

KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

Fall 2017

The autumnal equinox in our half of the world has been observed as a time of preparation and reflection. In Greek mythology, the equinox marks the return of Persephone to the underworld to be with her husband Hades, where she must return after walking the Earth for half the year as the goddess of spring growth. In China, the Moon Festival celebrates the harvest during the 15th full moon of the Chinese Year. In Japan, Buddhists observe *higan*, a memorial service when people visit family graves to comfort their ancestors' spirits. The arrival of the autumn equinox is also evidenced in the animal kingdom, especially in the migratory flight of many species of birds. It is when the Arctic Tern makes its annual 11,000 mile trip south and the Bar-Headed Goose soars to heights above 28,000 feet (that's over five miles up!) as they skim over the Himalayas on their way to warmer climates. And we find ourselves doing our own part during this time of transition, preparation and reflection as we begin preparing our lawns and gardens for the change in seasons, pulling out our winter clothing from storage, and enjoying body-warming and soul-stirring soups and stews. Arrival of autumn is indeed a time of change. We hope the return of cooler weather, longer nights and the anticipation of the upcoming holiday season finds you happy and healthy. Let's review the numbers.

	(As of 9/30/17)
Dow Jones Industrials	+ 13.37 %
S&P 500 Index	+ 14.24 %
NASDAQ Composite	+ 20.67 %
MSCI EAFE Index	+ 19.96 %
Major Bond Indexes	(As of 9/30/17)
Lipper U.S. Government	+ 1.59 %
Lipper Short-term Investment Grade	+ 1.21 %
Lipper Corporate A-Rated	+ 3.88 %
Major Mutual Funds Indexes	(As of 9/30/17)
Lipper Large-Cap Core	+ 14.26 %
Lipper Mid-Cap Core Index	+ 10.28%
Lipper Small-Cap Core Index	+ 10.50%
Lipper International Markets Index	+ 22.12%

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Arizona

3610 N. 44th St., Suite 220
Phoenix, AZ 85018
T 602.604.9711

Colorado

30752 Southview Dr., Suite 290
Evergreen, CO 80439
T 303.674.9711

California

3202 Governor Dr., Suite 201
San Diego, CA 92122
T 858-450-9711

FINANCIAL AND INVESTMENT PLANNING

“I can calculate the motion of heavenly bodies, but not the madness of people.”

-- Sir Isaac Newton

As investors try and make sense of how well markets have performed this year in light of the risks here at home and abroad, we are reminded of the above quote from Sir Isaac Newton. He famously lost \$2.7 million in today's inflation adjusted dollars in the South Sea Company stock (1720s). While being arguably one of the smartest people to ever live, he got burned trying to time the market. He supposedly forbade anyone to speak the words “South Sea” in his presence during the remainder of his life.

Our thoughts and prayers go out to those who were impacted from hurricane Irma, hurricane Harvey and the horrific shooting in Las Vegas. While the structural damage and loss of life is tragic, the economic impact is expected to be temporary. According to Scott Brown, Raymond James Chief Economist, “Hurricanes Harvey and Irma will distort much of the economic data and possibly shave a few tenths of 3Q17 GDP growth, but we should see a rebound in the fourth quarter.” The Federal Reserve (Fed) will likely continue to increase short term interest rates at a gradually pace over the coming years. They insist their decision making is still data dependent. Long overdue, the Fed begins its unwinding (selling bonds) in October. Their balance sheet has quadrupled in size over the last 10 years to \$4.5 trillion. By selling roughly \$50 billion per month, the balance sheet would drop below \$3 trillion by 2020. St. Louis Fed economist, David Wheelock, notes, “The Fed's plan is to reduce the size gradually – like the gradual process of stopping a car. Letting off the gas and gradually braking would be less disruptive than slamming on the brakes.”

Turning to real estate, housing starts continue to increase at a modest pace. While we need more homes, the home builders just aren't building enough low priced to moderate priced homes. The economics for them are difficult at those price points, considering the costs to build. Paul Puryear, Director of Real Estate Research at Raymond James, said, “We have 6 – 7% inflation in residential real estate. I'm talking about 6 – 7 % inflation replacement cost relative to income growth. That's not a good equation, and we don't see that changing.”

When looking at the ongoing technological innovation, consumers have benefited in a big way. Costs and prices have continued to decrease, while lives have become more convenient. Per *The Economist*, tech companies provide Americans and Europeans with an estimated \$280 billion-worth of “free” services per year, such as search results and directions. Authors, Peter Diamandis and Steven Kotler in their book *Abundance* estimate that modern smart-phones contain roughly \$900,000 worth of applications based on each piece of technology's original manufacturer's suggested retail price (video conferencing, GPS, video camera, etc.).

A trend that continues is the shrinking number of publicly traded companies. Since 1996, the total number of listed stocks in the U.S. has shrunk dramatically – from 7,322 to about 3,600 today. The two factors that have contributed to this trend are the doubling of annual mergers and acquisitions and the number of initial public offerings (IPOs) plummeting at the same time. While the number of listings have declined, the market capitalization of America's ten largest companies have actually stayed about the same looking back over the decades. The top ten companies make up a little more than 20% of the total market, which is about the average going back to 1980. The exception was the peak of the dot-com bubble when the top ten made up 34% of the total market. Below is a look back of the top ten companies in 1980 vs. the top ten today. It's interesting to note that energy companies comprised 7 out of the top 10 in 1980 vs. tech companies making up 5 of the top 10 in 2017.

THE 10 LARGEST COMPANIES IN 1980 VS. THE 10 LARGEST NOW (BY MARKET CAP)

1.	IBM	Apple
2.	AT&T	Alphabet (Google)
3.	Exxon	Microsoft
4.	Standard Oil of Indiana	Amazon
5.	Schlumberger	Berkshire Hathaway
6.	Shell Oil	Facebook
7.	Mobil	Exxon Mobil
8.	Standard Oil of California	Johnson & Johnson
9.	Atlantic Richfield	JP Morgan Chase
10.	General Electric	Wells Fargo

Source: *Fortune 500*

When we look overseas, the emerging markets continue to grow both in size and importance. According to Chuck Knudsen, portfolio specialist at T.Rowe Price, the emerging market index began in 1998 and had a total market capitalization of only \$38 billion. Today it exceeds \$5 trillion. These emerging economies make up about 60% of world GDP and account for roughly 85% of the world's population. Mr. Knudsen believes 50% of global growth over the next 10 years will come from emerging markets. They have also been the main driver of reducing global poverty. China alone has lifted more than \$600 million people out of poverty over the past three decades (source: Christina Lagarde, Managing Director of the International Monetary Fund). An example that illustrates the growing consumer income, specifically in China is that of Singles Day. For those who aren't aware, Singles Day started as an obscure day in China to celebrate being single. It is celebrated annually on November 11th. It's become the world's biggest online shopping day. Last year it generated \$17.8 billion in sales, which is nearly 4 times more than our Black Friday here at home.

- Investing involves risk and investors may incur a profit or loss.
- The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. Any opinions of this date and are subject to change without notice.
- Past performance is not a guarantee of future results. Individuals cannot invest in an index directly.
- Lipper indexes are based on the 30 largest funds by asset size within the Lipper objective and do not include multiple share classes of similar funds.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.

Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

From the campsite, Kris, Steve (Kris' brother) and two friends looked up towards two towering peaks. These particular mountains had no trails, so the group would have to make their own path to the summit. The challenge was appealing, so the four set out early the next morning. The backpacks were loaded with water, food and sunscreen. The friends soon came across a game trail, which they decided to take knowing they had a very steep climb through the forest in order to reach the ridge. It turns out animals are much more capable of traversing up the side of a mountain than middle aged men. The foursome climbed 3,000 feet in just 2 miles. As the group gained the ridge, the two former rock climbers (Steve and Tommy) led the way through the boulder field. They soon summited the first two peaks, but realized there was now a third mountain that was also accessible. The third mountain along the high ridge was about $\frac{3}{4}$ of a mile away. The sun was out. The sky was blue and the four friends were having a blast, so they continued on. Once on top of the third summit, after nearly 6,000 feet of climbing, the hungry hikers broke out their five star peanut butter and jelly sandwiches. It was great to spend a day in the high mountains and not come across a single person!



(Kris, Macy and Kora at Echo Lake)

With an early September morning start, Angie and four of her girlfriends left the start line in Ouray, Colorado. The Imogene Pass Run (IPR) is set in the western San Juan Mountains and is known for its beauty and difficulty. As the runners left town, they couldn't help but gaze upwards towards the immense peaks. The IPR is a 17 mile point-to-point race that begins in Ouray and finishes in Telluride. The race has a long history dating back to 1974. It's not uncommon to only have 60% of the participants finish the race. Being a true mountain run, weather is always unpredictable. As Angie continued up the mountain, with gradients as high as 21%, her lungs began to burn. As much as she wanted to slow down, she couldn't because there were two hard cutoffs (meaning runners would be disqualified if they didn't make it to a certain aid station by a certain time). After 10 miles, Angie summited at 13,120 feet before the final

cutoff. The mother of two felt a huge relief. During the decent, the runners traversed through old mining towns, picturesque aspens forests and saw the Bridal Veil Falls. Soon the stunning town of Telluride came into view. Angie and her friends all made it. The intense training all summer paid off.

Speaking of intense training, Kora (6) and Macy (5) did a little of their own this summer. The sisters got new shoes and both were convinced they were now faster (with or without the shoes). They often challenged dad to races around the front yard, the living room, the kitchen, the basement - no area was off limits. When the girls weren't racing their parents or themselves, they could be found chasing chipmunks and bunnies in the front yard, riding their bikes and drawing pictures in the kitchen. As summer came to a close, the family went camping by Twin Lakes. The energetic girls spent the weekend riding their bikes, hiking up hillsides (claiming they were as big as Mt. Everest), playing in the water, making s'mores by the campfire and picking out their favorite stars in the sky.

"Don't cry crab. I'm carefulling," Elle says as she clinches the sand crab caught at the beach. She has been holding onto him for a good hour with every intention of making him the newest household pet. Despite having a sensitive heart and a dainty pre-disposition, Elle is all about bugs and crawlers. If it moves – a snail, lizard, or potato bug - it's a creepy-crawly of interest. "Where's the lizard? My Sweetheart." Her love for bugs is only surpassed for the adornment of her older sister. Elle will tail Ava for hours repeating her every word and move. Luckily, Ava doesn't mind the paparazzi attention most of the time. Playing the role of big sister/boss comes naturally for the kindergartener. Ava has been progressing at school and exceling at the playground, especially on the monkey bars.

In September, Garry and Ava signed up for Adventure Guides and Princesses – a YMCA program that "launches parents and their children on a journey of discovery, with the child as the explorer and the parent as the guide." (Source: YMCA website) This is primarily a once a month camping trip with dads and their sons and/or daughters (ages 5+) centered around group and one on one activities – swimming, hiking, games, bonfire (with s'mores, of course) and general tomfoolery. As with most new things, Ava was a bit apprehensive to go on the first trip to Vail Lake in Temecula, CA (about an hour northeast of San Diego). Within minutes, she met her new best friend and had a wonderful time that weekend. It must be mentioned that Ava's group, despite being the youngest won a closely contested relay race against a tough boys' team. Not a day goes by that Ava doesn't ask when the next camping trip is and Garry is thrilled to have this monthly opportunity to bond with his oldest.

We can't stop thinking of how fast days, weeks and months are flying by. Hard to believe that MLB playoffs are winding down while college and pro football is heating up, with hockey and basketball right behind. The holiday season is nearly upon us and we look forward to this enjoyable time of year, especially for our young ones. This has been a very good year in the markets, but, in a lot of ways, a difficult one politically, militarily and geo-politically. Due to man-made and natural disasters innocent lives have been lost here and abroad. Whole swaths of continents have suffered immense devastation from hurricanes, flooding, earthquakes or political strife. Famines in oil rich countries have plagued human advancement. As we begin to wind down 2017 please be mindful of all of the positives our great country and its systems have bestowed upon us. Despite all of our misgivings, we still live in the best place on earth, where rule of law exists, where opportunities allow us to create our own versions of the American Dream, and where we are free to be with those we love. And, for that we are and forever will be thankful. This is a great time of year to reach out to friends, ex-colleagues and family that we haven't spoken to in a while to thank them for being in our lives. We hope to speak to many of you this time of year to wish you and yours a wonderful holiday season.

Thank you for your trust, confidence and friendship.



Garry Kachkovsky, CFP®
Financial Planner



Kristian R. Fisher, CFP®
Financial Planner