JOHANSON
FINANCIAL ADVISORS

Halftime Report: 2016

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In This Letter

- Mid-Year Recap

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With the markets ending flat thus far for 2016, you'd think everything has been smooth sailing, but actually, what a white-knuckled ride it has been. We began in January with the worst start on record, only to see a full recovery within a short time period. Brexit (Britain's vote to leave the European Union) provided quite a worry, but much like Greece and the China story of last year, the markets have been very resilient.

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After the market flopped mid-June with the Brexit storm, the last week of June offered the best returns since November 2015. The Dow Jones Industrial Average tumbled 871 points in two trading sessions following Britain's surprise decision to exit the European Union, but climbed 809 points in the subsequent four days.

It is easy to see why the markets seem to bounce back. Aside from the fact that markets do tend to overreact, there are no great alternatives to stocks. In a world where banks and government bonds offer little to nothing, stock or equities have been the only place to offer income potential for hungry investors.

Years ago, we can recall investors placing large amounts of money in banks whereby they were able to earn 10%, 8%, 6%, and even 4% in retirement. Four percent seemed pretty low a few years ago, but now you'd sprint to the bank for that return.

If you remember these high rates, you'll also recall years ago, how $500,000 in Government Bonds at 7% a year, would provide a guaranteed income of **$35,000 per year**. Today, in order to guarantee the same annual income, you'd have to invest in the following:

- $2,500,000 into 10 year Treasuries (at approximately 1.40%)
- $3,500,000 into a Certificate of Deposit (at approximately 1.00% - if you can find it)

The question is: What can we do to provide greater income in this low interest world?

Where should we turn?
Indeed the world has flipped upside down. Investors have been turning to stocks for income, while fixed income has languished. Within the U.S. equity market this year, the biggest winners have been the stocks that looked and handled like bonds, such as utilities, telecommunication, and consumer defense stocks.

Right now, we favor stocks that we feel could provide good long-term income. Companies that have little debt, great free-cash flow, and little exposure to a rising dollar provide that opportunity. We screen for companies that have increased their dividends over time without the use of a lot of debt. Dividends have always been a significant part of historical stock market returns.

In addition, we look for companies that have large moats around them. We want companies that have monopolistic tendencies with lots of barriers to entry in their industries. We can buy individual stocks, ETF's or other investments that provide upside. Also, we believe in owning fixed income in your portfolio. This is part of a client's portfolio that we understand won't return a lot, but will cushion the ride. The fixed income component can also provide a great bucket of available cash for income and safety in an uncertain world.

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Jack Bogle, founder and retired CEO of the Vanguard Funds, made a great statement the other day in regards to Brexit and other worries and threats to global markets:

"Retirement investors should still put their money to work despite uncertainties due to recent events worldwide such as U.K.'s possible exit of the European Union, the U.S. Presidential election and China's slowdown. What ever your view of the world is, you have to invest. The alternative is – I mean, the only way to guarantee you will have nothing at retirement is to invest nothing along the way."

We wish you all the best this summer with your family and friends. Please let us know if we can do anything at all for you.