



**PROFESSIONAL
FINANCIAL
MANAGEMENT, INC.**

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QUARTERLY NEWSLETTER

2018 First Quarter

Dear Client,

It appears Spring has had a late arrival to many areas of the country (including ours) but hope you are getting outside and making the most of it wherever you are! Your first quarter report was mailed late last week so if not in your hands now, it should be shortly. While tax-day is behind us, if you have any lingering questions or your return is on extension, please let us know if there is anything we can answer or help with. Also, remember to compare the information on your report to your account statements received from TD Ameritrade or other custodians, and promptly contact the office should you find material discrepancies (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Let us know as well if you are not receiving account statements directly (either in print or electronically) from TD Ameritrade or other custodians.

The 2000 hit movie “The Perfect Storm” depicted the true story of the ill-fated Andrea Gail, a fishing vessel that was lost in the middle of a historic North Atlantic Hurricane. What made this storm so notable according to The National Weather Service was the timing and combination of three weather systems that converged to form an even more dangerous storm...maybe you get the idea. While by no means catastrophic, the first three months of 2018 were certainly a deviation from the relatively calm market rise experienced throughout 2017. Concerns over rising interest rates, combined with trade war fears and more political uncertainty, however, created a “storm” of market volatility not experienced by investors for some time. We addressed market correction and volatility concerns with a couple of mid-quarter client communications with the reminder that volatility is part of the investment experience. We also reminded clients that, despite what the pundits say, no one really can explain why markets do what they do, and that short-term market gyrations are meaningless for long-term investors (working or retired) if planned for sufficiently.

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Fee Only Investment Advisory and Financial Planning

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However, the media continues to sensationalize every twist and turn of the markets giving the impression that what is happening on the short-term will have long-term implications on investor portfolios. We have written a fair amount about media impact in the past, but as we continue to navigate volatile markets it is important to be reminded of the impact headlines can have on emotion and reasoning. Our discussion topic this quarter is a research piece from Dimensional Funds highlighting these concerns, the benefits of a sound plan, staying disciplined, and (selfishly) the advantages of having an Advisor to help with the previous two points and keep you on course. First, however, here is a brief review of how markets fared this past quarter.

FIRST QUARTER 2018 RE-CAP

As noted earlier, market volatility grabbed headlines but also proved the adage that volatility can work both ways. On the equity front, global returns were mostly negative. Emerging markets posted positive gains and outperformed both US and International developed markets for the quarter. Specifically relating to your portfolio strategy, factor performance was varied. The value premium was positive in emerging markets but negative in both international developed and US markets. Small cap stocks outperformed large caps in both US and international developed markets, but underperformed in emerging markets. More detailed information and additional commentary on the markets can be viewed by going to our web-site and selecting the “News” tab. Below is a summary of broad market index performance for the quarter based on the asset classes you have exposure to in your portfolio:

	US Stock Mkt.	International Dev. Mkts	Emerging Mkts	US Real Est.	US Bond Mkt.	Global Bond–ex US
Q1 '18	-0.64	-2.04	1.42	-7.48	-1.46	1.50

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

TUNING OUT THE NOISE

For investors, it can be easy to feel overwhelmed by the relentless stream of news about markets. Being bombarded with data and headlines presented as impactful to your financial well-being can evoke strong emotional responses from even the most experienced investors. Headlines from the “lost decade”¹ can help illustrate several periods that may have led market participants to question their approach.

- May 1999: Dow Jones Industrial Average Closed Above 11,000 for the First Time
- March 2000: Nasdaq Stock Exchange Index Reaches an All-Time High of 5,048
- April 2000: In Less Than a Month, Nearly a Trillion Dollars of Stock Value Evaporates
- October 2002: Nasdaq Hits a Bear-Market Low of 1,114
- September 2005: Home Prices Post Record Gains
- September 2008: Lehman Files for Bankruptcy, Merrill Is Sold

While these events are now a decade or more behind us, they can still serve as an important reminder for investors today. For many, feelings of elation or despair can accompany headlines like these. We should remember that markets can be volatile and recognize that, in the moment, doing nothing may feel paralyzing.

Throughout these ups and downs, however, if one had hypothetically invested \$10,000 in US stocks in May 1999 and stayed invested, the investment would be worth approximately \$28,000 today.²

Exhibit 1. Hypothetical Growth of Wealth in the S&P 500 Index, May 1999–March 2018



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When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. While no one has a crystal ball, adopting a long-term perspective can help change how investors view market volatility and help them look beyond the headlines.

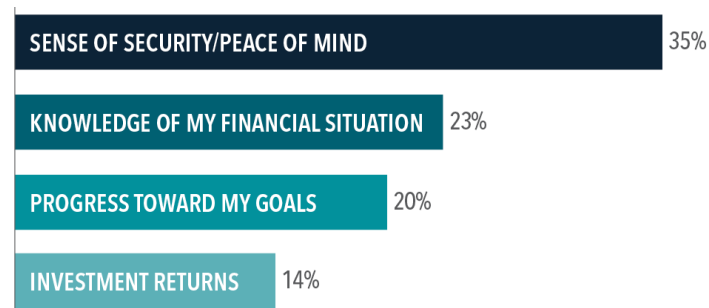
THE VALUE OF A TRUSTED ADVISOR

Part of being able to avoid giving in to emotion during periods of uncertainty is having an appropriate asset allocation that is aligned with an investor’s willingness and ability to bear risk. It also helps to remember that if returns were guaranteed, you would not expect to earn a premium. Creating a portfolio investors are comfortable with, understanding that uncertainty is a part of investing, and sticking to a plan may ultimately lead to a better investment experience.

However, as with many aspects of life, we can all benefit from a bit of help in reaching our goals. The best athletes in the world work closely with a coach to increase their odds of winning, and many

successful professionals rely on the assistance of a mentor or career coach to help them manage the obstacles that arise during a career. Why? They understand that the wisdom of an experienced professional, combined with the discipline to forge ahead during challenging times, can keep them on the right track. The right financial advisor can play this vital role for an investor. A financial advisor can provide the expertise, perspective, and encouragement to keep you focused on your destination and in your seat when it matters most. A recent survey conducted by Dimensional Fund Advisors found that, along with progress towards their goals, investors place a high value on the sense of security they receive from their relationship with a financial advisor.

Exhibit 2. How Do You Primarily Measure the Value Received from Your Advisor?



Source: Dimensional Fund Advisors. The firm surveyed almost 19,000 investors globally to help advisors who work with Dimensional better understand what is important to their clients.

Having a strong relationship with an advisor can help you be better prepared to live your life through the ups and downs of the market. That's the value of discipline, perspective, and calm. That's the difference the right financial advisor makes.

For a short video on this topic, please see us.dimensional.com/tuning-out-the-noise.

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1. For the US stock market, this is generally understood as the period inclusive of 1999 – 2009
 2. As measured by the S&P 500 Index. A hypothetical portfolio of \$10,000 invested on April 30, 1999, and tracking the S&P 500 Index, would have grown to \$28,408 on March 31, 2018. However, performance of a hypothetical investment does not reflect transaction costs, taxes, or returns that any investor actually attained and may not reflect the true costs, including management fees, of an actual portfolio. Changes in any assumption may have a material impact on the hypothetical returns presented. It is not possible to invest directly in an index.

Source: [Dimensional Fund Advisors LP](#). Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. There is no guarantee investment strategies will be successful. Investing involves risks including possible loss of principal. Investors should talk to their financial advisor prior to making any investment decision. There is always the risk that an investor may lose money. All long-term investment approach cannot guarantee a profit. All expressions of opinion are subject to change. This article is distributed for informational purposes, and is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products or services.

As we go forward, expect volatility to be present and have an impact (both positive and negative) on your portfolio returns. However, don't let this, a market correction, or any other media commentary sway your long-term resolve. We do have some good follow-up information to provide you about market volatility and long-term focus and will put this out to you in the coming weeks.

One final note. We have reviewed our investment strategy and will be making some adjustments to the fixed income (bond) component of the strategy which will affect client portfolios. The main reason for the changes is risk reduction, but it so happens that these changes will also reduce cost. We are discussing these changes as part of the annual review process. If we have not gotten to you yet, these changes will be outlined in a forthcoming communication going out shortly - please watch for this. In the meantime, please don't hesitate to provide us with your questions, thoughts and/or feedback.

Thank-you for your continued confidence and the privilege to serve as your Financial Advisor.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Babcock', with a stylized flourish at the end.

Doug Babcock, CFP®