



S H E P P A R D

W E A L T H

Third Quarter 2016 Client Letter

"I truly believe we can either see the connections, celebrate them, and express gratitude for our blessings, or we can see life as a string of coincidences that have no meaning or connection. For me, I'm going to believe in miracles, celebrate life, rejoice in the views of eternity, and hope my choices will create a positive ripple effect in the lives of others. This is my choice."

-Mike Ericksen

It is with deepest gratitude that I write this eighth Client Letter celebrating with you all the reality and success of Sheppard Wealth. The launch of my own firm required your help, trust, and patience. Thank you for blessing me and my family with all of these.

A little over two years ago I nervously called some of you with the news that I was starting my own wealth management company and asked you to join me. Sheppard Wealth was founded on the idea that clients deserve a better option with clarity and transparency of underlying investments along with minimal conflicts of interest with advisors and clients whom they serve. We say it often at our little company, and you may have already heard it from me, we eat our own cooking. I own the same underlying investments as our clients.

In September we held our first Client Appreciation event where I had the opportunity to introduce most of you to James Hua and Wendy Meeuwsen, who are a part of the Sheppard Wealth team. We were also able to share a few highlights of our accomplishments since we started. I'm proud to say that after two years in business, we're on the road to build an organization of permanence. A few bullets I want to mention:

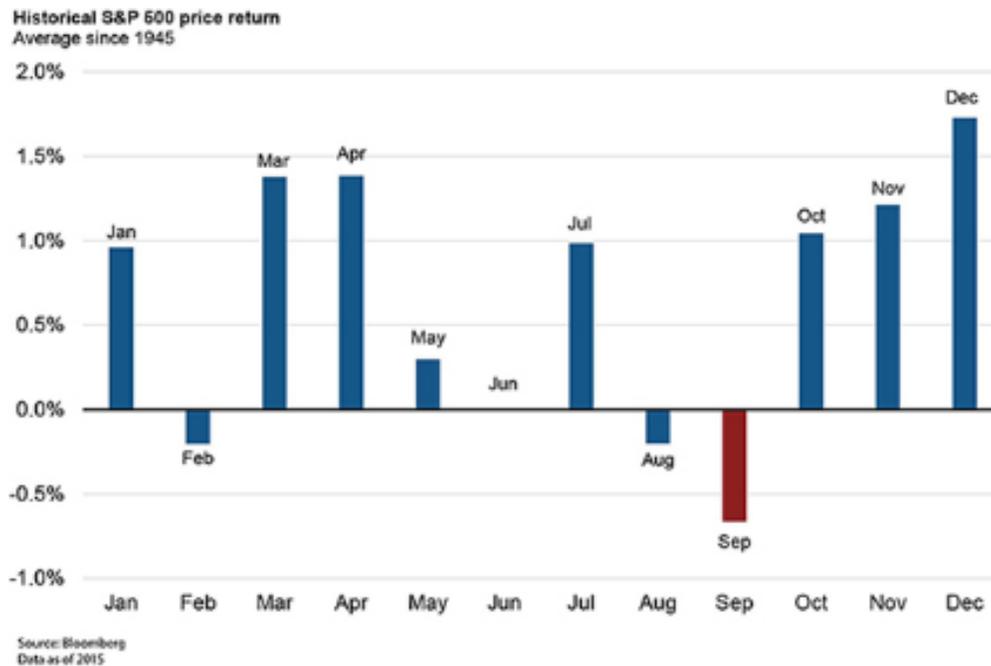
1. We brought on James Hua to manage and trade our core equities portfolio as well as research opportunities that could add value to our clients.
2. Wendy Meeuwsen joined us this summer to help with client services and business development.
3. Assets under management (AUM) have grown by almost 300% to \$65M as we help 19 families.

4. We have (finally) rolled out our new Website, Client Portal, and Document Vault. We have been working on this since November, and if you have not logged in to view it, I would encourage each of you to try the portal. I have walked a few of you through it over the past two weeks and it is fun see the excitement. It is a great tool with a tremendous amount of information.

THE END OF SUMMER

Summer in Bend, Oregon is too short! Our family loves to get outside and play, and like most families with kids, we get out to play more in the summer due to school breaks. Then September comes rushing in to disrupt life as we know it. Apparently, investors generally feel this same disruption from their lazy days of summer. The disruption I experience in my own household is similar to what investors experience due to uncertainty given the elections. The market hates uncertainty. Any presidential election year there is a big unknown. However, this one is going to be one for the history books. Top that off with the FED's possible rate hike, unknown long-term effects of the Brexit, and stretched stock and real estate market valuations, the near term is sure to be action packed.

The chart below shows the monthly average historical performance return on the S&P 500 since 1945:



Looks like we're in for not only a secular but cyclical ride!

STOCKS AND THE ELECTION

Of the 52 of the S&P 500 companies that have reported results for the third quarter, 81% have beaten analyst estimates. This is encouraging as most analysts expected strong third quarter revenue and earnings. As some of you may have noticed, volatility has picked up over the past two months, but we do not believe this supports an end to the current economic expansion. We are less than three weeks from finding out who our next president will be, and this news will reduce some of the current headwinds that the overall markets are facing. We are still waiting to hear from the Fed, but the clock is ticking there as well. Liz Ann Sonders, Senior Vice President, Chief Investment Strategist pointed out the following recently:

“These days there seems to be only two things on investors’ minds—the election and the Fed’s next move. The Fed has leaned in to a rate hike several times this year, only to pull back for a variety of reasons, leaving the Fed Funds rate unchanged since the December 2015 hike. Recent Fed commentary, including this week’s release of the September meeting minutes, has leaned more hawkish and futures markets have increased the odds of a Fed hike to more than 65% by year end. We continue to believe we’ll see a hike, likely in December, but don’t want to be too complacent about the upcoming November meeting. Most economists believe the Fed would be quite reluctant to act so close to an election, for fear of being accused of playing politics. However, some suggest the possibility of some “reverse psychology”—hiking prior to the election to “prove” they aren’t political. We’re leaning toward December.

As for the election, at least it’s almost over. While the market may have a kneejerk response to the results—especially if they represent a surprise relative to expectations—we urge investors to hold steady and not try to trade around the outcome. ”

This current economic expansion ranks as the fourth longest in U.S history even though we had a 14% downside correction towards the end of 2015 that carried into February of this year. Growth has continued, but at a slow pace. Home sales have declined for the past 5 months due to lack of inventory and continued economic uncertainty.

DEEP THOUGHTS

My oldest daughter began a new chapter as a freshman in public high school this fall. During our first Parent Night visit I sat in one of her classrooms that contained a large poster with the words: “Be the change you wish to see in the world.” The poster cited Gandhi as the source, however, this is just a summary of what Gandhi was addressing. His full quote below is applicable in these confusing and worrisome times. Whether it’s our current political unrest, or the ever-growing Wells Fargo debacle, we are in a season of uneasiness. Here is the actual quote by Gandhi:

“We but mirror the world. All the tendencies present in the outer world are to be found in the world of our body. If we could change ourselves, the tendencies in the world would also change. As a man changes his own nature, so does the attitude of the world change towards him. This is the divine mystery supreme. A wonderful thing it is and the source of our happiness. We need not wait to see what others do. “
-Mohandas Gandhi

YEAR-END PLANNING

As we rush into year-end, it's a good time to review your wealth planning needs, taxes, and overall allocation. As a reminder, each family's tax situation is unique, so please reach out to me if you have any questions or concerns. Below is a brief checklist I recommend you consider:

- Harvest capital losses to offset gains and rebalance your taxable investment accounts
- Review charitable contributions to maximize income tax deductions
- Consider donating appreciated capital gain assets that have been held for more than one year
- Maximize your retirement contributions
- Fully fund your Health Savings Accounts (HSAs)

QUARTER REPORTS AND CLIENT PORTAL

Eating crow, so sometimes even we make mistakes ☺ We have been working on making our client's experience more enjoyable by providing transparency on your investments and returns. This process has been in the works since November 2015. Our understanding during this transition was that we would be able to provide a much improved client visual experience through the Client Portal as well as deliver a much more in depth quarterly statement. The first part of this statement turned out true - and better than expected! The second part of our goal did not. Our Client Portal provider misunderstood our needs as they do not create a printable statement - they only provide an online quarterly review statement. Due to our (and other firms) misunderstanding - but we'll take responsibility for ours - Schwab has agreed to continue to provide their quarterly performance reports. I know many of you have been able to login in to the new client portal, and you have provided wonderful feedback, while some of you are still only relying on the quarterly reports. My hope is that I can meet with each of you and walk you through accessing your information through the new client portal and see if it is something you may want to use. Either way the bottom line is the bottom line - it'll show your actual performance. Please forgive me for my misunderstanding of what we would be able to provide. Know that we are working hard to provide the best experience we can for each of you!

Thank you again for being such incredible and supportive clients. I am truly humbled by your trust and faith in allowing us to *shepherd* your investments! Your continued commitment and feedback have been invaluable to us. Your participation in the process of planning and wealth management has made us better. Thank you for these first two years – and the best is yet to come!

Warmly,

John Swanson, AAMS

DISCLOSURES

This letter is intended for existing client only; it is for informational purposes only and is current as of the date noted. It reflects the views of its author at the time of this writing. These views may have changed in response to changing circumstances and market conditions.

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