PITZL FINANCIAL

YOUR PERSONAL BOARDROOM

WINTER 2017 NEWSLETTER

IN THIS NEWSLETTER

- **2016 Investment Review:** After a dismal start to the year, an election in the fall, collapsing oil prices, and a surprise Brexit vote in spring, markets still produced solid results in 2016.
- **Welcome Ann Fruth:** Please join us in welcoming the newest member of the Pitzl Financial team, Ann Fruth.
- **Why NY Resolutions Fail:** Kyle Moore explains some simple ways we can improve the odds of keeping and meeting our goals and resolutions.

"Prediction is very difficult, especially if it is about the future."
- Niels Bohr

It's prediction season! It is the time of year where everyone dusts off the crystal ball and gives it the ol' college try.

This time of year, it is critically important to remember the advice of Nobel Laureate and behavioral economist, Daniel Kahneman, who states:

"The question is not whether forecasters are intelligent or well-trained. It is whether their world is predicable in the first place."

At the time we sent this newsletter 12 months ago, the global stock market was already down over 10% for the 2016 calendar year, and proceeded to continue sliding into mid-February. It was the worst start to a year since the Great Depression.

On the heels of one of the toughest years in history for global markets, and with the nastiness of the election year already in full force, there was plenty of reason to be pessimistic about the year ahead.

As usual, the market reminded us that it doesn't care what "market sentiment" is indicating, and it especially doesn't care what the analysts and pundits are saying. It also reminded us of the speed at which it can move when it wants to…which is exceptionally fast!

Needless to say, we are quite satisfied with the way markets rebounded from their early February lows and finished the year with solid gains.

A substantial portion of those gains were realized after November 7th. Bear in mind that the consensus forecast leading up to the election was a 10% correction in the unlikely event Donald Trump won.

Woody Allen once said, "if you want to make God laugh, tell Him about your plans." Mr. Market does the same with your predictions.

As usual, we have no specific predictions of what will happen in the global stock markets 2017. We know that markets will go up and down. People will overreact to news. Trump will tweet stuff. Brexit will become "a thing" again. The Fed might raise rates, or might not. Democrats and Republicans will argue over policy. Unforeseen things will happen.

As such, we will continue to manage your portfolios with the same time-tested, disciplined approach you have come to expect. We won't get overly excited about legislative proposals, inflation, or rising rates. And we won't play guessing games with your money. Your financial plan is sound, and your investments are positioned in a way that gives you the best odds of realizing those plans no matter what comes our way.

2016 Market Review:

The following commentary on the 2016 market is provided by Weston Wellington, Vice President – Research, Dimensional Fund Advisors (DFA).

Every year brings its share of surprises. But how many of us could have imagined that 2016 would see the Chicago Cubs win the World Series, Bob Dylan receive the Nobel Prize in Literature, Donald Trump elected president, and the Dow Jones Industrial Average close out the year a whisker away from 20,000?

The answer is very few—a lesson that investors would be wise to remember.

At year-end 2015, financial optimists seemed in short supply. Not one of the nine investment strategists participating in the January 2016 Barron's Roundtable expected an above-average year for stocks. Six expected US market returns to be flat or negative, while the remaining three predicted returns in single digits at best. Prospects for global markets appeared no better, according to this group, and two panelists were sufficiently gloomy to recommend shorting exchange-traded emerging markets index funds.

Results in early January 2016 appeared to confirm the pessimists' viewpoint as markets fell sharply around the world; the S&P 500 Index fell 8% over the first 10 trading sessions alone. The 8.25% loss for the Dow Jones Industrial Average over this period was the biggest such drop throughout the 120-year history of that index. For fans of the so-called January Indicator, the outlook was grim.

Then things seemingly got worse.

Oil prices fell sharply. Worries about an economic debacle in China re-entered the news cycle. Stock markets in France, Japan, and the UK registered losses of more than 20% from their previous peaks, one customary measure of a bear market. Plunging share prices for leading banks had many observers worried that another financial crisis was brewing. As US stock prices fell for a fifth consecutive day on February 11, shares of the five largest US banks slumped nearly 5%, down 23% for 2016.

The Wall Street Journal reported the following day that "bank stocks led an intensifying rout in financial markets." A USA Today journalist observed that "The persistent pounding global stock markets are taking seems to be taking on a more sinister tone and more dangerous phase, with emotions and fear taking on a bigger role in the rout, investors questioning the ability of the world's central bankers to calm the market's frayed nerves, and a volatile environment in which selling begets more selling."

February 11 marked the low for the year for the US stock market. While prices eventually recovered, as late as June 28 the S&P 500 was still showing a loss for the year. Meanwhile, a number of well-regarded professional investors argued that the next downturn was fast approaching. One prominent activist in May predicted a "day of reckoning" for the US stock market, while another reportedly urged his fellow hedge fund managers at a conference to "get out of the stock market." A third disclosed in August a doubling of his bearish bet on the S&P 500.

Throughout the year, some observers fretted over the pace of the economic recovery. The New York Times reported in July that "Weighed down by anemic business spending, overstocked factories and warehouses, and a surprisingly weak housing sector, the American economy barely improved this spring after its usual winter doldrums."

Despite all of this noise, the S&P 500 returned 11.9% for the year and international stocks8 returned 4.4% for US dollar investors (6.9% in local currency), helping to illustrate just how difficult it is to outguess market prices. Once again, a simple strategy of embracing sensible asset allocation and broad diversification was likely less frustrating than fretting over portfolio changes in response to news events.

Welcome Ann Fruth!

We are thrilled to announce the addition of Ann Fruth to the Pitzl Financial team. Ann will be working as our Client Services Specialist, responsible for ensuring that all of your service needs and requests are met in a timely and accurate manner. We are excited to have the opportunity to add a very experienced and professional asset to our firm.

Ann has spent the last 6 years with another local financial advisory firm in this same capacity. She has had extensive experience and training in customer service and marketing positions throughout her 30+ year professional career.

She will likely be reaching out to you throughout the coming year to schedule meetings, process requests for contributions and withdrawals, keep you updated on the status of your transactions, and requesting information we need to update and analyze your financial planning needs.

Fund Performance vs. Benchmarks

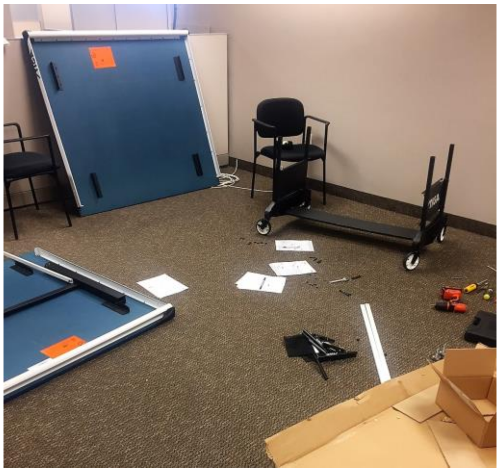
The chart below offers a comparative summary of the preferred funds used in our model portfolios compared with their appropriate benchmark index. As always, past performance is no guarantee of future results.

Equity Asset Class Fund Name (Ticker)	1 Year	3 Years	5 Years	10 Years
US Total Market				
DFA US Core Equity 2 (DFQTX)	16.58	7.30	14.98	6.98
Russell 3000 Index	*12.74*	*8.43*	*14.67*	*7.07*
S&P 500 Index	*11.96*	*8.87*	*14.66*	*6.95*
US Large Cap Value				
DFA US Large Cap Value III (DFUVX)	19.09	8.24	16.85	6.70
Russell 1000 Value Index	*17.34*	*8.59*	*14.80*	*5.72*
US Small Cap Value				
Bridgeway Omni Small Cap Value (BOSVX)	34.51	8.19	16.61	N/A
DFA US Small Cap Value (DFSVX)	28.26	6.96	16.22	6.82
Russell 2000 Value Index	*31.74*	*8.31*	*15.07*	*6.26*
International Total Market				
DFA International Core Equity (DFIEX)	5.34	−0.39	7.69	1.71
MSCI World ex US Index	*2.75*	*−1.59*	*6.07*	*0.86*
International Large Cap Value				
DFA International Value III (DFVIX)	8.58	−1.71	6.47	0.46
MSCI World ex US Value Index	*7.39*	*−2.12*	*5.96*	*0.08*
International Small Cap Value				
DFA International Small Cap Value (DISVX)	8.00	2.19	11.55	3.50
MSCI World ex US Small Cap Value Index	*7.87*	*0.86*	*9.39*	*2.84*
Emerging Markets				
DFA Emerging Markets Core Equity (DFCEX)	12.35	−1.77	2.14	3.11
MSCI Emerging Markets Index	*11.19*	*−2.55*	*1.28*	*1.84*
Fixed Income Asset Class Fund Name (Ticker)	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Intermediate-Term				
DFA Five-Year Global Fixed Income (DFGBX)	1.79	2.04	2.09	3.36
Citigroup WGBI 1-5 Year (hedged)	*1.49*	*1.46*	*1.42*	*2.64*

The Problem with New Year's Resolutions

By: Kyle Moore, CFP®

As a client of Pitzl Financial, you have likely heard us reframe the modern concept of "Wealth." While most people today associate the word with being materially rich, the origins of the word can be traced to Middle English, when it meant "the condition of well-being or happiness."



As we entered the New Year, our office decided to practice what we preach and took a step to increase the "wealth" of the Pitzl & Pitzl and Pitzl Financial teams by investing in our social / cultural capital -- we purchased a Ping Pong Table for our newly expanded office space.

However, over a week after the table's arrival, it remained in scattered pieces on the floor of our office.

An unexpected problem presented itself after we ripped open the box. The table came in a lot of pieces and is quite time consuming to put together! To make matters worse, the tools we have were ill-suited for the task.

Instead of simply finding the right tools to overcome this obstacle, we decided to take 15 minute shifts working on the table to break the frustration into bite size pieces. Unfortunately, this led to a lack of cohesion, and the wrong bolts were used on several shifts (not mine of course). One person's 15-minute shift would be spent undoing the work of the previous person's 15 minutes, and we found ourselves no closer to playing Ping Pong than on the day the table arrived.

What was meant to increase the happiness of the office has become a source of frustration. Even worse, we were reminded of it each time we had to dodge the scattered table components on the way to the restroom.

Such can be the case with New Year's Resolutions.

When we make resolutions, we express a desire to overcome our natural inclinations to do something that we know is better for us. What stands in the way of sticking to our resolutions is what author Shawn Anchor describes as *activation energy*, or the amount of energy it takes to go from not doing something to doing whatever it is you hope to accomplish.

Activation energy is the reason we fail to keep our New Year's resolutions over and over again.

We all are excited to break-up the workday with a little ping pong, yet the difficulty of assembling the table without the right tools requires a level of activation energy that makes the task unpalatable. However, the amount of energy needed to get over this hump would have been dramatically reduced if one of us simply brought in a socket wrench from home.

As a way to reduce the amount of activation energy required for clients and prospective clients to follow through on their financial resolutions, we have made appointment scheduling possible with the click of a button. For some people, picking up the phone to schedule a meeting requires just enough activation energy to keep them from taking that first step.

Like the "Click To Schedule" button on our website, there are simple steps we can all take to reduce the amount of energy required to make our New Year's resolutions a reality. If you want to learn an instrument, leaving it out in plain view instead of the closet may lower the barrier enough to get you going. Or maybe buying a Magic Bullet blender will reduce the mess of making healthy smoothies just enough to help you make wiser eating choices in 2017.

Give some thought to the history of your unresolved New Year's resolutions. Perhaps they just required too much activation energy to gain the momentum needed, so consider what small steps you can take to lower the barrier. As for me, I will be bringing a socket wrench to the office next time!