Captain's Table — Have an Exit Strategy

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CAPTAIN'S BRIEFING:

- **Although there was movement in the fund scoring, all 4 funds at the top of the list last month remained there this month.**
  - **NO CHANGES in the models**
- ***Make sure you are keeping track of your trade dates for the 30-day hold period!***
- **UPGRADES made to the Velocity Score Ranking (*see USPFA.org*)**

HAPPY NEW YEAR!!

We hope that you and your family had a wonderful and safe holiday season and we wish you a healthy and prosperous 2016!

LOOKING BACK ON 2015:

What a difference a year makes. Well, usually … but not last year. 2015 was a year rife with divergence and volatility. The U.S. dollar soared relative to most other major currencies, and oil continued to plunge; the Fed finally raised rates in the U.S., while the European Central Bank (ECB) reduced rates there; the world's developed economies grew modestly, while emerging markets slowed. Uncertainties and geopolitical issues were plentiful, causing markets to gyrate wildly. The overall results were mostly negative for global stock and bond indexes.

THE POLICY-MAKERS' MONTH

Last month we highlighted a couple of key meetings slated for December: the OPEC meeting on the 4th and the Federal Reserve meeting that concluded on the 16th. Additionally, during December, the International Monetary Fund (IMF) added the Chinese Yuan to its basket of key international currencies used for foreign exchange reserves. The IMF does a review every five years, and while the Yuan was added, it was done so to a smaller degree than initially projected.

Most market participants were betting on a Fed Funds interest rate hike in December. Modern central banking is as much an exercise in effective communication as it is economic analysis, so an intense amount of scrutiny is now being applied to every word in Fed statements, meeting notes, and press conferences. It's become somewhat of a circus, and the focus will now shift to the narrative of how the Fed will communicate and implement their plan to raise rates over the next several quarters. When will they increase rates next? By how much? Are they worried about the strength of the U.S. dollar? How much importance will the Fed place on declining oil prices?

Plunging oil prices were a huge headline all through 2015 and their precipitous fall absolutely clobbered the energy sector. We're now teetering around prices we last saw during the depths of the financial crisis in February 2009, when demand evaporated due to a reeling world economy. OPEC left its output policy unchanged in their December meeting, even though the cartel "pledged" to reduce production in the future. OPEC's strategy to cripple higher-cost producers (aka frackers and shale players) is very much still in play. Also, the U.S. ban on exporting oil was lifted in a tax bill passed last month, which will only add to global supply in the future, a factor that should apply even more downward pressure to oil prices. Add to all this that Iran is gearing up for a return to the list of global oil market suppliers and, barring some geopolitical event, oil's dark winter could continue indefinitely as massive supply meets with demand that is lacking due to subdued global growth.

A STEP BACK

It is wise to take a step back from the crowds, all of the noise, and the many distractions that the investing world shoves in our faces. We need to ask ourselves, where are we, and what's really going on in the world? In the U.S., it looks like we're floating around in the mature phase of the business and market cycle. Profit margins are at historical highs. The Fed has started interest rate hikes due to its belief that this almost fully-employed economy is getting healthier, and that is not necessarily a signal that we're at the onset of a bear market or a recession. It does tell us that stock market gains will probably have to come as a result of increases in revenue due to better sales, as margins are about as stretched as they can get. At some point, the U.S. consumer has to come to the rescue and start purchasing more.

And while we're on that topic, where has the U.S. consumer been? Typically, lower gas and energy prices mean more discretionary cash in the hands of consumers, who usually spend this extra money on goods and services. As a stronger consumer feels more confident, he usually spends more, which drives up corporate revenue and profits, which in turn supports higher equity prices. So far, the "cheap gas" windfall to consumers is not being spent on goods and services.

Personal Saving Rate 1/1/05 to 11/1/15

Source: U.S. Bureau of Economic Analysis

That extra cash is mostly being put away in savings, as evidenced in the personal saving rate data. During pre-crisis years of 2005-2007, the savers rate averaged around 3%. In the years following 2008, the savers rate increased to well over 5% and got as high as 11% in December of 2012. That was evidence of a lack of consumer confidence. When people are unsure about their futures and their jobs, they (wisely) don't spend as much. However, the savers rate dropped back below 5% in 2014 but, since then it has hovered at just over 5% for all of 2015. It appears that consumers are either using their gas savings to pay down debt or add to their investments and savings accounts.

What about the global markets and economies? How did they fare in 2015? The strong U.S. dollar was favorable for U.S. imports as foreign goods were cheaper, but it was hard on U.S. exporters, whose goods became more expensive, which hurt sales. So, a strong dollar is generally bad for the U.S. in terms of trade but is good for the rest of the world selling goods to the U.S. consumption behemoth. To add to the strong U.S. dollar dilemma, many countries have allowed their currencies to float lower versus the dollar, countries like China, Argentina, and Azerbaijan, to name a few.

However, while there have been a number of headwinds, the global economy is still growing, albeit at a sluggish pace. While there are troubled countries and regions all around the world like Russia, much of Europe, the Middle East, and Latin America, many central bankers are following the U.S. script of "easy money" via low interest rate policies and capital injections. These central bankers are trying to create tailwinds that will promote economic growth by fostering an environment where profitability rises, tax receipts increase, and their citizens can happily go on about their lives.

Velocity Composite Fund Score™ Ranking

Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
DLCGF	Large Cap Growth Fund	**1216**	-3.31%	2.77%	-4.90%	-5.11%	37.65%	64.77%
DSMCE	Small/Mid Cap Equity Index Fund	**1142**	-6.19%	-0.13%	-10.48%	-6.14%	31.39%	51.25%
DS500	SP500 Equity Index Fund	**1099**	-3.52%	3.71%	-1.93%	-0.11%	45.82%	75.41%
DIEIX	International Equity Index Fund	**1094**	-4.13%	-0.26%	-8.84%	-2.09%	9.83%	15.15%
FCNKX	Fidelity ContraFund	**1059**	-4.45%	2.44%	-1.45%	4.56%	49.82%	77.94%
DSMCG	Small/Mid Cap Growth Fund	**1014**	-3.80%	0.77%	-6.13%	-1.82%	43.92%	67.87%
DLCVF	Large Cap Value Fund	**1005**	-3.31%	2.77%	-4.90%	-5.11%	37.65%	64.77%
RRRZX	Deutsche Real Estate Securities Fund	**971**	0.77%	5.03%	7.51%	0.12%	NA	NA
DIEFX	International Equity Fund	**926**	-4.13%	-0.26%	-8.84%	-2.09%	9.83%	15.15%
DSMVF	Small/Mid Cap Value Fund	**896**	-3.55%	0.68%	-6.68%	-5.95%	38.95%	66.29%
DDBFX	Div Bond Fund (Actively managed)	**865**	-0.04%	-0.93%	0.90%	0.16%	4.64%	16.71%
GOBSX	Legg Mason Global Opp Bond Fund	**856**	-1.79%	-1.69%	-4.84%	-8.53%	-6.55%	14.08%
DBIXX	Bond Index Fund	**846**	-0.04%	-0.93%	0.90%	0.16%	4.64%	16.71%
DLC20	LifeCycle 2020	**781**	-1.77%	0.05%	-2.51%	-1.65%	12.39%	25.32%
DEMEI	Emerging Markets Equity Index Fund	**440**	-6.16%	-6.05%	-20.08%	-17.38%	-25.64%	-28.09%
DEMEQ	Emerging Markets Equity Fund	**412**	-6.16%	-6.05%	-20.08%	-17.38%	-25.64%	-28.09%

APPROXIMATE Future Publication Dates

2/3/16

3/3/16

4/5/16

5/4/16

6/3/16

7/6/16

8/3/16

Definitions & Notes:

1. Tickers are created for convenience, but do not exist outside this newsletter. The majority of the funds in the Delta Plan are not really mutual funds. They are composites or comingled funds, etc. This creates two problems: 1) how our software references them (consequently, we need to create a ticker). You will use the fund name to trade. *REAL-TIME DATA* from these "funds" is used to make all calculations.

2. The funds above were selected to work, using the model system. There are other funds in the plan that are not used. There is no reason to have multiple international or emerging market funds, for example.

The Velocity Composite Fund Score Ranking combines the Velocity (speed of advance of a fund compared to all other funds) with its Buy Point Score (how close the fund is to a recent bottom). This composite score is used to rank all available fund choices. In defined Bull Market advances, the system uses the Top 3 funds in the Aggressive model and the Top 4 in the Moderate and Conservative models.

In Defined Bear Market periods, this ranking is provided for information purposes and for those who are "doing their own thing" and would like to know how the system views the funds. Rankings dates are the last business day of each month. The actual price history of each fund is used to calculate the score.

Delta 401k Plan Conservative Model

Symbol	Fund Name	Allocate
FNSXX	Fidelity Institutional Money Market Portfolio	60.00%
DLCGF	Large Cap Growth Fund	10.00%
DSMCE	Small/Mid Cap Equity Index Fund	10.00%
DS500	SP500 Equity Index Fund	10.00%
DIEIX	International Equity Index Fund	10.00%
		100.00%

Delta Pilots 401k Plan Moderate Model

Symbol	Fund Name	Allocate
FNSXX	Fidelity Institutional Money Market Portfolio	36.00%
DLCGF	Large Cap Growth Fund	16.00%
DSMCE	Small/Mid Cap Equity Index Fund	16.00%
DS500	SP500 Equity Index Fund	16.00%
DIEIX	International Equity Index Fund	16.00%
		100.00%

Delta Pilots 401k Plan Aggressive Model

Symbol	Fund Name	Allocate
FNSXX	Fidelity Institutional Money Market Portfolio	19.00%
DLCGF	Large Cap Growth Fund	27.00%
DSMCE	Small/Mid Cap Equity Index Fund	27.00%
DS500	SP500 Equity Index Fund	27.00%
		100.00%

- **NO CHANGE in models**

- IN A MONTH WITH TRADES—

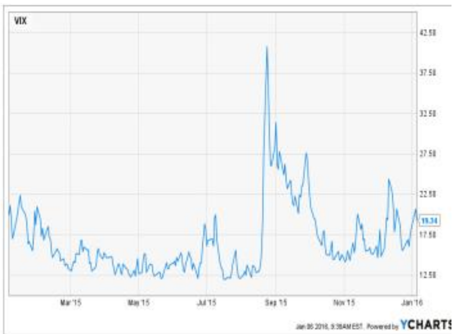
  THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

- **READ: If your 401k plan has *any* trading restrictions, you must keep track of your buy and sell orders. Fidelity does a poor job of defining what excessive trading is and has expanded that definition to include all funds.**
- **Future Contributions:** The models work smoothly if you direct ALL future contributions into the money market account. Then, they will be automatically invested into the correct allocation when you make changes to follow a model.

Is your credit card about to expire? Have you already received a new card OR received a new card because of vendor security issue?

To update new CREDIT CARD information BEFORE your credit card expires, either call us at 717-569-8162 or "Update Credit Card Information" under the Member's Tab.

VIX - The VIX, an ETF that tracks the volatility of the U.S. stock market, spiked over 40% at one point in December, before settling down some at near month-end. It's up again so far in 2016.



Worry-Free 401k Flight Path Models™ - Delta

DAL —Delta Air Lines, Inc. (DAL) outperformed its U.S. airline peers and the U.S. stock market in 2015, finishing up more than 5% for the year. DAL was negative for the year heading into December, but posted strong gains during the holiday month.

Delta Pilots 401k Plan (as of December 31, 2015)

Performance Stats

	Year End	1 Month	1 Year	2 Years	3 Years	5 Years	10 Years	Inception
Conservative Model	-6.07%	-0.80%	-6.07%	-2.00%	6.02%	11.80%	35.40%	74.80%
Annualized				-1.01%	1.97%	2.26%	3.08%	3.38%
Moderate Model	-9.58%	-1.20%	-9.58%	-3.35%	10.53%	18.70%	64.10%	156.30%
Annualized				-1.69%	3.39%	3.49%	5.08%	5.76%
Aggressive Model	-9.89%	-1.50%	-9.89%	0.30%	17.10%	29.70%	96.00%	271.00%
Annualized				0.15%	5.40%	5.34%	6.96%	8.09%
S&P 500	1.38%	-2.60%	1.38%	16.15%	45.00%	73.50%	71.10%	67.99%
				7.77%	13.19%	11.65%	5.52%	3.17%

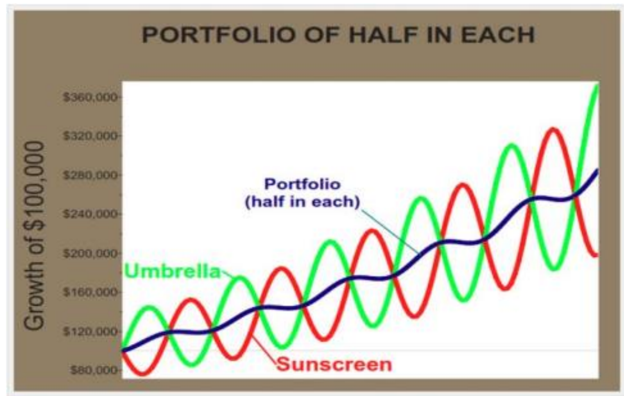
When diversification fails, have an exit strategy.

Investing has changed in recent years. Long gone are the good ole days of the '80s and '90s when stocks seemed to go up every day and all you had to do was buy one ... any stock. Or buy a share of the latest and greatest mutual fund. These products gained wide popularity during this time because they allowed even small investors without substantial capital to achieve diversification through access to a basket of stocks. Diversification remains a key tenet of sound investing. It can help you reduce your investment risk by investing in companies that are non-correlated. For instance, take a look at this story and the accompanying chart below. You may have heard it before, but it goes something like this:

Say there are two companies: one that sells sunscreen and another that sells umbrellas. An investment in the company that sells sunscreen does great when the sun is out. But when the bad weather rolls in, sales hit the skids. Conversely, umbrella sales surge when it rains, but suffer dramatically when it's nice and sunny out. In this example, umbrellas and sunscreen are negatively correlated.

To minimize your investment risk, an investment should be made in both companies. An investment split or diversified in each company should produce a decent and consistent return rather than alternating between great and terrible. Finding investments that are perfectly correlated in a very complicated world is difficult to say the least. But that is the idea behind sound risk management.

If only it were this easy. Today, there are many challenges to even a well diversified portfolio. The list of threats is long and includes high frequency trading by computers that sometimes go bonkers, a growing short term trading mentality on Wall Street, and the struggle to find real non-correlation in markets. Markets are becoming more correlated than ever. The U.S. market and its economy is becoming increasingly tethered to other global markets and economies, making diversification a growing challenge. Add in massive monetary policy action and manipulation from central banks around the world, and the unintended consequences that most certainly will follow, and you have the makings of a more volatile market, increasing the likelihood of a systemic problem that can bring down markets, much like what we saw in 2008. Even a diversified strategy can sustain heavy losses.



The idea behind diversification is that when one asset is taking a loss, there's a good chance that one of the others will be making offsetting gains. Hence, with a well-diversified portfolio of non-correlating assets, the portfolio can be quite stable, despite the fact that the underlying individual assets in the portfolio may be rising and falling dramatically in value (like in the graph above). But what if there are times when this doesn't work like it should? What if conditions are such that no one wants to own sunscreen or umbrellas? Not because it's not raining or sunny, but because there is a perceived risk to owning any stock. This happens from time to time and when it does, it is painful for investors. Stocks have lost significant value at times, most recently 38% in 2008 and over 34% in a period during 2001-2002. And given the seemingly tenuous climate for stocks globally, another event of this magnitude occurring sooner or later can't be ruled out.

A young investor with a long career and years of future earnings ahead may choose to ride through these periods and stay committed to his investments. But this "buy and hold" approach is harder to stomach for retirees or those knocking on retirement's door. Periodic investment losses are normal and to be expected, but significant losses like 20% or more can have a profound impact on one's retirement picture, especially if they occur with little to

(Continued on page 6)

no years of earnings potential left. Those types of losses can be doubly detrimental if you are living off regular monthly distributions from the portfolio. Protecting ones wealth can become just as important as growing it, if not more so, at times.

Managing money is all about managing risk. So when the risk is high for owning any stock, it pays to have a defined exit strategy: a point at which stocks are pared significantly or removed altogether. Small pullbacks in stocks are normal and healthy for markets, but the severity of an impending decline is always an unknown and highly unpredictable. During these times, having a proactive risk mitigation approach can potentially limit huge losses. If nothing else, having little to no exposure to stocks when there is severe downward pressure offers invaluable peace of mind. Rest assured, cash is not a long term investment strategy, especially at today's rates, but holding cash can be a great short to medium term strategy to protect against a stock market in freefall.

Good investment planning requires a disciplined well diversified plan for sure. But when traditional money management principles fail or are suspended indefinitely, like we have seen in recent years and are likely to see again soon, a defined exit strategy can serve to preserve your retirement plan.

Weston

__Weston Pollock__ is a Managing Partner at Smith Anglin Financial, and leads the firm's marketing and business development. He regularly meets with prospective clients, counsels existing clients, participates in investment portfolio analysis and develops materials for communicating with the firm's clientele and target markets. He holds a BBA in Finance and Real Estate and numerous securities licenses and designations.

***Experts at the Captain's Table**: All members have a wide and varied background in all areas of wealth management. Most importantly, the members have worked extensively with professional pilots at American, Delta, Federal Express, Southwest, United – and every airline that merged into these along the way – for more than 85 years combined. They know your world, your benefits, how to retire in the best way, and what is needed at each life-stage in retirement to get you to your goal.*

Is there a topic you'd like discussed in the Captain's Table pieces? Email us at airways@uspfa.org.

WHAT DID WELL IN 2015?

In two words, not much. Most major assets classes – stocks, bonds, commodities, etc. – were negative or barely positive for the year. High profile investors like Warren Buffet had a hard time, too. Buffet's Berkshire Hathaway portfolio was down about -12% for the year, whether you look at his class A or class B shares. The "smart money" as represented by hedge funds had mostly poor results as well. There are dozens of hedge fund strategy categories out there, and most were negative for the year with only a few types of hedge funds posting positive results (see some examples here on Hedge Fund Research's website).

Investors who experienced positive returns did so primarily by having concentrated portfolios. Investors who loaded up on Facebook, Amazon, Netflix, and Google did well last year. Business Insider, a financial publication, ran an article that highlighted the performance of these stocks, plus a few others, that did well in 2015 (more info here: Fang and Nosh). The list isn't that long. If you had put all of your money in the listed stocks, you would have done well. However, that type of concentration is contrary to how most people should invest. Concentration, the opposite of diversification, can create wealth, but it can quickly destroy wealth as well, if you buy the wrong companies or sectors (see above on the Energy Sector).

Most investors are looking for both growth and stability in their investments, and in 2016, we're likely to see more volatility and a steady dose of interest rate hikes. Investing basics like asset allocation and diversification have not done a lot for investors over the past two years, but we firmly believe these are still the fundamental elements of a prudent investment strategy.

Advertisement

... from the desk of Rex Moxley at Smith Anglin

Open Letter to Pilots Who Want to Retire Comfortably Someday

A brief message to pilots who know they've played by the rules, done things *just* like they were supposed to, but who saw their investments take a huge hit back in 2008 and now are witnessing a struggling economy that they plan to retire into soon. And frankly, they are deeply concerned about how it is looking out there.

I've personally talked to over a thousand pilots since 1977 - by phone, email and in person. I've met with pilots, who've asked me for advice on how to help them pull off a solid retirement as they try to balance paying for college for their kids, taking care of parents, and coping with the huge pressure to have everything lined up for a solid "final approach" to retirement. **I can tell you that after all these conversations,it is definitely still possible to pull all the chaos and pieces into a unified picture <u>and make retirement work</u>. *Without a doubt*.**

It starts with GROWING your 401k

For some of you, the USPFA newsletter works great. I'm glad. It's only shortcoming is that it *isn't personal investment advice*. It's a newsletter.

For others, who do not have the time or inclination or consistency to follow the system *exactly*, our firm's **401k Autopilot Program℠** is their First Class ticket to maximizing their 401k. By the way, *following the system exactly takes all three of those things* — time, inclination and consistency — to pull off. Hundreds of pilots in the 401k Autopilot Program℠ realize that.

<u>**Steady growth, keeping your money in the best investments and keeping your losses small ALL depend on *actions—either yours or someone else's*.**</u>

Every time you miss a move in the model portfolios or fail to make it in a timely way, you've reduced your chances of an optimal outcome.

<u>**Having the 401k Autopilot℠ on your side takes the burden off you of having to do two jobs at once by automating the investment management for you, and you instantly get an experienced, professional team on your side.**</u>

The 401k Autopilot℠ *also* has the ability to take the whole thing offline (whenever it's within the 401k rules), if a catastrophic event were to happen, like 9-11 was. You can take the first step by requesting the 401k Autopilot℠ Program Starter Kit at: http://www.smithanglin.com/autopilot-starter-kit/

Smith Anglin Financial is an SEC Registered Investment Advisor.

What Cities Do <u>Retirement & 401k Autopilot</u> Pilots Call Home? Almost Everywhere in America! Pilots often ask where our clients live. Here is a Google map showing the cities on the "mainland" where our clients live. Add to that Hawaii, Alaska and a few countries that aren't shown and you get the picture. We're always as close as your phone, an email, or a short flight, if necessary. We've learned that most people are more comfortable working with a professional investment advisor with a long history of expertise in the field, even if they live in another state.

➔ If <u>you're</u> approaching retirement, NOW is the time to have a conversation and get everything lined up for your "final approach."

Our main focus has always been about successful retirement. We specialize in helping airline pilots who are ready to make the *final*, **"final approach"** and start enjoying the fruits of a successful career. Candidly, it is easier to retire than it is to hang onto all your money in retirement. We've successfully done both for our clients—for more than 32 years and counting.

<u>**There's a checklist you need to walk through to get to a successful retirement**</u>. **As you know, going down a checklist before a flight often reveals things you might have forgotten about.** Much of what you read in the financial press is silly, wrong or even dangerous to your financial security. If you had followed their advice in 2008, your retirement planning would probably be very tense and frustrating. Who wants that?

We've made it easy for you to chart the path to your "final approach," in our FREE "14 Days to a Secure & Prosperous Retirement Course!"

click here **to sign up for this, no-strings attached, free email course.**

In either case—401k Autopilot℠ or Retirement management – there is a $250,000 minimum to establish an investment management relationship. This minimum will likely increase.

<u>**Call our office to schedule a conversation at 888-254-1727.**</u>

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