PROFESSIONAL FINANCIAL MANAGEMENT, INC.
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QUARTERLY NEWSLETTER

2017 Third Quarter

Dear Client,

Hello again! Third quarter reports should be in your hands – please contact us with questions or anything you might wish to go over. Remember to compare the information on your report to your account statements received from TD Ameritrade or other custodians, and promptly call the office to notify us of any material discrepancies (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Also, if you are not receiving account statements directly (either in print or electronically) from TD Ameritrade or other custodians please notify us immediately.

The advent of Fake News seemed to come about during the 2016 US Presidential election. However, according to Merriam Webster, the concept of fake news has been around much longer than that (the 16th Century to be exact) and those of us in the financial world can certainly attest to this. Dubbed "Fake Financial News" or "Financial Porn", investors have had to deal with erroneous or misleading information from financial media and pundits for years. We will look at the specific impact this "Fake Financial News" has created and what can be done to keep it from potentially ruining long-term financial success. First, however, is a quick breakdown of broad market activity for the past quarter.

Third Quarter 2017 in Review

Markets continued (and continue!) their historic run. Despite the ugly headlines and concerns on both domestic and international fronts that continue to stoke fears, 2017 to date has been a boon for both domestic and international stocks. While certainly a "white knuckle" time in the markets, it provides further evidence that we should not let headlines or current concerns drive investment decision making…somewhat of a prelude to what we will discuss below.

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With all broad market asset classes experiencing gains, emerging markets outperformed domestic and international developed markets for the quarter. Specifically relating to your portfolio strategy, the value effect was positive in the International developed markets but negative in both the US and emerging markets. Small cap stocks outperformed large caps in both the US and international developed markets but underperformed in emerging markets. For a more detailed explanation, please refer the "News" tab on our website. A summary of QTD and YTD (through 9/30) market returns is as follows:

	US Stock Mkt.	International Dev. Mkts	Emerging Mkts	US Real Est.	US Bond Mkt.	Global Bond–ex US
Q3 '17	4.57%	5.62%	7.89%	0.61%	0.85%	0.70%
YTD '17	13.91%	19.17%	27.78%	2.44%	3.14%	0.94%

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

The perils of "fake financial news"

"Fake financial news" aka "financial porn", is a real concept, defined by Investopedia as, "a slang term used to describe sensationalist reports of financial news and product causing irrational buying that can be detrimental to investors' financial health. Short-term focus by the media on a financial topic can create excitement that does little to help investors make smart, long-term decisions, and in many cases, clouds investors' decision-making ability". According to a recent survey, the threat of this type of news may be more of a concern than most realize.

A Harris Pole survey conducted for the American Institute of CPAs (AICPA) revealed "widespread awareness about the issue of fake financial news" and the serious threat it poses on one's ability to make sound investment, retirement and healthcare decisions. The AICPA article noted that, "The risk of making an impulsive financial decision in reaction to a headline or article that may be designed to mislead has the potential to cause serious problems". Making hasty decisions without thinking through long-term implications has always been the downfall of investors, and the survey found that more than 3 in 4 (77%) of Americans believe that acting quickly on "breaking news" with regard to financial decisions is important. However, 3 in 5 (58%) of the same respondents acknowledged that fake news poses a serious threat to their financial decision-making with over half of this number (33%) saying the threat is very serious – this was "consistent for both genders, among household incomes and across generations", according to the release.

We've alerted clients to our concerns about misleading information from financial news media sources for years (we prefer the term financial porn), encouraging clients to avoid, or at least take with a grain of salt, much of the information spewed by the pundits on the financial news channels and in many of the so called "reputable" financial publications. With the news media in our face 24/7, however, this isn't always easy to do. While we can't stop this news, we can take steps to alleviate its impact on our financial lives.

The power of creating a plan: Planning provides the best solution here because, like most of life's hurdles, it provides the framework to help achieve goals, keeping the focus on long-term rather than (in this case) interim short-term distractions. Let's use the example of a person embarking on a cross country road trip. While it can be done just by getting into a reliable vehicle and heading in a desired direction, it is probably better accomplished with some sort of planning. This plan may have: a time limitation; specified destination; planned stops for attractions, friends or relatives; and may take some contingencies into account (goals). While both approaches could be fraught with obstacles (inclement weather, road construction delays, etc.), the planned version will most likely keep you focused on your travel goals rather than potentially being consumed or thrown off by unanticipated surprises. As good as the planned option sounds, most Americans seem to opt for the unplanned option, at least when it comes to their long-term finances. A May 2015 Wells Fargo/Gallup Investor and Retirement Optimism survey revealed that only 38% of American households have developed some sort of a written plan for long-term financial goals, be it investment, college savings, retirement, etc. The good news is that our clients are among the 38%, having (at the bare minimum) a written investment allocation plan in place.

As discussed in our last quarter communication, your investment plan is a research based allocation to stocks and bonds designed to maximize returns based on your financial ability to handle and emotional ability to tolerate risk. A great first step, however, it does not answer important questions such as: are you saving enough; when can you retire; or, how much money can you spend in retirement. Thus, short-term investment results (which tell us nothing about long-term financial success) tend to be the focus, creating a susceptibility to financial media influences (i.e. fake news). In short, while the investment plan can help you navigate the challenges of the market, it may not help you navigate the other important aspects of your financial life. Additional planning that accounts for your longer-term goals and objectives can help enhance your financial security.

Many of our Investment Advisory Clients have taken the additional steps to create goal oriented plans. These range from Retirement Readiness plans to Comprehensive plans that consider tax implications, proper risk management (insurance) needs, and estate planning considerations in addition to saving oriented goals (i.e. retirement, college savings, second home, etc.). Our experience is that goal planning tends to shift client focus from short-term portfolio fluctuation and current market concerns to a longer-term perspective stressing the importance of meeting goals and objectives, regardless of market volatility over time. The process can also help "fine tune" your investment plan, requiring allocation adjustments necessary to provide the return needed (required rate of return), not the return desired, to achieve personal financial success. Again, this creates a more personalized approach to investing rather than just chasing market returns without knowing their relevance to your specific needs.

The importance of following through: The power of a goal plan does not come from doing it once and does not stop once implemented. Planning is not a "set-it and forget it" process – it is fluid and changes as your needs and circumstances change. Reviewing your plan annually is a good exercise.

This does not mean that you go back to the drawing board, but major life events (i.e. marriage, divorce, children, promotions, new jobs, losing a job, career changes, health issues, retirement, to name a few) may make it necessary to revisit your goals. In most cases, however, it just means checking to see how you are progressing toward goals. If still working, you want to make sure you are maximizing savings, tax, and other opportunities, as well as reviewing your investment allocation to make sure it is consistent with goals and short-term cash needs. If you are in retirement, it means monitoring your spending plan to keep expenses in line with projections, then reviewing your investments to make decisions about what and where to sell for the next year of spending. For clients who we've helped to develop goal plans, this discussion/assessment becomes part of the Annual Review process, so we can make sure things are on track and help further guide future portfolio adjustments, covered in the investment portion of the review.

Keeping abreast of your situation is important to sound financial decision making. Leading financial planning software provider MoneyGuide Pro notes that, "updating your plan regularly is the best way to put current events in perspective, decide what changes are appropriate, and strengthen your confidence in the future." Thus, it can help make you less susceptible to the "noise" created by financial media and allow you time to digest information and ask questions. You should also know, we are here and available to share our thoughts and views on anything you hear or read, maybe helping you understand a concept or determine the applicability of something to your situation.

What this means to you and your portfolio: Simply telling someone to stop watching the news or stop reading financial material simply is not a solution to dealing with the fake news phenomena. While having a plan in no way guarantees long-term financial success, it at least provides a personalized focus that can limit overreaction to news and allow one to make well-considered financial decisions, good markets or bad. We maintain that planning is the best way to control those things we can't. If you are among those who have not taken the additional step to develop a more comprehensive goal plan, we encourage you to think about it. In summary, a more robust plan can help you feel better about today, more confident about tomorrow, and ultimately, help you make the best financial decisions for your particular situation.

We encourage your thoughts and feedback. Thank you for the privilege to serve as your Financial Advisor and Happy Thanksgiving!

Sincerely,

Doug Babcock, CFP®