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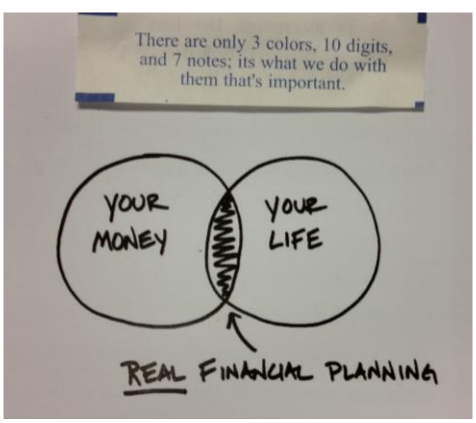
SPRING 2017 NEWSLETTER

- **8th Annual Pitzl & Pitzl Charity Golf Tournament:** The 2017 outing is May 22nd at TPC Twin Cities in Blaine. Please visit www.pitzlchildrensfund.org for details and to register.
- **2017 Q1 Investment Review:** In a complete reversal from 2016, the first quarter was extremely boring for the markets, despite the volatile headlines!
- **Consuming Happiness:** Inspired by a new course at my alma mater, we challenge the notion that money can't buy happiness.



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"FAR MORE MONEY HAS BEEN LOST BY INVESTORS PREPARING FOR CORRECTIONS OR TRYING TO ANTICIPATE CORRECTIONS, THAN HAS BEEN LOST IN THE CORRECTIONS THEMSELVES." – PETER LYNCH

The first quarter of 2017 marked the "quietest" quarter in 50 years for US stock markets, with an average daily move of just 0.32% for both the S&P 500 and the Dow Jones indexes.

The paragraph above is quite stunning, and it is especially stunning to write. I have checked and re-checked data from multiple sources to confirm this, as it simply *feels* impossible.

However, there was very little in the way of market excitement this past quarter, despite the incredibly volatile headlines.

What a difference a year makes! A year ago, we were all breathing a collective sigh of relief at this moment. The first quarter had just ended slightly positive for global financial markets, after plummeting 12% - 14% worldwide in the first 6 weeks of the year – the worst start to a year since the Great Depression.

The first 45 days of 2016 were not only a great reminder of how fast things can change, but how important it is to rely more heavily on systems (asset allocations) and processes (rebalancing) over emotions and forecasts to ensure long-term investment success.

On top of that, the final 60 days of 2016 shocked many investors who preferred to sit out the election process, or wait until the skies cleared to make investment decisions.

For new readers of our commentary, be prepared to hear the italicized statement frequently. For long-time readers, let this serve as another reminder; *investment returns come in bunches – in both directions.*

We would love to promise that returns will be as predictable, boring and consistent as the last 90 days. Unfortunately, we can't. In fact, we will do the opposite, and promise you that quarters like this are quite rare. Markets "typically" act a lot more like 2016 than what we have seen in 2017 to date.

We can also promise you that we will not deviate from the evidence-based, time-tested systems and processes we have built our philosophy on.

POLITICAL BIASES CAN IMPACT YOUR INVESTING

By: Larry Swedroe, Director of Investment Research for The BAM Alliance

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us."

These words, from the opening of Charles Dickens' "A Tale of Two Cities," are among the most famous in all of English literature. Today they could easily apply to how investors view the outlook for the U.S. economy and our stock market.

Politics Affect Investors' Market Perceptions

Whether you view the outlook for our economy and stock market as entering the best of times or the worst of times is highly dependent on your political perspective. Research on investor behavior has found that individuals become more optimistic and perceive the markets to be less risky and more undervalued when the party they favor is in power.

This leads them to take on more risk. They also trade less frequently, which is a good thing, because the evidence demonstrates that the more individuals trade, the worse they tend to do. But when the opposite party is in power, investors' perceived uncertainty levels increase, and they exhibit stronger behavioral biases, leading to poor investment decisions.

You can observe just how strong the impact of these biases can be in the Spectrem Group's December 2016 Affluent Investor and Millionaire Investor Confidence survey. Prior to the presidential election in November, survey respondents who identified as Democrats showed higher confidence than those who identified as Republicans or Independents. This completely flipped following the election, when Democrats registered a confidence reading of -10 while Republicans and Independents showed confidence readings of +9 and +15, respectively.

The February 2017 University of Michigan survey of consumer confidence provides further evidence. It showed Republican confidence sentiment at 120. This figure hadn't topped 112 since 1952. For Democrats, the confidence reading was just 55.5, a level not seen since the last recession, when the economy was shedding 2 million jobs a month. Echoing Dickens' now famous words, Republicans apparently think it's the best economy in the postwar era, while Democrats seem to think it's the worst since the financial crisis.

Here's one more example. Before the 2000 election results were announced, Democrats were slightly more optimistic than Republicans. However, after the announcement of George W. Bush's win, that changed dramatically. Roughly 62% of Democrats were optimistic about the stock market before the election, but that figure fell to just 36% in early 2001. The optimism about the overall economy was similarly affected.

The Problem Of Political Bias

Political biases create problems for investors, causing them to stray from even well-thought-out financial plans. Imagine the nervous investor who sold equities based on his views of a Trump presidency. While those who stayed disciplined have benefited from the rally, those who panicked and sold not only missed the bull market, they now face the incredibly difficult task of figuring out when it will once again be safe to invest.

It may also be worth noting that Warren Buffett's Berkshire Hathaway has been persistently buying since the election, despite his having supported Hillary Clinton. Buffett doesn't let his biases impact his investment decisions, which should be a clue as to whether you should allow your biases to do so.

I know of many investors with Republican/conservative leanings who were underinvested after President Obama was elected. Now it is investors with Democrat/liberal leanings who must face their fears.

It's important to understand that, if you sell, unfortunately, there's never a green flag that will tell you when it is safe to get back in. Never. Thus, the strategy most likely to allow you to achieve your goals is to have a plan that anticipates that there will be problems, and to not take more risk than you have the ability, willingness and need to take. Lastly, don't pay attention to the news if doing so will cause your political beliefs to influence your investment decisions.

Summary

There's strong evidence that the political climate impacts investors' views of the economy and the stock market, and that it affects their investment behavior. Specifically, individual investors' returns improve when the political regime favors their political party, and vice versa.

This result is due to two factors. When their party is in favor, investors tend to increase their exposure to systematic risk and, thus, earn higher returns. They also tend to use more passive strategies, reducing costs.

Unfortunately, investors often make mistakes with their money because they aren't aware of how decisions can be influenced by their beliefs and biases. The first step to eliminating—or at least minimizing—mistakes is to become cognizant of how our financial decisions are affected by our views, and then how those views can influence outcomes. Being aware of your biases and acting accordingly can help you make better investment decisions.

The bottom line is that, just as you shouldn't let the latest economic news cause you to abandon a well-developed financial plan and shift your asset allocation, you shouldn't let the political climate do so either. As the "Oracle of Omaha" Warren Buffett stated in Berkshire Hathaway's 1996 annual report, "Inactivity strikes us as intelligent behavior."

This commentary originally appeared March 13 on ETF.com

Consuming Happiness

By: Joe Pitzl, CFP®

It is a common belief in modern society that money can't buy happiness. Yet that does not seem to stop people from trying! People are consistently over-extending themselves, pushing their cash flow commitments to the limits as household debt levels continue to inch their way back up toward 2008 levels.

Despite this, it may surprise many of you that I actually disagree with that statement. However, I do believe that many people just emphasize the wrong kind of "happiness" in their pursuit.

The comparative nature of our society, heavily reinforced by the social media craze we are living through, focuses our attention on a form of happiness that comes and goes like the high from a drug. We buy something (whether that is a thing or an experience) and receive a short emotional boost at the outset, followed by a return back to our original state and a burning desire for more consumption in order to get us back to that high feeling we experienced.

A few weeks ago, I was in Madison, Wisconsin for the semi-annual advisory board meeting for the Personal Finance program at my alma mater, the University of Wisconsin. These meetings bring me a great sense of pride and joy, as I have a front row seat to see the inner workings and development of the program, the curriculum for the students, and I get to have a very small hand in helping shape its future.

This year, we were treated to a brief presentation by Dr. Christine Whelan, who was offering us an overview of the new class she has been teaching at Wisconsin, titled “Consuming Happiness.”

Dr. Whelan earned her Ph.D. from Oxford University, where she focused her research on trying to understand why and how the “self-help” industry has transformed into an $11 billion business. Her research concludes that succeeding at “self-help” ultimately means attaining fulfillment through self-control, whether that is controlling your personal behavior, social life, workplace, or romantic situation. We CAN consume our way to happiness, but that consumption must be more focused on lifting ourselves and those around us toward being one’s best self.

Dr. Whelen explains that if we are to successfully pursue “happiness,” we must distinguish between "hedonic" happiness (the experience of pleasure or positive things) and "eudaimonic" happiness (self-actualization or engaging in meaningful activity). Hedonic happiness is not inherently bad, per se, but it must frequently be forgone, deferred, or receive a flat out “no” in order to pursue the sustained, lasting happiness that eudaimonic happiness offers.

In the context of happiness, the concept of fulfillment often gets lost in the shuffle. We compare our “happiness” to what we observe around us. We value ourselves by the number of “likes” and “retweets” we get for the things we post on social media, and we go to great pains to control the way others perceive us, rather than controlling ourselves. At the end of the day, we can either spend our money on experiences or stuff. Even when we save it, it will eventually be spent on experiences or stuff. Research overwhelmingly demonstrates that values-based experiences matter most.

It is also important to recognize that this is not a zero-sum game where you solely choose one or the other. However, if it is happiness and fulfillment that you seek in life, your choices matter. Some things that really matter are not going to produce pleasurable short-term feelings. However, they will lead to a greater state of fulfillment and lasting happiness in the long-run.

This is where the concept of the 6 Capitals comes into play. We have introduced that concept to many of you in varying degrees as conversations have evolved over the years. Once the financial foundation is firmly in place, your long-term trajectory is sound and you have developed a resiliency plan for the wide variety of assumptions that will inevitably change, the allocation of future resources ought to be centered on maximizing your life worth, rather than your net worth.

As a young parent, I can attest that raising children results in many moments that lead to a severe reduction in short-term pleasure. In recent months, dinner time with my 3-year old comes to mind. My wife and I far too frequently make a hedonic decision to reduce the pain and go out to eat in order to avoid the battle waged at our kitchen table. But what are we teaching our daughter?

That said, capturing moments like the one on the right and watching these little munchkins grow and develop makes it all worthwhile…and it truly is the most fulfilling thing I have ever done!