



SHEPPARD

WEALTH

Fourth Quarter 2016 Client Letter

"Investing is an activity of forecasting the yield over the life of the asset; speculation is the activity of forecasting the psychology of the market."

-John Maynard Keynes



We are experiencing record snow fall here in Bend, Oregon. Even as I write this letter the snow continues to fall. Buildings around town are crumbling under the weight of the snow, and everyone *needs or wants* one of the above Polaris machines. I have spoken with a few local clients who are waiting to get their snow blowers since they are on back order. If you own a snow blower you could rent it out 24/7 right now for top dollar.

This winter weather was not predicted nor expected after many years of lackluster snow amidst our global climate change. During the summer months I often look through the local Craigslist ads, and frequently see an ad for a snow blower. My reality (shaped by the past years of living here) would remind me that I didn't *need* one, and I would move on. In a sense

I was making a prediction about the upcoming winter weather that I really had no idea about. And while I still do not own a Polaris machine, I am certainly glad we owned Polaris Industries last year.

2016 RIDE, WHAT'S NEXT?

The stock market closed out 2016 with double-digit returns from the S&P 500. After the worst start to a year ever, the stock market surged to new highs in 2016. All major markets defied the doomsday forecasts that preceded events like Brexit and the newly nominated president Donald Trump.

The conclusion of 2016 seems to have closed the chapter on declining U.S interest rates. It has been a 35-year slide in interest rates, and one of the greatest bond performances (bond prices rise when interest rates go down) of our time. It looks like this period is over, and it's a new world for US markets.

As we begin a new year, it is normal for most to have some thoughts or predictions about this upcoming year. We are addicted to predictions, whether it's sports, weather, stocks, real estate, politics/elections, social security, science; or the Oscars. Most of us participate in some form of prognosticating. They help us to feel better or worse about the future depending on which side we are on. Often times predictions can be useful in helping us plan. Take weather for example. As a small time farmer, I care very much about the weather. We grow orchard grass on our farm, and after cutting it down it needs to lay in the field for 4-7 days to dry before we rake and put it into bales. If it rains during this waiting period, we will be forced to wait additional days for it to dry again and the price of the hay drops due to its perceived market quality.

With regards to investing, most of us want to be assured that our money will continue to provide a certain degree of peace of mind. If forecasters are suggesting a certain outcome, we all want to plan accordingly. Here a few from the past:

- 2013 - "I'm not predicting Armageddon, but I do think it will be prudent to take a more defensive position in the market this year." *ING Investment Management chief market strategist Doug Cote*
- 2014 - "We believe the Standard and Poor's 500 Index will rise to 2,000 by the end of 2014, which implies a price return of about 11%... While that gain would be less than in 2013, our view is still higher than the consensus view on Wall Street..." *Savita Subramanian, Bank of America*
- 2015 - "We forecast US stocks will deliver a modest total return of 5% in 2015, in line with profit growth." *David Kostin, Goldman Sachs*
- 2016 - "'Rich Dad' author says the 2016 market collapse he foresaw in 2002 is coming." *Market Watch*

It's humorous to read these predictions in hindsight. But in truth, these forecasts might provide insight into the future regardless of the outcome. As I read through the top Wall Street firm forecasts for 2017, no one is predicting this bull market will end.

2nd LONGEST BULL MARKET IN HISTORY

The current bull market could be celebrating its 8-year birthday come March. Not only is this bull market one of the greatest (2nd) in terms of cumulative gains, but also in the remarkable consistency of its positive calendar year gains during its 7+ year duration. The longest bull market occurred from 1987-2000 with a total of 4,494 days. Our current run started on 3/9/2009 and we are currently 2,857 days as of yesterday, marking it as the second longest bull market run in history.

SHEPPARD WEALTH IS GROWING

I am honored and humbled to share that we are expanding our offices and opening of a new Sheppard Wealth location in Eugene, Oregon. Andy Papendieck has been a Eugene area investment advisor since 1985. I have known Andy for over 12 years while working together at Ragen Mackenzie/Wells Fargo. Andy specializes in providing individually tailored wealth management strategies for high net worth families, and business owners.

Andy, and his wife of 42 years, Heather, have seven children and four grandchildren. They are experienced foster parents and have adopted several of their children. They are very involved in making a difference in their community, especially with children of incarcerated parents. In addition to helping these kids, they are also supportive of the inmates. Andy has twice been awarded the Oregon Department of Corrections Outstanding Volunteer Award and continues to advocate for those impacted by incarceration.

The Eugene office will house both Andy and his associate Kalah Hickox. The office is located at: 1400 Executive Parkway, Suite 260, Eugene, OR 97401.

This expansion benefits our clients with additional coverage and support in our growing company. I look forward to introducing Andy and Kalah at our next client appreciation gathering.

HAPPY NEW YEAR!

I grew up reading Calvin and Hobbs, and to this day it still brings a huge smile to my face. I came across this comic strip, and thought it would be the perfect way to say, "Happy New Year." I don't know what 2017 will bring, however my hope is that we all can face it as an adventure with a desire to enhance the areas in which each of us touch.



As always, thank you for your continued trust and faith in allowing us to *shepherd* your investments!

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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A copy of Sheppard Wealth's current written disclosure statement (ADV II) discussing our business operations, services, and fees is available from Sheppard Wealth upon written request.