GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

Michael J. Krencicki, MSF, CFP ® | Fall 2016 | James M. Knaus, MSM, CFP ®

History on the Run

August 17, 2016
By: Jim Parker,
VP Dimensional Fund Advisors

When news breaks and markets move, content-starved media often invite talking heads to muse on the repercussions. Knowing the difference between this speculative opinion and actual facts can help investors stay disciplined during purported "crises."

At the end of June this year, UK citizens voted in a referendum for the nation to withdraw from the European Union. The result, which defied the expectations of many, led to market volatility as participants weighed possible consequences.

Journalists responded by using the results to craft dramatic headlines and stories. The Washington Post said the vote had "escalated the risk of global recession, plunged financial markets into free fall, and tested the strength of safeguards since the last downturn seven years ago."[1]

The Financial Times said "Brexit" had the makings of a global crisis. "[This] represents a wider threat to the global economy and the broader international political system," the paper said. "The consequences will be felt across the world."[2]

It is true there have been political repercussions from the Brexit vote. Theresa May replaced David Cameron as Britain's prime minister and overhauled the cabinet. There are debates in Europe about how the withdrawal will be managed and the possible consequences for other EU members.

But within a few weeks of the UK vote, Britain's top share index, the FTSE 100, hit 11-month highs. By mid-July, the US S&P 500 and Dow Jones Industrial Average had risen to record highs. Shares in Europe and Asia also strengthened after dipping initially following the vote.

Yes, the Brexit vote did lead to initial volatility in markets, but this has not been exceptional or out of the ordinary. One widely viewed barometer is the Chicago Board Options Exchange Volatility Index (VIX). Using S&P 500 stock index options, this index measures market expectations of near-term volatility.

You can see by the chart on page 4 that while there was a slight rise in volatility around the Brexit result, it was insignificant relative to other major events of recent years, including the collapse of Lehman Brothers, the eurozone crisis of 2011, and the severe volatility in the Chinese domestic equity market in 2015.

None of this is intended to downplay the political and economic difficulties of Britain leaving the European Union, but it does illustrate the dangers of trying to second-guess markets and base an investment strategy on speculation.

Now the focus of speculation has turned to how markets might respond to the US presidential election.

(Continued on page 4)

A Personal Note From Global Wealth Advisors

The Federal Open Market Committee met on September 21st and voted to keep the federal funds interest rate unchanged. The continuation of low rates was expected, given the reduction in recent economic indicators and the August Payroll, numbers coming in much lower than expected. In addition, the Fed has been trying to reach its target core inflation rate of 2% but it has been hovering around 1.6%.

The US stock markets reacted positively to the news, as this helps keep interest rates low for things like auto loans, home mortgages and commercial loans, and that is good for business. The Fed will again consider interest rate changes in November and December, with many believing a .25% interest rate increase will occur in December.

How stock markets will react when the Fed finally does raise interest rates is anyone's guess, but the bond markets will feel some pain. How much, we will have to wait and see. Low interest rates help when the economy is in a recession, acting as a primer to help stimulate spending. However, when those rates are kept low for many years, it distorts the use of capital, the value of assets and negatively affects savers.

Jim Knaus Mike Krencicki

Free Throws

February 25, 2016
By: David Butler,
VP Dimensional Fund Advisors

"What do you regard as the most difficult period in the financial markets during your 25 years in the investment business?"

I am often asked this question, usually by people who already have a framework and opinion as a result of living through one or several market downturns. For example, many older advisors and their clients regard the 1973–1974 bear market as the toughest period in their investment lifetime.

Middle-aged investors may consider the tech boom and bust of the late 1990s and early 2000s to be the bellwether event for a generation of investors who assumed they could get rich on one great stock pick. Today, just about everyone remembers the 2008–2009 global financial crisis, having experienced the anxiety of declining investment accounts themselves or knowing someone who did.

The market decline in early 2016 has much of the same feel as past events. Times like these are never easy for clients or advisors, who must confront their concern that "things just might be different this time." When in the midst of a market decline, it is natural to sense that the volatility is lasting longer and is worse than anything before. As a result, advisors spend a lot of time talking to their clients in an effort to alleviate elevated concerns and fears.

How do we find the words that might help minimize the fear and anxiety advisors' clients feel about their investment portfolios and retirement security? As you know, no single word or story can ease their concerns—and certainly not overnight. The more effective course may be for advisors to steadily lead clients down a path from worry to calm through a conversational approach that emphasizes the importance of sticking with their plan.

Linking Process to Discipline

I had the opportunity a few weeks ago to speak at an advisor's client event in California. As I was driving to the event, I thought about how to make the presentation conversational and ensure the concepts of process and discipline resonate with the audience.

The audience was a sports-oriented crowd, and I had about 15 minutes to get across one important concept that might help them navigate the choppy markets. Then I remembered an article I read about world-class athletes and their approach to success. The author described how the greatest athletes, from Olympians to all-star professionals, focus on process rather than outcome when competing at the highest level. I thought about this in context of my own college athletic experience, which, although not at the Olympic level, involved the same need for calm and focus during high-pressure moments in a basketball game.

Imagine yourself playing in a championship basketball game. Your team is trailing by one point. You are fouled just as the game clock goes to zero. You have two free throws. Make both and you win. Miss them and you lose.

What do you do to contain the pressure and focus on the task? The great athletes look to process. While each process may be different, each one reflects a personal routine a player has performed thousands of times in practice. For instance, you start your routine as you approach the free throw line; you take a deep breath and imagine the ball going through the hoop; you step to the line and find the exact spot (usually a nail right behind the painted line) where your right foot will anchor; you look at the back (or front) of the rim and notice the paint peeling or the net missing a connecting loop—or anything else to help you concentrate and calm your mind; and you take the ball from the referee and continue your routine. You dribble twice and flip the ball in the air, take a couple of knee bends, find the grooves on the ball, and spread your fingers across it. You feel the texture of the ball, the rough orange leather and the smooth black rubber on the grooves, and finally time the motion so that your body, the release of the ball, and the follow-through of your hand are all in perfect synch as the ball elevates and descends to the basket.

The effective athlete does not hope for an outcome or get nervous or scared as the moment approaches. He or she immediately falls back on the tried and tested routine performed countless times in a more serene environment (practice). Following the routine dulls the noise of the crowd and brings clarity of mind.

The same lessons apply to the seasoned investor. A chaotic market is akin to what the visiting team experiences in a gym, where opposing fans and players are doing everything possible to distract you. You stay focused on a routine burned into your nature through coaching and repetitive practice.

The components of the seasoned investor's routine are similar: the investment policy statement, the regular review of family goals and liquidity needs, and the regular calls an advisor makes during good and bad markets. These and other actions are all part of the process developed to summon that muscle memory needed in stressful times. Just as the great athlete navigates through the moments of pressure in any athletic event, the actions are part of the routine that allows the individual to navigate through a chaotic market like we have today.

I believe there are many stories and anecdotes that parallel the basic needs of an investor, but it is up to the advisor to find one that resonates with a particular client or audience. The example could involve a great violinist, a world-class chef, or even a gardener. In each case, there is a story of discipline behind the person who continually works to perfect the craft and a reminder of how a successful investor can do the same.

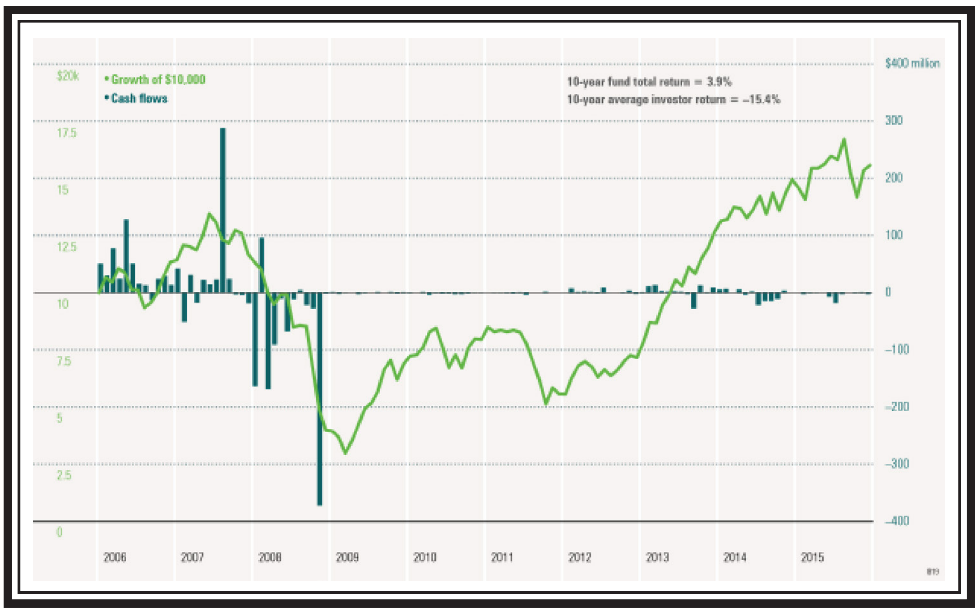
Statistics and data are the bedrock for the insights we gain about the capital markets, but it is often the conversational story that can help clients of advisors focus on the simplest and most important tenets of investment success. Regardless of the market or time period, advisors can encourage their clients to maintain the discipline needed to follow a process, which can lead to a great investment experience.

Past performance is not a guarantee of future results. There is no guarantee an investing strategy will be successful. Investing risks include loss of principal and fluctuating value. This information is for educational purposes only and should not be considered investment advice or an offer of any security for sale. All expressions of opinion are subject to change. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission. ●

Investor Return Versus Total Return

May 25, 2016
By Alina Lamy,
Morningstar® ARC

The average investor return can diverge widely from a fund's posted total return, illustrating the dangers of performance chasing. The Morningstar Investor Return data point measures how the typical investor in a fund fared over time, incorporating the impact of cash inflows and outflows. It is not one specific investor's experience, but rather a measure of the return earned collectively by all investors in the fund. Conversely, total return measures the percentage change in price for a fund, assuming the investor buys and holds the fund over the entire time period, reinvests distributions, and does not make any additional purchases or sales.



The image illustrates the divergence in total return and investor return for a mutual fund selected from Morningstar's mutual fund database. The fund's 10-year total return was 3.9%, but its 10-year investor return was a terrible negative 15.4%, which is quite a big difference. The fund's net cash flow tells the story of the discrepancy. Investors piled into the fund during its runup between 2006 and mid-2007, with most inflows occurring near the fund's peak value. Investors then fled as the fund's returns plummeted, with most outflows occurring near the fund's bottom. This type of behavior is not uncommon as investors tend to chase performance, buying high and selling low.

In conclusion, performance-chasing is one of the biggest reasons investors underperform over the long term. By being aware of this behavioral bias, you can be better prepared to counteract it, by learning to stick to a long-term asset allocation plan through the market's ups and downs.

This is for informational purposes only and should not be considered investment or financial planning advice. ●

History on the Run

(Continued from page 1)

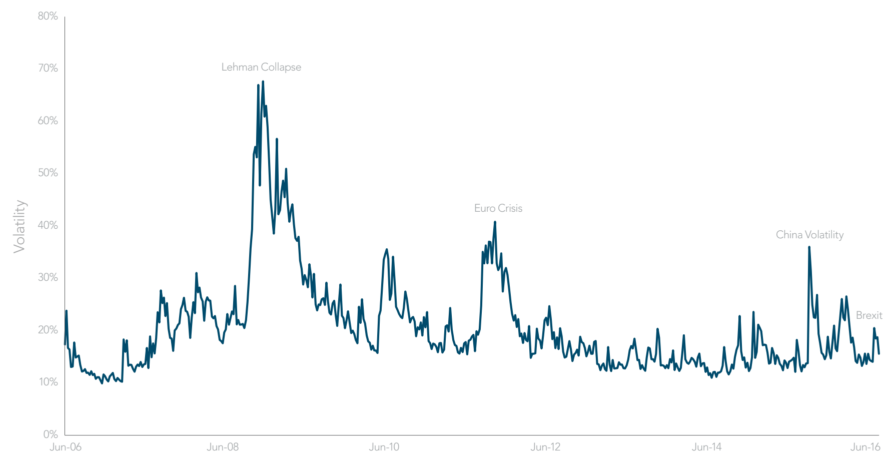
CNBC recently reported that surveys from Wall Street investment firms showed "growing concern" over how the race might play out.[3]

Given the examples above, would you be willing to make investment decisions based on this sort of speculation, particularly when it comes from the same people who pronounced on Brexit? And remember, not only must you correctly forecast the outcome of the vote, you have to correctly guess how the market will react.

What we do know is that markets incorporate news instantaneously and that your best protection against volatility is to diversify both across and within asset classes, while remaining focused on your long-term investment goals.

The danger of investing based on recent events is that the situation can change by the time you act. A "crisis" can morph into something far less dramatic, and you end up responding to news that is already in the price. Journalism is often described as writing history on the run. Don't get caught investing the same way.

CBOE Volatility Index® (VIX)®



Source: Datastream

1. "Brexit Raises Risk of Global Recession as Financial Markets Plunge," *Washington Post*, June 24, 2016.
2. "Brexit and the Making of a Global Crisis," *Financial Times*, June 25, 2016.
3. "Investors are Finally Getting Nervous about the Election," *CNBC*, July 13, 2016.

Dimensional Fund Advisors LP ("Dimensional") is an investment advisor registered with the Securities and Exchange Commission. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. This content is provided for informational purposes, and it is not to be construed as an offer, solicitation, recommendation or endorsement of any particular security, products, or services.

Global Wealth Advisors LLC
200 East Big Beaver Road • Troy, MI 48083 • Phone: 248-457-4555 • www.gwallc.com