FERGUSONJOHNSON
WEALTH MANAGEMENT

September 1, 2016

Should We Have Listened to the Bears?

I've lead off a few commentaries this year with the same basic refrain: it's been an interesting year so far. We've seen a lot of unusual events and with a historic election still looming, I'm sure we're poised for at least a couple more.

I want to highlight two notable events from this year and look at how markets have responded in the aftermath.

You may remember back in January, there was a headline making its way around the internet and financial news stations that read "Sell Everything". This bit of advice came out of a January 8, 2016 letter from The Royal Bank of Scotland (RBS) to its clients. In their letter they went on to say, "The world is slowing, trade is slowing, credit is slowing, we are in a currency war, global disinflation is turning to global deflation as China finally realizes what it needs to do (devalue soon, and sharp) and the U.S. then, against ALL THIS countervailing pressure, then stokes the fire by hiking rates." Ultimately, they warned of a "fairly cataclysmic year ahead."[1]

It received a great deal of attention from media outlets and their message quickly infected investors, many of whom panicked.

Now, a little more than half a year later, let's see how some indexes have performed since that fateful January 8th letter:

Index (Total Return)	Performance
S&P 500	14.58%
Russell 2000	19.67%
MSCI EAFE	7.07%
MSCI Emerging Markets	22.90%
DJ Real Estate	16.21%
Barclays US Agg Bond	5.18%

Source: Morningstar, Inc. (1/9/16 to 8/31/16)

The other major market event in 2016 that sparked similar doomsday fears was, of course, the Brexit vote. The citizens of the UK narrowly voted to leave the European Union on June 23rd, 2016. The exit will involve a mess of detangling economic, political, societal infrastructure and the redrafting of treaties and trade agreements by the UK.

The complications and relative mystery as to how much of this will play out prompted many news outlets to report that some investment banks were sour on the prospects of equities and fixed income.

"Equities could sell off owing to negative growth surprises and with yields at all-time lows, bonds are unlikely to be good hedges," writes Goldman Sachs.[2]

Since the vote, here's how the indexes have performed:

Index (Total Return)	Performance
S&P 500	7.00%
Russell 2000	10.26%
MSCI EAFE	7.97%
MSCI Emerging Markets	11.73%
DJ Real Estate	4.75%
Barclays US Agg Bond	1.07%

Source: Morningstar, Inc. (6/24/16 to 8/31/16)

We've never been ones to buy in to overly bearish (or bullish) advice. We believe a long-term approach with an eye towards proper asset allocation and an individual's risk tolerance is an effective way to invest for most people.

Blogging

We have a launched a new weekly blog that is featured on our website. Jon Powell will primarily be writing pieces for us on all sorts of topics related to financial planning and investments. The goal is to provide a fresh approach towards specific topics that may be on the minds of our clients or others seeking quality advice and content.

Right now, we're planning posts that touch on a wide array of subjects. In the next month we expect to feature content that: explains the decisions that have to be made when considering a 401(k) rollover; analyzes the total costs of homeownership; considers the practicality of negative interest rates; and explores the benefits of using a Health Savings Account.

We hope these posts can offer meaningful information to readers. We'd love to hear your feedback.

Email Encryption

As part of our commitment to protect the information of our clients, we have decided to employ an email encryption service to further protect your personal details. Going forward, when our firm sends emails that contain personal information about you or your financial situation, we will be requiring this added layer of protection.

If your email provider supports Transport Layer Security (TLS), there should be no change to how you receive emails from us. However, if your provider does not support TLS, you will be asked to create a login to our encryption service to view these encrypted emails.

Further details on this transition will be included in a letter we are sending out in the next week. Please read this over carefully as it will explain our rationale behind this shift and the steps you will need to take. We recognize this may create additional challenges for some of our clients. If you have confusion over this or if there are issues in viewing emails, please give us a call and we can help walk you through things.

John, Derek, Jon, Stacie, & Andrew

[1] Georgiadis, Philip. "RBS Warns: Sell Everything," The Wall Street Journal, January 12, 2016.
[2] Shen, Lucinda. "Goldman Sachs Warns Investors About 'Negative Growth Surprises'," Fortune, July 11, 2016.

Investment advisory services offered through Ferguson-Johnson Wealth Management, a registered investment adviser.

This newsletter contains general information that may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

Neither Asset Allocation nor Diversification guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk.

Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The MSCI EAFE Index is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada. With 930 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 836 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The Dow Jones U.S. Real Estate Index seeks to represent Real Estate Investment Trusts (REIT) and other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies.

The Barclays Capital Aggregate Bond Index is a market-capitalization weighted index. The index includes treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.