Summer 2016

CJM Wealth Advisers, Ltd.

Breaking Records

Tracey Baker, CFP®

Like many of you, the CJM family has been gripped by the excitement of the Olympic Games in Rio. Who wasn't glued to the tube, cheering on U.S. gymnast, Simone Biles, as she led "the Final Five" to win the team gold medal? In fact one of our planners, Parker Trasborg, is actually at the games. Such an exciting, once in a lifetime experience for him and his wife, Beckie (pictured above)!

While Parker has been in Rio, witnessing records being broken by swimmers Katie Ledecky and Michael Phelps, those of us at home have also been experiencing some records in the U.S. stock markets. The Dow Jones Industrial Average (DJIA) and the S&P 500 both reached all-time highs in the last few weeks. Just like in Rio, forces outside of the U.S. have done their best to derail our record-setting pace. Based primarily on pressures from a slowing China, January of this year brought with it a correction which was historically, long overdue. In June, the citizens of Great Britain voted to leave the European Union, dubbed the 'Brexit' in the media. This brought with it significant global volatility although the U.S. markets seem to have overcome that surprise. The markets seem to have had Olympic-like perseverance.

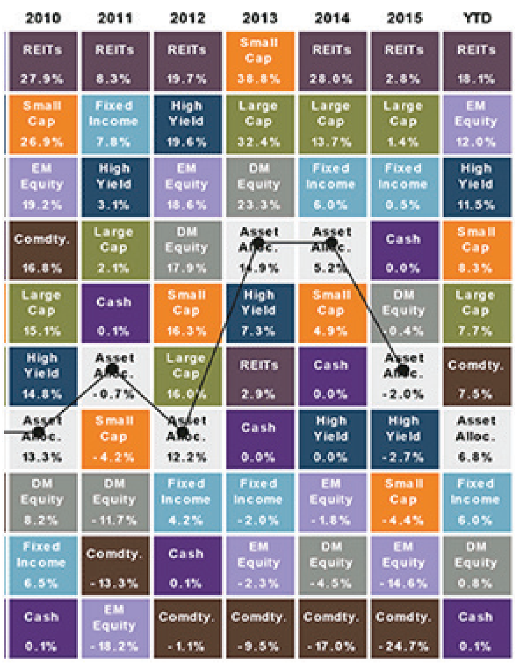
On a positive front, earnings season is coming to a close and a majority of companies reported earnings that were in line with or beat expectations. The U.S. economy continues to growing at a slow pace and with no signs of a pending U.S. recession looming.

It's hard to avoid the feeling that all-time highs will eventually send the U.S. markets downward. Imagine if you believed that idea in February of 2013 when the DJIA first broke the 14,000 level. Based on the most recent record close of 18,668, investors would have missed out on a gain of 33%! Like in Rio, not every statistically expected outcome was achieved (it's hard to imagine Serena Williams or the U.S. Women's Soccer Team losing before reaching the finals.) The same is true in investing which is why we believe a diversified portfolio gives investors the best chance of reaching their goals; bonds provide support when stock values fall. Properly allocated investors stand the best chance for long-term success. In the Rio Olympics, even with some disappointments, the U.S. will bring home the most medals. The American Olympic spirit is strong, as are our markets, even as we break new records. ●

Kevin's Corner: Leading the Pack Again

Kevin E. Donovan, CFA

It has been seven years since we emerged from our last recession. The broad stock market indexes have performed extremely well over that time to reclaim their record highs but one sector stands out by leading all other asset classes in returns for five of the past six years and through the first half of 2016 – real estate investment trusts (REITs).



REITs invest in all areas of real estate – apartments, retailers, hotels, healthcare facilities, warehouses, etc – and have benefitted as real estate values and occupancy rates have improved during the current ongoing economic recovery and expansion. An extra boost has been provided by the requirement that REITs must, by law, pay out at least 90% of their income to shareholders as dividends. Since bond yields have been so low for so long, investors have looked to REITs as a source of additional income. Another feature of REITs is that they tend to have lower correlations to other sectors of the stock market, so they provide a diversification benefit while still acting and trading like stocks.

The two main areas of attractiveness for REITs are also the two major areas of risk for returns going forward. First, the economic expansion we have experienced since 2009 has probably been the least respected recovery we have seen in our lifetimes, even though it has been one of our longest. Our GDP growth rates have been so low for so long that some feel we could be on the edge of sinking back into a recession. While economic expansions don't generally die of old age, recessions are typically bad for real estate values and occupancy rates.

Second, it is no secret that the Federal Reserve wants to raise interest rates. As rates rise, the higher dividend returns offered by REITs become less attractive as fixed income yields begin to catch up. REITs are more volatile than bonds, so having a more stable, slightly lower return may be more attractive for risk-averse investors. Higher rates could cause investors to sell REITs, causing market values to decline.

Despite these two concerns there are unique characteristics of the REITs market that may (I emphasize "may") support REITs values going forward. I'll focus on three here:

1. Should the Fed raise rates there may be a short-term negative reaction for REITs, but the Fed has signaled that it will only raise rates if it is confident the economy is on a solid growth path. The benefits to REITs from a growing economy may balance out the negative impact of the Fed's rate increase over time, especially if the Fed raises rates as slowly as expected.

2. There are some signs that inflation may pick up if wages increase as the U.S. economy gathers steam. REITs provide a good hedge against inflation because real estate values and rents tend to rise during inflationary periods. ►

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◄ 3. This one is more technical, but at the end of August, REITs will get their own industry classification in the Global Industry Classification Standard (GICS) which is used by many benchmarks and mutual funds to determine how much to invest in each sector. Currently, REITs are grouped with financials. The argument here is that once the REITs sector is separated, funds will realize how underexposed they are to the sector and will increase their positions, thus driving up demand for REITs.

It is important to point out that REITs have had a tremendous run since 2010 and no asset class outperforms forever. However, during a period of historically low bond yields and with the economy slowly improving, REITs remain an attractive asset class for portfolio diversification. ●

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Social Security Update

Source: Social Security Administration

Starting in August 2016, Social Security is adding a new step to protect your privacy as a my Social Security user. This new requirement is the result of an executive order for federal agencies to provide more secure authentication for their online services. Any agency that provides online access to a customer's personal information must use multifactor authentication.

When you sign in at ssa.gov/myaccount with your username and password, we will ask you to add your text-enabled cell phone number. The purpose of providing your cell phone number is that, each time you log in to your account with your username and password, we will send you a one-time security code you must also enter to log in successfully to your account.

Each time you sign into your account, you will complete two steps:

- **Step 1: Enter your username and password.**

- **Step 2: Enter the security code we text to your cell phone (cell phone provider's text message and data rates may apply).**

The process of using a one-time security code in addition to a username and password is one form of "multifactor authentication," which means we are using more than one method to make sure you are the actual owner of your account. If you do not have a text-enabled cell phone or you do not wish to provide your cell phone number, you will not be able to access your my Social Security account.

If you are unable or choose not to use my Social Security, there are other ways you can contact us. ●

CJM Fun in the Sun!

Since 1978, CJM Wealth Advisers, Ltd. has been working with affluent individuals, families and business owners to address financial concerns no matter how acute or broad they may be. With a collective focus on helping our clients live the life they want, we understand that financial planning needs to be done with a purpose in mind. Otherwise, what is the use of planning at all?

What is your purpose? Is it to…

…create a retirement income stream to last a lifetime?

…minimize investment risk and maximize return?

…prudently plan a legacy for your heirs?

…carefully position a business for a future sale?

We offer our clients real solutions by being objective and approachable while delivering excellent client service.

CJM Wealth Advisers, Ltd.

11320 Random Hills Road
Suite 250
Fairfax, VA 22030
Tel: (703) 425-0700
Fax: (703) 764-9530
reception@cjmltd.com
www.cjmltd.com