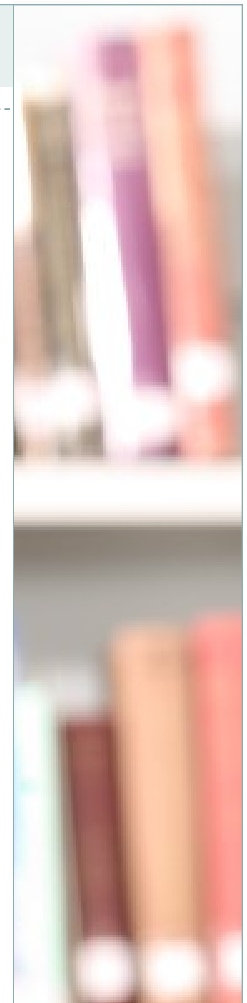
S.F. EHRLICH
ASSOCIATES, INC.

September 30, 2016



Managing YOUR Money

STAN'S WORLD

John and I just finished our first quarter together, so here's a glimpse into what we're working on and what's on the horizon.

- John pointed out that the website looked a little stale (I think he politely used the word 'dated') so he has taken the lead on a complete redesign. While it's not live yet, my early review is it looks fresh and far more current. We eventually hope to include a blog, which might be of interest to clients, along with a few other features that John is pursuing. We'll let you know when the new www.sfehrlich.com is up and running.
- Adding John was the perfect opportunity to review, amend, and revise our entire compliance program, specifically the Compliance and Procedures Manual. (Yes, it's as exciting to read as it sounds...) The process is laborious, and we even hired a compliance consultant to help ensure that we're dotting every t and crossing all the i's. While compliance has always been a priority, keeping everything current is a never-ending process.
- It didn't take John long to discover that no two days are alike, and all the plans you have for the day can change with the next phone call. What I'm trying to say is that we had hoped that John would have had the opportunity to meet and speak with more of you by now, so those activities will continue into the coming months.

In addition to John's planning and asset management skills, he also adds a level of expertise that complements work that I've previously done with clients. When you meet or speak with him, for example, he's more apt to ask you questions about your will, or your beneficiaries. He'll use his experience to broaden what we can do for everyone.

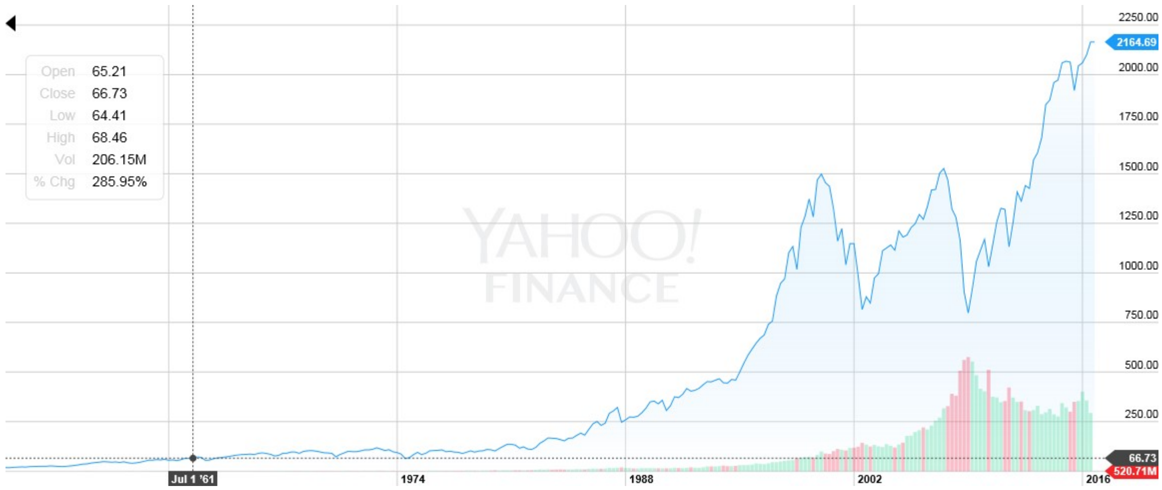
So what are my plans? Naturally, I've been asked if John is my successor, and whether that means succession is imminent. While John is obviously my successor, this is another opportunity to reiterate that nothing has changed for me. John is an addition; not a replacement. I'm not heading south for the winter, or anywhere else for the summer.

Nor are we dividing-up clients. Everyone is a client of the firm, not of John or I. While I know most of you for years, that doesn't mean that you can't ask John a question if he answers the phone when you call. We share the same e-mail and client relationship management systems, so he sees all the communications and notes I've written about all the planning and other issues we've discussed. Considering that his office is next to mine, it's not too difficult to collaborate.

The joke that John has heard ad nausea is that he may wind up retiring before I do (John is 36). This is only year 21; I'm just getting started.

BEWARE THE BEAR: BUY BONDS. OR MAYBE NOT…

The chart below details the S&P 500 since 1950. The fact that it's linear means some of the earlier corrections don't look as dramatic as they actually were. Still, you can easily notice the Tech Wreck that occurred in 2000-2002, along with the Great Recession of 2008-2009.



Subsequent to the Great Recession, you can also observe a stock market that has had a prolonged rise, with occasional setbacks along the way. Absent the 20% correction that defines a bear market means the current bull is almost 8 years old, a near eternity when it comes to stock markets. As this impressive bull market can't, and won't last forever – think of the old adage that trees don't grow to the sky – we're left with two obvious questions:

- When will this bull market end?
- What are we going to do to protect our portfolios?

The answer to the first question is easy, because it's always the same: nobody knows when a bull market will start, nor does anyone know when it will end. These are the types of events that are only obvious years after the fact, not when we're in the moment. (It's always easy to look back at an historic chart and say: "Why didn't we buy here?", or "Why didn't we sell then?")

The answer to the second question is "It's already being done," with the "it" referring to rebalancing. With our predictive powers limited, rebalancing works through all phases of the business cycle.

I'm often asked why an investment is pruned when the market is up, or why equities are bought when the markets fall. We sell when markets rise because they'll eventually drop, and then buy when they're down because they'll eventually rise. We try to adhere to your Investment Policy Statement, which means trying to maintain a portfolio with X amount of equities and Y amount of bonds. Though X and Y will never stay at the exact same percentages, there comes a time when equity positions either are too high or too low within any given portfolio, meaning it's either time to buy or to sell. It's not complicated, but it means having a lot of discipline and less emotion.

What's the consequence of getting too conservative too soon and shedding too many equities in order to reach for more conservative, and currently low-yielding, bonds? You run the risk of being out of the market when it happens to have a historic run and missing significant gains. As you've read so many times in this space, trying to time the market is virtually always a fool's errand.

BEWARE THE BEAR: BUY BONDS. OR MAYBE NOT... (CONT'D)

Ironically, the biggest risk to long-term success is not taking on enough risk. While volatility is unnerving to everyone, it's that same volatility that is the reason why stocks outperform bonds over long periods of time. Inflation may take an occasional breather, but it never stops. The fact that we're living longer means inevitable increases in prices for food, housing, healthcare, et al. There are days (weeks/months/years) it may not feel like it, but volatility is actually an investor's best friend.

"If you try to time the market, You run the risk of being out of the market when it happens to have a historic run and missing significant gains...As you've read so many times in this space, ***trying to time the market is virtually always a fool's errand****.*

KEEPING YOU HEALTHY, BOTH MENTALLY AND FINANCIALLY

What does your mental health have to do with money? The short answer is everything. What's the point of accumulating assets if you don't live long enough to enjoy them? What's the point of working your entire life only to miss having a 'successful' retirement?

How outlook and social ties affect the way you age (from *TIME Magazine*):

"Life was easier when it wasn't so long: learn when you're young, work while you're able, then resign yourself to a slow period of repose – and decline. But in the past century, scientific advancements have added decades to the average human life span, leaving a person's timeline with a long, often aimless tail."

"Finding rewarding ways to fill these extra years – particularly in ways that emphasize social ties – is the best way to prolong them, research is finding...Here are strategies that may help you make the most of your extra years."

(continued on next page)

BY THE NUMBERS

- The 5.2% rise in **household median income** in 2015 is the largest year-over-year increase recorded since it started being tracked in 1967.
- Over the 5 years 1977-1981, **inflation** advanced by 61.5%, an increase of 10.1% per year. Since then, only one calendar year (1990) has produced annual inflation of at least 5%. Over the 12 months ending August 31, 2016, inflation increased 1.1%.
- 45% of the **tax returns** filed in tax year 2014 reported adjusted gross income (AGI) less than $30,000. 4% of the tax returns reported AGI of at least $200,000.
- 9 of the 12 **fastest growing occupations** expected in the upcoming decade are in the health care industry, including occupational therapists, physical therapists, home health aides, audiologists, and nurse practitioners.
- The 5.871 **million job openings** nationwide as of July 31, 2016, were the largest number ever reported for a statistic that has been tracked since December 2000. Just three years ago, there were 3.689 million job openings.
- In the last 25 years (1991-2015), the **S&P 500 has gained** more on a total return basis during fourth quarters (i.e. October-December) than the index has gained during the other three quarters combined.

(TIME Magazine article continued)

- **Embrace Technology**: While actual face time can help older adults feel less alone, so can FaceTime. If you can't be with others, then speaking to them in real time may help you stay connected socially.

- **Welcome Aging**: "Your feelings about getting older might determine how well you age – and even how well your brain holds up against Alzheimer's. A team of researchers at Yale University found that when people who thought negatively about aging were simply primed to view it in a better light, they said they felt more positively about aging and even showed improvements in physical strength."

- **Set Goals, Take Risks**: "Plenty of research links a sense of purpose to longevity. But how do people search for a purpose if they don't have one? Take an online course, volunteer, do anything new that challenges you."

- **Lean on Family**: "You can't choose them, but now you'll be glad to have them. When people were asked to list up to five of their closest confidants, those who named more family members had a lower chance of dying in the next five yeas than those who didn't report such strong family bonds."

- **Lighten Up**: "What helps a person live to 100 – and stay healthy in the process? New findings reveal that the long-lived have a lot in common: being outgoing, open to new experiences, good at sticking to goals and not overly neurotic. Laughing, too, is a key to staying young in old age, research has found."

- **Expect the Best**: "People with a positive outlook recover better after having a heart attack than those who are more pessimistic, a recent study shows. That's partly because a hopeful attitude is linked to other healthy behaviors, like quitting smoking and maintaining a healthy diet. Optimism is also linked to fewer chronic illnesses, less depression and even a stronger immune response to bugs

BY THE NUMBERS

- Just 1 in 7 workers surveyed (i.e. 14%) have **accumulated retirement assets of at least $250,000**, not counting the value of their primary residence or the present value of any pension plan.
- 44% of the households in the US headed by a currently employed individual have **money invested on a pre-tax basis** in a defined contribution plan.
- 90% of all **global trades**, including transactions that do not involve an American buyer or seller, are conducted in US dollars.
- **Presidential candidates** have won the White House yet lost their home state only two times in the last 100 years. (Richard Nixon lost NY in 1968, and Woodrow Wilson lost NJ in 1916.)
- At the end of 2010, 8.2% of **mortgages** had at least one payment past due while another 4.6% were in the foreclosure process. At the end of June 2016, 4.7% of mortgages were at least one payment past due and another 1.6% of mortgages were in the foreclosure process.
- Between June 30, 2015 and June 30, 2016, **average home prices** increased in 49 of 50 states. Oregon's 11.7% average home price gain led the nation.
- The outstanding balance of **student loans** ($1.26 trillion) is larger than the outstanding balance of auto loans ($1.10 trillion).

Preventing dementia (from *The Star-Ledger*):

"Older Americans fear Alzheimer's disease above all else, and most have some understanding of how to reduce their risk... (B)ased on the best body of knowledge we have right now, here are four fundamental steps you can take to dramatically cut your likelihood of developing dementia."

- **Don't Smoke**: "If you smoke, your chances of developing dementia are 45% higher than if you don't smoke."

- **Control Your Blood Pressure**: "To save your brain, start with your heart. High blood pressure...is one of the biggest contributors to dementia. Researchers at Oxford University recently looked at the medical records of more than 4,000 people and found those who had high blood pressure between the ages of 30 and 50 faced a 62 percent greater risk of vascular dementia, which is the second-most common form of dementia, after Alzheimer's."

- **Protect Your Brain Against Diabetes**: "The link between diabetes and Alzheimer's is so strong that some neurologists refer to Alzheimer's informally as Type 3 diabetes. A research review published at the end of last year looked at 14 health studies involving more than 2 million people and found those who had diabetes were at 60 percent greater risk to develop some form of dementia."

- **Get Your Exercise**: "Researchers at the University of Miami recently looked at the exercise habits of 900 people and found older adults who were sedentary experienced 10 extra years of 'brain aging' compared to those who engaged in moderate or intense exercise."

BY THE NUMBERS

- **Eight years ago, Treasury Secretary Hank Paulson** announced plans for the government to take control of mortgage giants Fannie Mae and Freddie Mac. The Treasury Department initially pledged up to $200 billion of financial support in anticipation of future mortgage defaults. Fannie and Freddie actually received $187 billion of taxpayer aid, and have paid back $247 billion.
- The **US stock market** was worth $23.7 trillion as of June 30, 2016. The S&P 500 made up 81% of the total US stock market capitalization, equal to $19.2 trillion.
- The **US bond market** (including treasury, municipal, corporate, mortgage and asset-backed debt) was worth $40.7 trillion as of June 30, 2016.
- 11% of American homeowners spend at least **50% of their pre-tax income on their housing costs**. 26% of American renters spend at least 50% of their pre-tax income on their housing costs.

Source: Direxion Funds (By the Numbers)

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 20 years.

Did I mention? *If you have a friend or family member who you think might benefit from a discussion with John or I about financial planning and asset management, please pass along our phone number and e-mail address. Long-term growth is not only important to portfolios, it's also critical to a business.*

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak ***pro bono*** *with people who need a hand.*

CLIENTS: *Please remember to contact S.F. Ehrlich if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to our investment management services. In addition, a copy of our current Form ADV and Firm Brochure can be accessed on-line at www.sfehrlich.com.*

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