BEDELFINANCIAL

Fall 2018
Bedel Financial Forum: Market Expectations

By: Ryan Collier, Sr. Portfolio Manager & Director of Investment Management

Jeffrey Kleintop, chief global investment strategist for Charles Schwab, was the featured speaker at our annual Bedel Financial Forum. You may be familiar with Jeffrey. He's frequently cited in the Wall Street Journal, Barron's and the Financial Times and is often a guest on CNBC, Bloomberg and CNN. When he spoke with us on November 7th, he focused his presentation on the outlook for markets over the short term, intermediate term, and long term and what investors should expect during each period.

The next three to six months
In retrospect, leading up to October the market was likely too far ahead of itself. The negative stock returns in October brought the market back down to where it should be based upon economic data. This reset potentially allows room for the market to grow over the next six months or so. Investors could see nice returns during this period.

The upcoming 12 to 18 months
Jeffrey spent a lot of time discussing concerns around the market looking out 12 to 18 months from now. Based upon some key indicators he sees the potential for a recession in that timeframe. However Jeffrey did state that he doesn't see this as a recession like 2008-2009 but more of a normal, shallow recession pushing markets down 20% or so instead of the nearly 50% we saw in 2008-2009. What should investors do? Getting out of the stock market is risky according to Jeffrey as, historically, average returns from the stock market in the 12 months leading up to a recession have been strong. Most world indexes have posted average returns in the double digits for that period. Getting out of stocks too early can result in missing out on significant gains; gains which would help soften the blow from the negative returns of a recession. He believes the best solution for investors is to have a plan in place for cash needs over the next couple of years and to begin rebalancing your portfolio now to take advantage of the long-term trends he sees playing out in the next 5 to 10 years.

The long haul
Jeffrey envisions a more positive outlook with historic opportunities for investors during the next five to 10 years. Here are three areas he believes will outperform over that period:

1. **U.S. vs international stock.** The outperformance of U.S. stocks over international stocks is the widest it has ever been. Jeffrey provided a slide going back to 1970 which showed that, eventually, this spread reverses itself. If this spread-reversal pattern does repeat, expect international stocks to outperform U.S. stocks. To take advantage of this opportunity, investors should rebalance their portfolios, keeping their international stock holdings at their desired weight.

2. **Growth vs value stocks.** Growth stocks have outperformed value stocks significantly over the past several years. Historically, this pattern also reverses itself, as demonstrated by the tech boom/bust of 1998-2002. The gap in outperformance is just now beginning to hit extreme levels and Jeffrey believes this is an opportunity to rebalance gains from growth stocks to value stocks.

3. **Large vs small cap stocks.** Jeffrey showed a chart dating back over 20 years that shows the gap between the outperformance of international small cap stocks over international large cap stocks is approaching the widest it has ever been. As with the other trends mentioned above, he sees this reversing itself with large cap international stocks outperforming international small cap stocks.

Takeaways

Our audience had many good questions for Jeffrey. The big one: What should we do, based upon your expectations? Jeffrey stated that most investors would think getting out of the market is the best solution. However, he discouraged that as he stated "Getting out of the market is two decisions; first, when to get out, and the second is when to get back in. There is no chart or data point I can give you that will answer that second question." He believed that investors should work with their advisor to have a plan to get through the intermediate period by having bonds and/or cash available to cover known cash needs. They should also start thinking about rebalancing their portfolios to take advantage of the long-term trends he sees playing out.

As clients of Bedel Financial, we have worked closely with you to create the appropriate customized portfolio based upon your current and future financial needs. We are continuously reviewing and rebalancing your holdings, as Jeff has suggested, in order to ensure you are always protected from a downturn and positioned to benefit from upturns. Our primary objective is to allow you to enjoy life without the stress and worry of market changes.

Contact Ryan if you have questions or would like additional information regarding this topic.

In This Issue

BLT Corner

Goodbye, Summer. Hello, Holidays!

In Indiana, and much of the nation, it's time to say goodbye to the warmer months of summer. Do you feel that summer went by way too fast? You're probably in the majority on that one! It helps to look back on all you've accomplished over the past few months—from taking a transformative vacation to completing major home improvements to enjoying the great outdoors. Bedel Financial is no different in that regard. Here are some of the things our team has been involved with during the third quarter of 2018.

This past summer we welcomed three interns. Evan Peabody (Notre Dame) and Kristin Wagner (Purdue University) assisted our financial planning team, while David Grandy (Purdue University) assisted our investment team. These passionate and dedicated, albeit temporary, team members helped with the implementation of new software technologies and an internal estate-planning project. We hope they learned a lot during their stay with us. We're sure each one of them will be an invaluable addition to their future employers' staff.

September was an especially busy month for us. Thankfully, we enjoyed dry weather on Saturday the 22nd for our annual Shred Day event. More than 50 clients took advantage of the chance to safely destroy their confidential financial information. Together, we collected more than 13 96-gallon totes. We also participated in the annual Rotary Indy DO Day event on Friday, September 28th. On Indy DO Day, community volunteers donate a few hours of their day to help a local organization of their choice. Since we have so many animal lovers at BFC, we chose to support FACE, a low-cost spay/neuter clinic located in downtown Indianapolis. We all enjoyed helping our furry friends.

We started the fourth quarter by hosting our Bedel Financial Forum on Wednesday, November 7th. Thank you to all those who joined us that day. If you were unable to attend, read the feature article, "Bedel Financial Forum: Market Expectations for the Long- and Short-Haul," in this newsletter. Ryan Collier provides a great overview of the comments shared by our speaker, Jeffrey Kleintop, Chief Global Investment Strategist at Charles Schwab. Hearing Jeff's thoughts on the U.S. and global markets was not only insightful but also quite thought-provoking.

Soon it will be time for mittens and boots, fires in the fireplace and all the events surrounding the holiday season. We appreciate that you trust us with your financial concerns and hope we can help you enjoy quality time with family and friends, no matter the time of year. And now ahead to year-end fun and festivities!

With warmest regards,

The Bedel Leadership Team

Be sure to follow us on social media for important industry updates, relevant articles, announcements and more!

Industry News

Reflections from 18,885 Feet

By: Bill Wendling, CFA
Sr. Portfolio Manager & CIO

Recently my wife and I traveled to Tanzania to climb Kilimanjaro, the tallest mountain in Africa. What started out a few years ago as a light-hearted, "some-day" idea turned into one of my bucket list items that seemed possible to fulfill. In our journey, I learned many lessons. A few of them are even relevant to investing!

Keep your mind in the boat and on your plan
Daniel James Brown's best-selling book, The Boys in the Boat, tells the story of the 1930s University of Washington crew team and the importance of eliminating outside distractions. Rather than worrying about other teams or the opinions of others, their focus was on what they could control—their stroke and how they followed their coxswain's commands. They used the mantra MIB to remind them to keep their "mind in the boat."

I borrowed their mantra prior to and during our Kilimanjaro adventure. When you're contemplating climbing a mountain, people often offer opinions ranging from doubtful or pessimistic to naively optimistic. The truth is most people don't have a clue what's involved, much less what our plan was to ensure our best chance for success.

This rings true for investing. Many people have opinions about investments, and many of these opinions are uninformed. Even more importantly, most of them don't take into consideration your unique plan and its implementation. Your investments should fit your plan and follow a strategy that leads to long-term success.

Long-term success versus instant gratification
"Pole-pole" (pronounced po'-lay po'-lay). If I heard it once, I heard it a thousand times. Pole-pole is Swahili for "slowly." Everyone wants to reach the top of the mountain as quickly as possible. But the key to climbing the mountain is to climb slowly and deliberately to give your body a chance to acclimate to the higher altitudes. There's no fast and effective solution. It's slow and steady all the way. Often this involves climbing to higher points in the day and sleeping at lower points at night. Taking an extra day to tackle the mountain also helps. Success rates are higher on longer, slower climbs.

That same strategy is also useful when it comes to investing. With investing, people dream of getting rich quickly. This seldom happens. People who take extreme risks often lose their shirts. Even if their dream comes true, they can lose their gains just as fast. I'm sure you've heard the stories about professional athletes and lottery winners. Their sudden wealth can disappear as quickly as it appeared—unless they have a long-term plan and stick to it.

Don't be greedy
It was midnight on the sixth day when we began our summit hike. We made it up to Stella Point (18,885 feet), at sunrise. Our guide listed our official summit time as 6:00 a.m. The previous six hours spent in the dark while gaining 3,000 feet were intense. Climbers who are able to make it to Stella Point, often continue on to Uhuru Peak (19,341 feet), a more gradual climb. But we were good at Stella. The thought of an extra two hours of climbing just to say we'd climbed an additional 456 feet wasn't that important to us. We had the sun, some hot cocoa, and were ready for the descent.

Too often, investors go for every last dollar of profit they can squeeze from an investment.

GenerationNeXt

Maternity and Paternity Leave: Are You Prepared (Financially)?

By: Abby VanDerHeyden, CFP®
Financial Planner

Does your employer offer a formal maternity/paternity leave policy? If that's something you anticipate needing in the near future, you'd better find out! The U.S. doesn't require employers to offer it. And even when they do, it could be in the form of unpaid leave. Can your budget handle a financial hit like this, plus the expenses associated with a newborn?

If you have access to maternity or paternity leave through your employer, it may be paid, unpaid or a combination of both. If your employer offers either a combination or unpaid policy, some advance planning might be necessary to ensure you're financially prepared.

Start by calculating the amount of lost income you'll experience before and after childbirth. That number is your minimum savings goal. Then, set up recurring weekly/monthly automatic transfers to a savings account earmarked for parental leave expenses. Another way to replace lost income during leave is to save vacation and/or sick time to use before and after your baby's arrival.

Investigate additional options

Besides building up your savings account and accumulating vacation days, another option to explore is short-term disability insurance. This benefit, sometimes provided by employers, would benefit only expectant mothers, not fathers or adoptive parents. Some short-term disability policies consider childbirth to be a qualifying disability and will replace a portion (usually 50- to 100 percent) of salary. You'll need to determine if your employer's policy covers childbirth. If it does, make sure you understand the elimination period (number of days you must be disabled before benefits will pay) and benefit period (length of time a policy will pay benefits during disability).

Employer doesn't offer short-term disability? If you're preplanning (prior to pregnancy) consider purchasing an individual short-term disability policy. Individual policies can also be purchased to supplement an employer-sponsored policy if its benefits don't fit your needs.

If you're enrolled in a high-deductible health insurance plan (HDHP) through your employer, you can establish a health savings account (HSA). Maximizing contributions ($3,450 in 2018 for individual; $6,900 in 2018 for family) to an HSA prior to childbirth could be beneficial. Not only are contributions pre-tax but withdrawals for qualifying medical expenses are tax-free. At the very minimum, make sure your HDHP deductible is covered by your HSA. That will allow you to concentrate on the health costs associated with childbirth.

Flexible spending accounts (FSAs) can also be used as savings vehicles for childbirth expenses. If your employer offers an FSA, contributions made (maximum contribution of $2,650 in 2018) are pre-tax and withdrawals for qualifying medical expenses are tax-free. Unlike an HSA, FSAs have a "use it or lose it" provision. To avoid losing your contributions, spend the amount you've contributed to your FSA on childbirth or other medical expenses by year-end.

Childbirth and getting acquainted with your new baby are memorable moments you'll cherish for a lifetime. Don't let financial worries spoil that precious experience!

Contact Abby if you have questions or would like additional information regarding this topic.

Industry News Cont.

Reflections from 18,885 Feet

Industry News. cont.

But if you're holding a nicely-appreciated investment that's trading at a high valuation, it's okay to sell it and look for lower-valuation investments. All else being equal, lower-valuation investments offer higher return potential than higher-valuation investments. Oftentimes, investors seeking that last dollar would have been better off by taking profits sooner.

For us, the decision to stop at Stella Point and begin our descent proved to be fortuitous. Our day ended 12 hours later at 6:00 p.m. We were at 10,000 feet (9,000 feet lower than the summit). Had we taken an extra two hours to reach the top, we would have arrived at camp well past sunset. That would have created a few logistic issues for many people on our team. And then there was the fact that we'd been struggling with extreme fatigue and dehydration since the afternoon. That day, while exhilarating and rewarding, was one of the longest days of our lives. And that was without the additional time it would have taken to hike to Uhuru Peak.

Our journey was filled with both breathtaking and scary moments, and we overcame obstacles that maybe we shouldn't have been able to overcome. We were fortunate to be with experienced climbers and guides that kept us on target, which is certainly relevant to investing. To be fair, I believe we were blessed with a certain level of naivety, although I wouldn't necessarily tie that lesson to investing!

For me, the real lesson from climbing Kilimanjaro was to remind me of the importance of maintaining focus and discipline—of having a plan and sticking to it despite the obstacles. And that's a great strategy to have when investing.

Contact Bill if you have questions or want additional information regarding this topic.

Bill & Maurya with their guides, Mister (L) & August (R)

- **We hope to see you at our BFC Time with Santa on Saturday, December 8th from 10:00 a.m. - 12:00 p.m.!**
- **It's nearly year-end! If you still need to take your RMD or make charitable contributions prior to year's end, please be sure to contact us.**

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Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

Nov. 22	**Thanksgiving Day**
Nov. 23	**Day After Thanksgiving**
Dec. 25	**Christmas Day**
Jan. 1	**New Year's Day**

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