

★ Quarterly ★ Newsletter

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"The Ark Was Built By Amateurs, The Titanic By Experts"

MIKE BOOKER, CFP®, CHFC®, CFS®

SHAREHOLDER, FINANCIAL ADVISOR



As you already know, here at Financial Synergies, we don't predict financial markets. Instead, we are dedicated proponents of diversification. We implement a disciplined rebalancing philosophy

to take advantage of temporary imbalances that occur within client portfolios from time to time. This allows us to enhance returns and reduce risk. But, just like most investors, I fantasize what it would be like if I could predict the future. If I could predict the stock market, here is what I would do:

I would invest all of your money into that one best performing asset and you would benefit immensely from my astute prediction. Maybe we could double your money every 6-12 months or so. Also, there would be virtually no risk associated with my investment pick because I would sift through all available assets, pick the best one and then, at the perfect moment, adeptly move on to the next best performer with perfect timing.

I haven't put the calculator to it, but I think if I could predict markets accurately long enough, I might own the world or, at least a healthy chunk of it. In a famous 1998 study by Roger Gibson, he concluded that if an investor with \$1 million in 1924 successfully invested in the top performing asset class every year, they would have amassed over 20 trillion dollars-this was more than the value of all corporate America at the time and about ½ of the rest of the companies existing at the time throughout the world! (*Stop & Think*, Chapter 2, page 26, Michael Booker) Which makes me wonder, "Why don't all these famous market gurus own their own healthy chunk of the world? Are they not following their own their own advice? Not eating their own cooking?" Hmmm.

I'll tell you why they don't own the world; because, overall, it hasn't been very pretty for them. Multiple studies regarding market gurus' acumen for predicting markets generally reach the same basic conclusion: no one is very good at it. Truth be told, the gurus seem to really stink at it. As John Kennedy famously said after the Bay of Pigs debacle, "How could I have been so mistaken as to have trusted the experts?"

Indeed, most market prognosticators are wrong a minimum of two thirds of the time. (*Stop & Think*, Chapter 2 page 24, Michael Booker). When an investor is wrong two thirds of the time, they don't simply miss opportunities, they waste precious time and resources chasing ones that don't pan out. This adds up to poor long-term investment performance.

We are traveling through a normal business cycle, it seems to me. While we are clearly not at the beginning of the cycle, but I don't think we are at the end of it, either. Recently, market volatility has become an obnoxious travel companion on our trip through the business cycle, however. Excessive volatility can throw investors off balance. Don't let it throw you. Together, we will stay focused on your long-term goals. You have benefited from, and will continue to benefit from, the rational behavior a long-term perspective provides.

We've Changed Our Address!

You may have seen our communication regarding our address change. We have moved across San Felipe, off Briar Oaks Lane, to 4400 Post Oak Parkway, Suite 200, Houston, TX 77027.

From 610, take the exit for San Felipe and go inside the loop, east, as you would to our old office. Take a left at Briar Oaks Lane, about half a mile down. You'll take an immediate left onto Post Oak Parkway, where our building will be on the right. (It's a tall, white travertine building.)

The parking garage is across the street, and we will provide you with parking validation. You can enter the building from the garage at the 3rd level skywalk or from the ground if you prefer. Our suite will be on the left on the same floor as the Skywalk (third floor in garage, second floor of the building).

We are going to have an open house on December 13th - please be on the lookout for the save the date in your email and your mailbox. We are looking forward to seeing you here!



MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER

If you've been paying attention to your portfolio's performance this year, you may be scratching your head as to why the returns have been lackluster. We get it - we're invested in the same positions as you. Let's delve into how our primary global asset classes are performing this year.

With the Dow Jones, Nasdaq, and S&P 500 hitting new highs in 2018, it's only natural to expect fireworks from your portfolio as well. These domestic indices are the darlings of the financial media, but they are dominated by large-cap U.S. stocks. And because these indices are weighted by market capitalization and price, the growth and more expensive stocks tend to play a much more prominent role.

We have plenty of exposure to these stocks in our core U.S. large-cap fund, and its performance this year coincides with the indices mentioned above. But that is only one asset class of our globally diversified portfolios. We have exposure to large-cap value stocks, small-cap blend and value stocks, developed international stocks, emerging markets stocks, bonds, U.S. and international real estate.

Outside of the core U.S. large-cap and small-cap asset classes (up 10.09% and 8.29%), it's been a different story this year. Let's break down the 2018 YTD performance of the other broad-based asset classes we invest in, and then compare that to their 2017 and 2016 performance.

Equities Performance

Asset Class	YTD 2018 Return	2017 Return	2016 Return
U.S. Large-Cap Value	4.20%	18.97%	18.89%
U.S. Large-Cap Core	10.09%	21.79%	11.90%
U.S. Small-Cap Value	4.87%	7.21%	28.26%
U.S. Small-Cap Core	8.29%	16.24%	18.31%
International Large-Cap Core	-4.17%	28.05%	5.34%
International Small-Cap Vaue	-7.45%	27.98%	8%
Emerging Markets	-12.57%	36.55%	12.35%
U.S. Real Estate	-2.46%	4.95%	8.53%
International Real Estate	-5.58%	15.38%	3.08%

It's clear from the performance numbers that value stocks, international stocks, and real estate are all detracting from performance relative to U.S. large-cap and small-cap core stocks in 2018. The reason that I'm pulling in the returns from 2017 and 2016 is to illustrate how quickly things can flip-flop.

You'll notice that last year our international stocks dominated the domestic stocks, and in 2016 value stocks dramatically outperformed the core stocks. This is the natural ebb and flow of global diversification. And no one ever knows from year to year what asset classes are going to be in favor (not even the "gurus"). Therefore, we stay globally (and fully) diversified at all times.

Now on to bonds. This broad asset class has really thrown investors for a loop this year. We're not used to

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seeing bond positions across the board in the red. But that's exactly what's happened in 2018. It's nothing dramatic – the worst performance of any of our bond positions in 2018 is around -2%. But, when you have a large chunk of your portfolio in an asset class with negative returns, it's going to drag down your overall performance significantly.

So, what's going on with bonds? It's simple really, as the Fed's rate increases have made their way into bond yields, that has put downward pressure on bond prices. The reason the Fed is continuing to raise rates is because the economy is booming and now is the time to return to a normal rate environment.

Conclusion

I'll admit it's been a frustrating year for diversification. But we're not concerned about value vs. growth, U.S. vs. international, or negative returns in bonds, in the short-term.

Value and growth stocks will flip-flop from time to time, but we expect value stocks to outperform over the long-term. International stocks are in a different stage of economic recovery, and the stronger dollar relative to these international currencies has also played a major role in their decline. We've been buying into these positions as they've declined. Relative to U.S. stocks, they are much cheaper and thus have a higher expected return going forward.

As far as bonds, it's just going to take some time for the bond markets to adjust to a higher rate environment. We've been through periods of rising rates before, and eventually bonds will recover. Our primary philosophy for allocating to bonds has not changed. We invest in them to provide a buffer from stock market downturns, while earning a positive return above inflation.

None of what has occurred in 2018 has changed our stance on our core investing tenets. And who knows where things might end up by Christmas!

Disclosure: the return data used in this article is pulled from our primary funds. Not all clients are necessarily invested in these exact positions.

Financial Synergies Can Manage Your Retirement Plan

We are pleased to announce an expansion of our service to manage your employer's retirement plan. This includes 401(k), 403(b), 457 deferred compensation plans and more.

We can now manage your outside 401(k) plan in the same way we manage your IRA and brokerage accounts custodied at Charles Schwab. Here's a brief summary of how the service works:

Financial Synergies will provide a complete analysis of the investment options available in your 401(k) plan and design an asset allocation consistent with your goals and risk tolerance. We'll then implement those recommendations directly with your plan provider via our secure trading platform. Once the allocation has been implemented, we will monitor the account on an ongoing basis for rebalancing opportunities just as we do in your IRA and brokerage accounts at Charles Schwab.

As we see opportunities to rebalance, or as new investment options are added to your plan's fund lineup, we'll place trades directly with your plan provider and send you a summary of the changes we've made. Your 401(k) account will be included in your online portal on My Investments as well as in your quarterly statement from Financial Synergies, allowing you to track the performance of your entire portfolio in one place.

Some 401(k) plans offer self-directed accounts inside the plan where you can invest in a much broader range of securities than those offered in your plan's standard fund lineup. If that is the case, we can often nearly replicate the portfolio we have designed for your IRA or brokerage account at Charles Schwab.

Our goal at Financial Synergies is to take a holistic approach to advising our clients. By solving the technology and regulatory challenges that previously prevented us from fully managing 401(k) plans, we can now incorporate these critical assets into your overall portfolio investment plan in a more thoughtful and hassle-free way. Please contact your advisor if you would like to visit with us about this expanded service in more detail.



Medicare Open Enrollment

WILL GOODSON, CFP® | FINANCIAL ADVISOR

We are quickly approaching the annual Open Enrollment period for Medicare. Open Enrollment begins October 15th and ends December 7th. It is an important time to review both your current Medicare Part B supplement plan (i.e. “Medigap”) and Part D prescription drug coverage. Health and drug plans change every year so it’s critical to make sure your current coverage continues to meet your healthcare needs.

It’s recommended that you review the materials provided by your health plan each year. The two notifications to look out for are the “Evidence of Coverage” (EOC) and “Annual Notice of Change” (ANOC). When plans make changes to costs and coverage, these notices should outline those changes and help you determine whether your current coverage is still adequate.

Starting in October, information on all current Medigap and prescription drug plans are available. You can contact Medicare directly by calling 1-800-MEDICARE or visit their website - www.medicare.gov - for more information. The website is a great resource for general information on how Medicare works, who is eligible, and what is covered. Currently when you visit the website, you will see a pop-up image where you can have Open Enrollment and Medicare news emailed directly to you. We are also happy to assist if you are enrolling for the very first time.

Important Changes Coming for 2020 & Beyond

There are important changes coming to the Medigap policies that you should know about. These supplemental plans help to fill in the gaps of the standard Part B outpatient coverage. Medicare Part B covers doctor’s visits, preventative services, medical supplies, etc. However, there are a number of out-of-pocket costs that are not covered by this basic coverage, which is why it’s important to have a Medigap policy. There are ten Medicare supplement plans (identified as Plan A, B, C, D, F, G, K, L, M, & N), and each Medigap plan helps cover a range of these out-of-pocket costs.

With the passing of The Medicare Access and CHIP Re-authorization Act of 2015 (MACRA), several healthcare changes are going into effect. One of the biggest impacts of the bill is that supplemental Plan C and F are being phased out in 2020. These are the only two supplemental plans that will cover the annual Medicare deductible (\$183 for 2018). Starting in 2020, Medigap policies are no longer allowed to include the annual deductible amount.

Plan F is often considered the “Cadillac plan,” as it includes the most comprehensive coverage. It is also the most expensive Medigap plan. If you turn age 65 on or before December 31, 2019, you are still able to purchase Part F for 2019 and in the future. You’re essentially “grandfathered” into the plan.

If you turn 65 in 2020 or beyond, you are not without luck. Plan G provides nearly identical coverage as Plan F, except that it does not cover the annual deductible amount.

Healthcare tends to be one of the larger expenses retirees face. Medicare provides a wide range of options, but they vary in complexity and cost. We always recommend our clients be vigilant in reviewing their existing policies to ensure they are still receiving the coverage they need at manageable costs.

If we can assist in answering your questions or connecting you with a qualified Medicare insurance specialist, please don’t hesitate to contact us.