Winter 2018

CJM Wealth Advisers, Ltd.

Stock Market Volatility is Back. Better Get Used to it.

Brian T. Jones, CFP®

I spent a good part of my Super Bowl Sunday afternoon outside in the rain at my smoker and on the grill preparing dinner for the friends and family that had gathered at my house to watch the NFC Champions Philadelphia Eagles take on the AFC Champions New England Patriots. Las Vegas had odds on the Patriots before the game by 4 ½ points over the Eagles. The "experts" are never wrong, right? As I stood there in the rain holding an umbrella in one hand and tongs in the other flipping over my barbeque chicken I thought "maybe a great football game would help to take all of our minds off of the recent stock market losses".

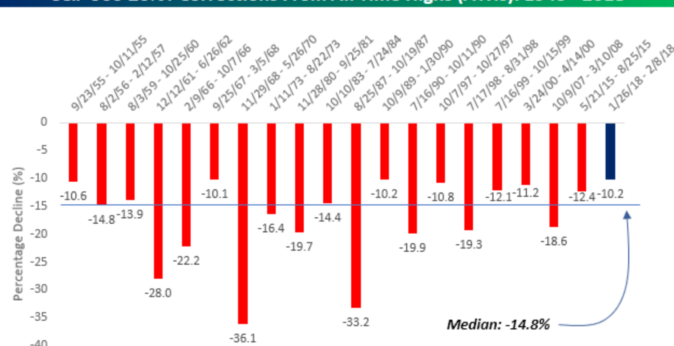
Wishful thinking. The markets continued their slide the following week in one of the most volatile weeks the stock market had seen in years. Most "experts" (CJM included) have been calling for a technical correction going back 2 years now. We seem to have achieved this feat (finally) after 2017's amazing run in the markets. Could 2018 be the year that central banks finally begin the process of tightening monetary policy rather than just talking about it? Could markets be waking up to the fact that after 10 years and tens of trillions of dollars in depressed interest rates (and QE) that the easy money period may be over?

This new period of coordinated action from global central banks should work to restrain global equity markets in the coming years. It will also lead to more stock market volatility than we have experienced (or can remember) in recent history. This does not necessarily mean that the U.S. is headed for recession in 2018. What it does mean is that we need to be prudent, rational investors and not "get greedy" (as my dad likes to say). The recent rise in interest rates, combined with volatility and coordinated central bank action, has put us all on notice. 2017 is in the history books. 2018 will be very different.

Back to the Super Bowl….
I dug the following out of the February 5, 2018 edition of Barron's. "According to Ryan Detrick at LPL Financial, the S&P 500 performs better when an NFC team wins, with an average gain of +10.8%, versus +5.8% when an AFC team emerges victorious. An NFC win translates into an up year for the S&P 500 81.5% of the time (22 stock gains out of 27 victories; since the NFL merger), versus 62.5% (15 up years out of 24 wins) for the AFC". There you have it. Scientific proof that when the NFC wins the Super Bowl markets are higher most of the time within 12 months.

In short, the economy is just as good today as it was a month ago. The only real difference is that equities are more reasonably priced (you will notice I didn't say "cheap") at this point (see chart below). And while the short term pain to reprice may or may not be over with, corporate profits haven't changed and that bodes well for the rest of 2018. But its going to be volatile at times.

I never thought I would type the following so here goes….
Fly Eagles, fly. ●



Kevin's Corner: Ups and Downs

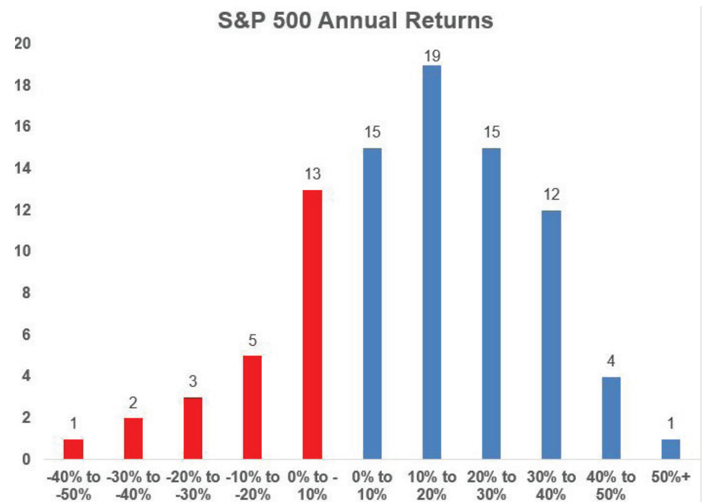
Kevin E. Donovan, CFA

Investors were jolted out of complacency in late January and early February when the U.S. stock market suffered its first correction in more than two years. This unpleasant development was a reminder that markets are volatile and there is a certain amount of risk in investing in stocks. Since the selloff, the markets have regained some of their losses and are back to positive territory for the year to date.

Events like this always send analysts scrambling to dig up historic data to see how markets have reacted in the past to similar selloffs. Of course, no two corrections are exactly alike but there are some lessons to be learned as we wade through all the data. For now, I'll focus on looking at annual returns on the S&P 500 from 1928 through 2017. As you can imagine, returns varied widely over this 90-year period from a loss of 43.8% in 1931 to a gain of 52.6% in 1954.

Let's take a look at one of those years with a positive but rather boring return of 5.8%. If you went away for a year came back and saw that your stocks gained 5.8% you would probably be satisfied, but not particularly thrilled, thinking not much happened during the year. You would probably not be panicking and pulling all of your money out of the market. Yet the year in question, with a boring 5.8% annual return was 1987, the year of Black Monday that saw stocks lose one-quarter of their value in a single trading day in October. Some investors gave up on the market that year due to the short-term shock and missed out on the inevitable recovery.

One thing that leaps out when you look at the returns of the past 90 years in the chart below is that the chart skews toward the right, meaning positive years are much more common than negative years. Also, big down years with losses of 10% or more are relatively rare. The chart below shows how many years S&P 500 performance fell into each of the return ranges from 1928 through 2017.



In all, we've had 66 years of positive returns and only 24 years with losses. The return range we've seen most often is a gain of 10% to 20%, which has happened 19 times in the past 90 years. Interestingly, we've had as many years with remarkable returns of 20% to 30% (15 years) as we've had with modest returns of 0% to 10%. On the negative side, the most common return range is a loss of 0% to 10%, which has happened 13 times. Surprisingly, we've had almost as many years with exceptional gains of 30% to 40% (12 years) as we have had with less than 10% in losses.

Losses are uncomfortable to live through, but the chart clearly shows that we have been more likely to experience healthy gains on our stock investments than debilitating losses. Remaining invested during downturns takes patience but it is crucial to achieving long-term investing success. ●

How Much Allowance Should Your Kids Get?

Why You Should Rethink Allowance.

Written By Nevin Martell | Published in the February 2018 Issue of Washingtonian

Introduction by Jessica Ness, CFP®: *Education is a passion of mine so I was thrilled when Washingtonian asked for my help on this article. As the mother of two boys, I have a vested interest in teaching the next generation valuable financial skills like budgeting, delayed gratification, and the value of $1. As a CFP, I know that allowing children to practice those skills enables them to become financially stable adults. There are many strategies one can use to teach these financial skills and build positive paradigms around money, and this article has great tips for how to handle an allowance.*

When I was a teenager, my dad cracked down on me in one of the most effective ways possible. I had refused to do an enormous amount of extra yard work he'd ordered and, worse, talked back. So he suspended my allowance until further notice. But within the week, he offered to reinstate it as long as I apologized and complied with his request. I caved. That interaction taught me a powerful truth: Money is a way to leverage power over other people.

I know my parents tried to teach me good financial management—and some life lessons—by withholding my allowance when I didn't do my chores, wasn't well behaved, or came home without good grades. But as a result, money has always been freighted with emotion for me. I resented my dad's unfair re-quest and felt like my allowance was tainted ever after. Had I earned it? Or had I just acquiesced in the right way? I don't want to set up the same dynamic with my five-year-old son when he starts getting an allowance.

Lori Atwood has heard stories like mine over and over. A certified financial planner in DC, Atwood has a radical suggestion for parents who don't want to pass on their financial neuroses: Separate your children's allowance from all their other obligations. "If money is used as a yo-yo—'I don't like this or I don't like that, so I'm going to cut your allowance'—then that's not going to help them form a healthy relationship with money," she says.

Atwood isn't suggesting that my son can mouth off, come home with Fs, and refuse to empty the trash without consequences—he simply wouldn't lose his allowance as a part of the punishment for doing so. This approach removes a lot of the subjective elements from the financial arrangement, so your child can be as objective as possible in learning about money. y

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◀ But how much should you dole out? **Jessica Ness**, a senior financial adviser with CJM Wealth Advisers in Fairfax, recommends that parents flip the question by discussing what they expect the child to buy with the money. Maybe Mom and Dad will be responsible for basic clothes and a cell phone but not designer wear or in-app purchases. “You give them enough so they have to practice budgeting, delayed gratification, and prudent decision-making,” says Ness, “but not so little that they keep coming back to you when they want to go out.”

Failure is a part of learning about money. You should give your children space to weigh choices about how to spend their money—and sometimes make the wrong ones. Says Atwood: “You want your child, not in a cruel way, to experience buyer’s remorse over something small, like a sticker book, rather than over a Porsche when they’re in their twenties.”

Ness suggests that parents make the effort to pay younger kids in cold, hard cash. “They need to see it in a tangible way because money is so hard to understand as an abstract concept.” Ness keeps $50 in $1 bills from which she draws her six-year-old’s allowance. Even parents who rely mostly on debit and credit cards should take this approach, she says. When kids want to buy something, they give you the money. You, in turn, use a card, keeping the cash in circulation for future allowance payouts.

Another common problem is the one that **Anna Bran-Leis** of Springfield sometimes faces with her nine-year-old son and 18-year-old daughter: “They’ll say, ‘But my friends can . . . .’ or ‘But my friends have . . . .’ Keeping up with the Joneses starts pretty early.”

That kind of status consciousness can place parents in a difficult position. Ness advises encouraging kids who are old enough to get a part-time job so they can earn more money for items parents won’t provide for them.

A job will ultimately help wean a child off an allowance altogether. When the child becomes a teenager and his or her needs get even more expensive, Atwood says families should sit down to go over exactly what the adults will cover: “This conversation is the basis for your financial relationship with them in college. They’re going to need spending money, but you don’t want to become an ATM.”

I haven’t even paid my son his first allowance, and I’m already figuring out how to stop giving him one! But I’ll tell you one difference between his childhood and mine: I won’t strip him of his allowance if he resists raking leaves. I’ll just ground him. We can go over his budgeting goals while he’s stuck at home with me and his mother. ●

TOP WEALTH ADVISER WASHINGTONIAN 2018

David Greene, CFP®, Brian Jones, CFP®, and Jessica Ness, CFP® were recently named one of the ***Washingtonian Magazines*** *Top Wealth Advisers*.

To arrive at the financial advisers, ***Washingtonian*** distributed surveys to hundreds of people who work in the local financial industry and asked them who they would trust with their money.

Mail Dates for Tax Documents from Pershing

Tax season is upon us! Here is a quick update regarding tax documents you may receive from Pershing.

Taxable Accounts: For most of our clients, Pershing's Form 1099 was sent on February 15th. A revision may be necessary and final 1099s will not be available until February 28th or later for some investments. For convenience, the Form 1099 includes realized gains/losses and a summary of advisory fees.

Retirement Accounts: Pershing mailed 1099-Rs on January 31st.

Your tax documents are mailed via the US Postal Service, unless you are signed up for Pershing's electronic notification/delivery.

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.

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