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October 6, 2016

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me at your convenience to set up your quarterly meeting.

**Contents:**



**Going, Sebastien, Fisher & Le Bouef, LLP News:**

- GSF&L is constantly looking for asset classes to include in clients' portfolios to increase income or reduce risk or both. We offer Insurance-Linked Securities, Alternative Lending, and other Alternative Strategy Securities, so feel free to contact us for more details.

**Investment Views:**

- ***Morningstar Data - Through September 30, 2016 - Year-to-date returns -*** Dow Jones Industrial Average 7.21%, NASDAQ Composite (dollars) 6.08%, Russell 2000 11.46%, S&P 500 7.84%, MSCI EAFE (dollars) 1.73%, and the Barclays U.S. Aggregate Bond Index 5.80%.

- ***Northern Trust – Investment Strategy – October 4, 2016 –*** A time-tested observation is that the stock market hates uncertainty – and we concur with that view. Policy instability will harm the real economy, and reduce investor risk appetite. However, the checks and balances in the U.S. governmental system constrain any one branch from too much influence. While most of the focus has been on the presidential election, the market is likely gaining some comfort from the likelihood of either divided government going forward or at least a check on more extreme policy outcomes.

- ***Bureau of Economic Analysis – September 29, 2016 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production increased at an annual rate of 1.4% in the second quarter of 2016 as compared to a 0.8% increase in the first quarter. Personal Income increased 0.2% in August 2016 as compared to 0.4% in July.

- ***Bureau of Labor Statistics – September 16, 2016 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.2% in August, and over the last 12 months the all items index rose 1.1% before seasonal adjustment. Total nonfarm payroll employment rose by 151,000 in August, and the unemployment rate remained at 4.9%.

**Craig's Thoughts and Views:**

**The Importance of Valuations**

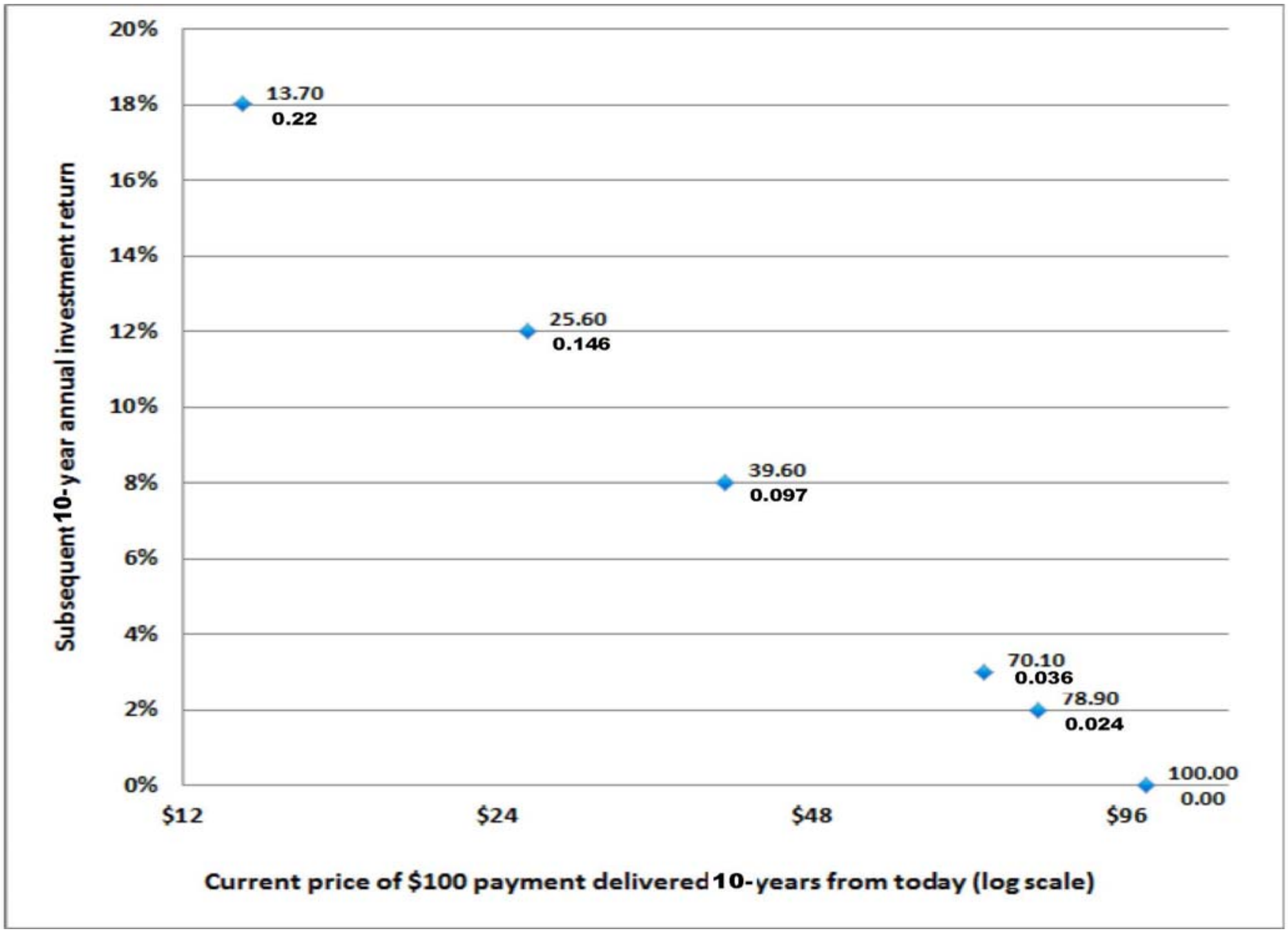
Some economists and advisors are telling their clients to expect 0-2% annualized returns over the next 10-12 years, based on their own internal research (I am by no means advocating this will soon happen). Obviously, there are many others who say the stock market future is rosy. Economists, money managers, and financial advisors use a number of economic/market measures in making their market predictions. Some of these are stock market price/forward earnings, GAAP price/earnings, Shiller CAPE, Siegel's NIPA CAPE, Tobin's Q, market price/dividend, economic indicators, and market price/sales. It has been quoted that Warren Buffet's favorite measure to determine stock market valuation is ratio of market capitalization to gross domestic product (GDP). As we all know, no one has a crystal ball into the future, and when trying to determine stock market returns, all we can deal with are probabilities. The 0-2% expected future returns are based on a conventional asset mix (60% stocks, 30% bonds, and 10% U.S. Treasury bills).

One measure that can paint a picture of future returns is current "valuation." However, it may not become clearer except in hindsight. To understand value and future returns the below graph hopefully will help. Imagine paying some amount of money today in return for a $100 bill 10 years from now. The chart shows the 10-year annual return you will earn, based on how much you pay today. The higher the price you pay for a given set of future cash flows, the lower the long-term return you can expect to receive. Each point represents what you pay today and your future return over the next 10-year period. Therefore, paying $13.70 gets you a 22% 10-year return, paying $25.60 gets you a 14.60% return, paying $39.60 gets you a 9.7% return, and so forth.

As you gradually raise today's price from $13.70 to $100 your prospective 10-year return drops from 22% annually to zero. The important lesson here is that rich valuations imply a reduced long-term return and valuation increases convert future returns into realized past returns. This exercise is important to understanding long-term investing. The higher the price you pay for a given stream of future cash flows, the lower your rate of return is over the life of the investment. As a reminder to readers, the current price of a stock or bond is generally priced based on the future cash flow stream.

To draw examples from the recent past to help further explain the above. The years leading up to 2000-2002 and 2007-2009 (you may have painful memories of these time periods) showed very good returns and with each year getting closer to 2000 and 2007 more of future returns were being converted to realized past returns. As the market cycles completed themselves and years 2002 and 2009 came to a close, investors discovered how severe market collapses can be and the effect on their annualized rates of returns.

The erasure of realized past returns will restore reasonable prospects for future investment, as other market recessions have done. In the meantime, saving and an appropriate portfolio asset allocation should be a high priority for the eventual opportunities that will come.




**When to Receive Social Security Benefits**

Social Security benefits are an important component of the income stream for many retirees. Many prudent investors carefully consider the age at which they claim this important part of retirement income. While the "when" to claim social security benefits depends on a couple's or individual's particular circumstances, many financial advisers advise people to delay benefits up to age 70 in order to lock in a larger benefit for the remaining retirement years. The general argument for delaying Social Security benefits is to create a higher floor of guaranteed income.

However, investors should not rely on general advice or rules of thumb and acknowledge that waiting for a higher payout in the future comes at a cost. The current full retirement age is 66, but investors can receive a reduced benefit by collecting at age 62. Those who choose to delay their retirement credits by waiting to age 70 to claim benefits will give up eight years of potential income that could be used to improve quality of life or invest to create a wealthier future.

For a person who will live to age 75, for example, collecting at age 62 could make a lot of sense. A retiree that collects at age 62 and lives until age 75 will receive 13 years of benefits although reduced. That same retiree, who instead delays benefits to age 70, would receive only 5 years of (increased) benefits. Calculations done by the American Institute of Investment Services show that the higher benefit from delaying will not be enough to make up for the eight years of foregone benefits. Thus, in this example, the retiree would be better off collecting at age 62.

However, for retirees who live a long time, until age 95, for example, it makes since to delay benefits. In this instance, the retiree would receive 33 years of reduced benefits if began collecting at age 62, and would receive 25 years of increased benefits if he/she delayed until age 70. The higher benefit realized by delaying more than makes up for the eight years of benefits foregone between ages 62 through 69.

Calculating the "breakeven" age, which is the future age at which the benefits of each option become equal, assuming benefits are invested can be more complicated than the above examples. One issue is that no one really knows how long he/she will live. Another issue is the interest rate consideration (or present value of a dollar). A retiree that invests their Social Security benefits at age 62 or at full retirement age of 66 can impact the future wealth of the retiree. As interest rates fall or remain at today's lower levels, the benefits of delaying increase. The reason is the "head start" of receiving the money early has less of an impact in a low interest rate environment. Conversely, higher interest rates favor starting early. There is no perfect interest rate to use when calculating the "breakeven" age, but many advisers use the rate of a 10-year Treasury security. Treasury securities, like Social Security payments, are guaranteed by the full faith and credit of the U.S. Treasury.

For retirees trying to decide when to receive Social Security benefits, there are several factors that should be considered: family history, current lifestyle needed, interest rates, current health, and mortality tables.

**GSF&L, LLP Registered Investment Advisors:**

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

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NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.

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