top goals for the year into "resolutions" around topics such as health, productivity, finance and family.

Unfortunately, 50 to 80 percent of Americans fall off their paths to resolutions—often because the goals were too lofty, generic or immeasurable. So this year, why not focus on developing financial life goals instead of, or in addition to, your more general resolutions?

Here are three simple, yet practical, steps to kick-start your new year down the right path.

1. Reflect on your financial wellness.

The holidays are a wonderful time to express gratitude and count the blessings you've received in the past year, i ncluding progress you've made toward achieving your financial life goals. Consider areas in which you exceeded your personal expectations, as well as areas you fell short of your objectives. For instance, were there unexpected sources of supplemental income or expenses that you didn't anticipate? This exercise will help you identify ways you can better align expectations and experiences in 2017.

2. Evaluate your current situation based on life goals.

After self-reflecting, or completing a financial review with your spouse, another priority should be to evaluate your current situation based on your short and long-term objectives. Some common questions to help initiate this conversation include:

- What life transitions took place over the past year? Are there any foreseeable transitions in the coming year?
- Do our current savings habits have us on track to live the lifestyle we visualize throughout retirement?
- Based on the rising cost of education, are our current savings adequate to support our children's future education goals?
- If an accident were to occur within the coming year, have we sought out solutions that will allow our family to continue living the lifestyle they have grown accustomed to? Are our beneficiary designations on retirement accounts and insurance policies up to date?

Although these are not the most enchanting conversations, by evaluating your current situation and proactively identifying solutions, you can alleviate these stressors from hindering your life throughout the remainder of the year.

3. Implement strategies to achieve your financial life goals.

Now that you are mindful of certain aspects of your finances you wish to improve upon, what steps need to be taken to get you on that path? How can you continue to thrive with your current strong suits? For example, you may decide to increase your savings rate by the same percentage as your raise, defer your year-end bonus into an education savings account or create a new budgeting system.

Developing new habits requires a great amount of self-discipline. However, by making gradual lifestyle changes, you can begin to engrain these prudent habits for a prosperous future. If you wish to discuss any of these topics further, your financial advisor would be happy to hear out your desires and provide recommendations on the optimal strategy to achieving your objectives.