



## NEWSLETTER 4th Quarter 2018



Pictured left to right:

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Dear Friends,

As we have just closed out this year, I would like to provide you some thoughts, first about the principles of being a successful investor or better yet, being successful in reaching your stated goals, and second some observations about the year just passed.

### General Principles

- It is important to restate my overall philosophy of investment advice. It is goal-focused and planning driven, and is sharply contrasted and distinguished from an approach that is market-focused and current-events-driven. Just about every successful investor I have ever known was acting continuously on a plan. It seems to me, at least in my years of experience, that failed investors get that way by reacting to current events in the economy and the markets.

- I neither forecast the economy, nor attempt to time the markets, nor predict which market sectors will “outperform” others over the next block of time. In a sentence which bears repeating: I’m a planner rather than a prognosticator.
- After a thorough review of your goals and objectives, a plan will be put in place for you and funded with what has been historically the most appropriate types of investments. I will hardly ever recommend changing the portfolio so long as your long-term goals haven’t changed. In my experience over the years, I’ve found the more often investors change their portfolio, generally because of current events (fears or fads), the worse their long-term results.
- In summary my essential principles of portfolio management are fourfold. 1. The overall performance of a portfolio relative to a benchmark is largely irrelevant to long-term financial success. 2. The only benchmark we should pay attention to is the one that indicates whether you are on track to accomplish your financial goals. 3. Risk should be measured as the probability that you won’t achieve your goals. 4. Investing should have the exclusive objective of minimizing that risk.

### **2018 Review (a strange year)**

- Truly one of the greatest years in history for the American economy and by far the best year since the global financial crisis already 10 years past.
- However, the paradox is that the equity market just could not get out of its own way.
- The positive elements of this year are almost impossible to cite. Here are a few; Worker Productivity surged. This metric is a long-run key to economic growth and to a higher standard of living. Wage growth increased due to the rapid decrease in the unemployment rate. Household net worth increased to over \$100 trillion for the first time as household debt relative to household net worth remained historically low. And maybe most importantly, for the first time in American history, the number of open job listings exceeded the number of people seeking employment.
- Earnings of the S&P 500 companies increased by more than 20% due to robust GDP growth and the significant corporate tax reduction.
- Cash dividends paid to shareholders set a new record, along with share repurchases. These now total over \$7 trillion.
- The equity market came roaring into 2018 as measured by the S&P 500 at 2,674, maybe somewhat ahead of itself, and by the end of February corrected by 10%. Then it consolidated until late summer when it then hit a new high of 2,931.
- As we just experienced, it then declined to a near bear territory amount. The S&P 500 fell to 2,351 on Christmas Eve, bringing the index down 19.8% from the September high. A rally in the last week of trading brought the index back up to 2,507, but this still gave us a solid six percent decrease for the calendar year, ignoring dividends. Therefore, 2018 became the 10<sup>th</sup> year of the last 39 (beginning with 1980) in which this index closed lower than where it began. So on a long-term basis the S&P 500 has now been negative about one in four years, which is actually about par for the course.
- As this year turns over, one of the major market and economic topics is trade policy, which in the larger sense is an inquiry into the mind of President Trump. It is probably fair to say as economist Scott Grannis has recently said, “Trump has managed to reduce tax and regulatory burdens in

impressive fashion, but his tweets and tariff threats have created unnecessary distractions and unfortunate uncertainties, not to mention higher prices for an array of imported consumer goods.”

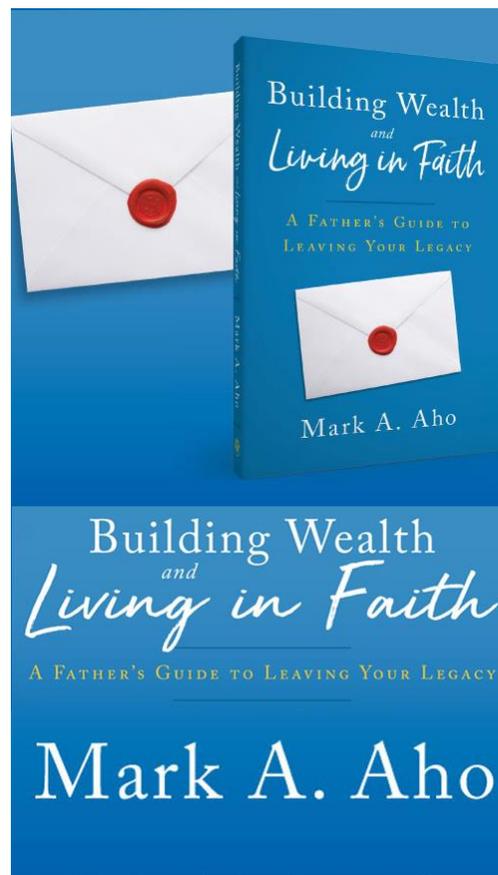
- Most likely these items along with other uncertainties such as Fed policy and an aging expansion were weighing heavily on investor psychology as this year ended. For whatever it is worth, it has been my experience that negative investor sentiment which leads to lower equity prices, have usually provided patient, disciplined long-term investors with enhanced opportunity. As the wise and witty Sage of Omaha wrote in his 1994 shareholder letter, “Fear is the foe of the faddist, but the friend of the fundamentalist.”

So as we enter into this New Year, remember this... **“Optimism is the only Realism.”** Believe it or not, since the start of the US stock market this has always been true over any longer meaningful time period. If you have any questions please give us a call. We are here to guide you through to your financial goals.

God Bless You!

Mark

“We differ, blind and seeing, one from another, not in our senses, but in the use we make of them, in the imagination and courage with which we seek wisdom beyond the senses” -Helen Keller



Are you looking for  
a great gift?

Whether it's Christmas, Birthday, graduation or just because. If you would like to treat yourself, or are looking for a great gift for someone who could benefit from great advice, please contact our office for a free, signed copy of Mark's book. We would be happy to personalize the message for the person you care about.



# The Numbers

For a full analysis of the Quarter, please go to our web site at [www.markahofinancialgroup.com](http://www.markahofinancialgroup.com). Then click on Resources> Education> Investment Strategy Quarterly. Below is a brief snapshot from the report:

## Capital Markets Snapshot

Index	2018	2017	Last 10 years
Dow Jones Industrial Average	-5.63%	25.08%	10.27%
S&P 500 Index	-6.24%	19.42%	10.75%
NASDAQ Composite Index	-3.88%	28.24%	15.45%
Russell 1000G Large Cap Growth	-1.51%	30.21%	15.29%
Russell 1000V Large Cap Value	-8.27%	13.66%	11.18%
Russell 2000G Small Cap Growth	-9.31%	22.17%	13.52%
Russell 2000V Small Cap Value	-12.86%	7.84%	10.40%
MSCI EAFE Developing International	-13.36%	25.62%	6.81%
MSCI EM Emerging Markets	-14.25%	37.75%	8.39%
DJ US Select REIT U.S. Real Estate	-4.22%	3.76%	12.05%
Barclays US Intermediate Govt/Credit	0.86%	2.10%	2.90%
Citigroup World Government Bond Index	-0.84%	7.49%	1.52%

*Russell 1000 Growth Index – Measures the performance of the 1,000 largest companies in the Russell 3000 Index, with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index – Measures the performance of the 1,000 largest companies in the Russell 3000. Index with lower price-to-book ratios and lower forecasted growth values. Russell 2000 Growth Index – Measures the performance of the 2,000 smallest companies in the Russell 3000. Index with higher price-to-book ratios and higher forecasted growth values. Russell 2000 Value Index – Measures the performance of the 2,000 smallest companies in the Russell 3000. Index with lower price-to-book ratios and lower forecasted growth values. MSCI Emerging Markets Index – A market capitalization weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. Barclays Capital U.S. Intermediate Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years. The Citigroup WGBI G7 x U.S. (USD) is an unmanaged market value weighted index comprised of debt issued by countries in the group of 7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) excluding the United States. The MSCI EAFE is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. 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 NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. 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.*

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Come "chill" with us!

# Bring the family down for some sledding and fun at the Al Quaal Tube Slide

The hill will be reserved privately for this event

January 31st

5:30 to 8:30

Hot Chocolate  
and snacks will be provided

501 Poplar St  
Ishpeming

Please RSVP

to [amanda.zorza@raymondjames.com](mailto:amanda.zorza@raymondjames.com)

or 906-226-0880



## WORDS OF WISDOM.....

### Habits of Happy People

By Warren Buffet

1. Don't show off
2. Talk less
3. Learn daily
4. Help the less fortunate
5. Laugh more
6. Ignore nonsense
7. No Entitlement

### 10 things that require ZERO talent

1. Being on time
2. Work ethic
3. Effort
4. Body language
5. Energy
6. Attitude
7. Passion
8. Being coachable
9. Doing extra
10. Being prepared

## SHREDDING!

Do you have documents or personal information that should be shred versus placed in the garbage? Protecting personal information and your identity are very important in today's world. We offer a free shredding bin available for your use. It is locked, and our shredding service comes once a month to shred the contents of the bin on sight. You may stop at our office at any time during business hours to place paperwork in our shredder. We welcome you to take advantage of this free and valuable service.

## Nicole's Kitchen – Creamy Coconut Lentil Curry

I was brought up in a traditional Hungarian household, which came with its share of European wives tales and superstitions. One of which was to eat Lentil Beans on New Year's Day to bring "good fortune" for the year. Now I'm unclear if there is a specific recipe that is supposed to be cooked with the Lentils, so I figure I have liberty to make whatever recipe I want as long as I use the lentils. And every year, I wonder why I don't use these versatile little beans more often – they are so good. This past New Year's, I tried the following recipe and was thrilled with the taste and how easy it was to make. Give it a try!

### Ingredients

2 tablespoons coconut oil  
 1 tablespoon each: cumin seeds and coriander seeds  
 1 head of garlic, chopped (10-12 cloves)  
 1-28 oz can of crushed tomatoes  
 2 tablespoons of turmeric  
 2 teaspoons of sea salt  
 1 cup dried brown lentils  
 Optional: 1-2 teaspoons cayenne pepper  
 1- 15 oz can coconut milk  
 1 cup chopped cilantro

Heat the coconut oil in a large pot or skillet over medium-high heat. Add the cumin and Coriander seeds and toast until they start to brown, about 45 seconds. Add the garlic to the pot and let it brown, about 2 minutes.

Add the can of crushed tomatoes, ginger, turmeric, and sea salt to the pot and cook, Stirring a few times for 5 minutes. Add the lentils and, if using, the cayenne pepper, and 2 ½ cups of water to the pot and bring it to a boil. Reduce the heat to low, cover the pot, and let it simmer for 35-40 minutes, or until the lentils are soft. Stir the pot a few times to prevent the lentils from sticking to the bottom. If the curry starts to look dry, add an extra ½ -1 cup of water.

Once the lentils are soft, add the coconut milk and bring the pot back to a simmer. Remove the pot from the heat and stir in the cilantro. I enjoyed serving it with some white rice.



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## Chance Encounters Serving as Lifelong Words of Wisdom

I learned one of my most valuable life lessons at the young age of five during a chance encounter while running an errand at the bank with my mother. While I was waiting for her with my chin resting on the countertop, the bank manager walked by and caught my eye. He asked me, “Do you realize if you save some of your money and you put it here, I’ll give you more money back?” Well, that whole concept just hit me like a ton of bricks! I was bored before he spoke to me, but the concept of saving officially grabbed my undivided attention, and hasn’t let go fifty-five years later.

As we were walking out of the bank, I remember incessantly tugging on my mom’s skirt and pestering her about how we have to hurry up and get more money in the bank to save. I’m not sure exactly why the bank manager’s words hit me the way they did, but the whole concept really made a sizable impression on me.

Maybe I started thinking about what I could get with the extra money I saved? Bubblegum was a penny per piece in those days. Maybe I figured if I put ten or twenty pennies in the bank, I could get an extra piece or two of bubblegum that way. It’s also

possible I was thinking about how much more money I could get back if I was frugal. Realistically, it was probably a little of both. Either way, I guess it seemed like a win-win to me.

I’m sixty years old now, and I remember that brief encounter with the bank manager like it was yesterday. I wonder if he realized how impactful his words were to me back then. We’re so impressionable at that age, and I think it’s important to remember that as adults. If your heart is filled with love and your words carry wisdom based on good intent, then you have such a profound ability to make a difference in the lives of your children and the world around you. We all have the ability to have a positive effect on somebody in our daily routines similar to what the bank manager did for me that day. The power to favorably influence your world is within all of us to share with all of humanity.

-Written by Mark Aho – an excerpt from his book.



## Financial Journalism...What is going to be the next big story?

The amount of earnings being reported by the companies within the S&P 500 is going to be in excess of 20% for the calendar year just ended (2018). So why is this such a large amount? Well, first of all, a significant corporate tax decrease from 35% to 21%, second, a large amount of regulatory stand down, and finally, because of these stated items an unemployment rate at a half-century low. The fact is corporate

America is humming along at a rate not seen for some time. We recently ending the slowest economic recovery in memory (if not of all time). Of course the rockets above have ignited this current boost. As such, business confidence has increased dramatically and is now making up for some lost time.

Next year, earnings will most likely grow at a slower rate. They may move back to the long-term averages, which means a significant drop from this past year (2018). This will most likely be welcomed by the financial media. They will most likely dig right into reporting the slowdown and probably hallucinate an earth shattering threat to the aging, equity market advance. Therefore I expect there to be a headline something like this..."**Earnings growth slows, threatening overvalued bull market.**"

My intentions for writing this is to prepare you for the spin our financial journalists are most likely going to put on this factoid. As you know I am always looking at price to earnings (P/E) and from this metric we can at least start to take a look at the stock market as to being overvalued or undervalued. As of this writing during the first week of January, the forward PE is 14x (FactSet). The 40 year average is about 16x. So if earnings growth comes back to its long-term averages, and the value of our markets are fair, I don't think there is much to be concerned about. I just wanted to prepare you for this most likely upcoming media blast. I have found that the media will do everything in their power to shake your confidence; it is my job to do everything possible to bolster your confidence.



MARK AHO  
FINANCIAL GROUP

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Let us help you help those you care about. Contact us today.

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