

# **PWJohnson Wealth Management**

## **Client Letter**

### **First Quarter, 2017**

#### New Year Market Reviews

This quarter, we're making two educational resources available to you if you're interested in the current economic and investment environment. *First*, you can read the [Market Commentary](#) that Charles Schwab & Co. has kindly given us permission to use. Second, you can watch a recording of Peter's recent online presentation, [Looking Forward to 2017](#). Here's what one client had to say about the online presentation: *"I finally sat down to watch the webinar and was highly impressed. I thought that watching it would be boring and a bit of a drag but NOT SO. The information is so pertinent and enlightening..."*

Here are some selected highlights from the online presentation...

- *Interest rates headed up*
- *Animal Spirits return*
- *The real cause of disappearing jobs*
- *Some good news on climate and energy*



#### **Looking Forward to 2017**

## Diversification is No Fun!

It's vital to remember that no matter what your investment philosophy and discipline is, there will always be downsides to it which will test you. Diversification is no different — it's essential for risk management, yet it presents its own challenges. One of these is that *a diversified portfolio will never do as well as the best performing asset class over any given time period*. A second challenge is that *we'll always be holding investments that look like dogs*, because some investments inevitably will fare less well than others. Yet, if we're committed to diversification, these outcomes are *axiomatic*, and have always held true. Do these downsides mean diversification has failed us? Not at all.



After eight years of U.S. stock market domination, it's time to revisit one of our key tenets: namely, that broad diversification is in the best interests of our clients and investors in general. We're grateful to Ben Carlson, CFA, of Ritholtz Wealth Management, for the opportunity to include his recent blog article, [\*Diversification is No Fun\*](#). It's a great read, and elegantly addresses the diversification conundrum, while speaking directly to the #1 question we've gotten from clients over the past couple of years, namely, "Should we be in foreign stocks?" We think you'll enjoy reading it.

*"Diversification is about accepting good enough while missing out on great but avoiding terrible."*

— Ben Carlson, CFA

*"We're conditioned from childhood to think that effort will lead to better results. Investing doesn't work like that."*

— Regis Media

*"Clients want to know about portfolio returns, but they virtually never ask about the risk side of the equation."*

— Peter Johnson

## Fiduciary Brouhaha

The U.S. Department of Labor's new "Fiduciary Rule" is scheduled to be phased in beginning April 10, 2017, and would expand the "investment advice fiduciary" definition under the Employee Retirement Income Security Act of 1974 (ERISA). This sweeping legislation (1,023 pages in length) would automatically elevate all financial professionals who work with retirement plans or provide retirement planning advice to the level of a fiduciary, bound legally and ethically to meet the standards of that status.

Some advisors already meet that standard by virtue of being a registered investment advisor (RIA). PWJohnson Wealth Management is an RIA and a fiduciary, which has always required us to act in our clients' best interests.

"The DOL's conflict of interest rule is a step forward for investor protection, and registered investment advisers are well-positioned to comply," said Skip Schweiss, managing director, adviser advocacy and industry affairs at TD Ameritrade Institutional. RIAs have been acting in their client's best interest as fiduciaries since the passage of the Investment Advisers Act of 1940, according to Schweiss.

However, despite the fact that the "fiduciary rule" is scheduled to take effect April 10th, many observers believe that President Trump will find a way to delay or kill the rule. In that case, other advisers, registered representatives and insurance agents, would only be able to claim that they are giving their client "suitable advice," a much lower standard.

Despite the fact that RIAs such as PWJ now enjoy this competitive advantage, we encourage investors to support the DOL Fiduciary Rule and other, similar measures that would require investment advisers and salespeople to adhere to the fiduciary standard. It's clearly in the best interests of investors.

### ***Thank you!***

As always, we appreciate your continued confidence and trust. There is no greater pleasure than to be of service to you, our valued clients and friends. Please contact us if you have any questions or feedback.

*Your PWJohnson Team*