CAPTAIN'S BRIEFING:

- **CHANGES in ALL the models.**
- ***Make sure you are keeping track of your trade dates!***

Knocked Down but Not Out

Markets have been treated like a punching bag over the first half of the year, taking blow after blow from a host of issues. The utter collapse in commodity prices wreaked havoc across world markets that struggled to adjust to the rapid change. The surging U.S. dollar hurt large U.S. multinational companies who found it harder to sell their now more expensive goods and services in foreign markets. Divergent monetary policies between the U.S. and the rest of the globe has left investors worried about consequences. China's economic slowdown and multiple market meltdowns continue to reverberate around the world as the globe's second-largest economy struggles to grow as it has in the past. And there are other issues of impact as well: weakening corporate earnings, historically low bond yields, historically high levels of sovereign debt, seemingly all of Latin America in political and economic turmoil, Japan's attempts to right itself with negative interest rate policies. The list is exhausting. And then there was Brexit just this month – the United Kingdom's (U.K.'s) unexpected decision to leave the European Union (EU), which sent markets reeling.

Captain's Table — Emotions and Decision-making

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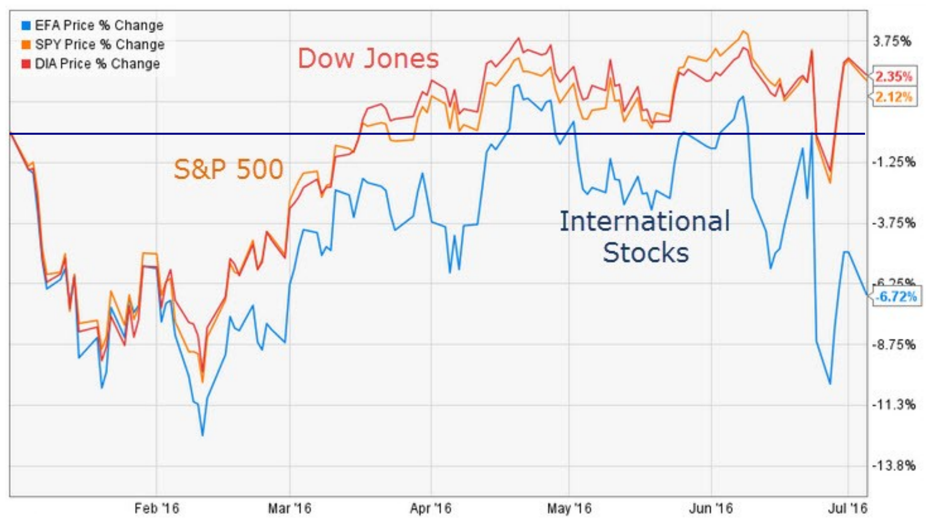
First Half of 2016



Before we dive into the Brexit drama, let's take a quick look at the major stock markets and bond indexes for June and the first half of the year.

European large company stocks, as measured by the FTSE 100, are actually up 5.0% for the month of June and 8.0% for the first half of the year. The S&P 500 is up 0.3% for the month and 3.8% for the year. U.S. small company stocks, as measured by the Russell 2000, are down -0.1% in June but up 2.2% for the year. And the MSCI All Country World Index without the U.S. is down -2.5% in June and down -2.0% for the year. Interestingly Emerging Markets are up 3.3% in June and 5.0% for the year. Not surprisingly, the volatility index has climbed over the month of June after quieting down from a noisy January and February.

Bonds have been a welcome surprise this year. Going into the year, the consensus view was that bonds, already suffering from record low yields, would suffer even more from tightening monetary policy in the U.S. Add to the mix negative interest rate policies from the European Central Bank (ECB) and the Bank of Japan (BoJ), and the outlook for bonds got very muddied. It appears that the first half of 2016 has eased some of those anxieties as bonds have benefited from being the safer haven when compared to stocks, and negative interest rate policies have somewhat backfired so far. The Barclays Capital Aggregate Bond Index was up 1.8% in June and 5.3% for the year. High yield bonds were up 0.9% in June and 9.1% for the year. Global bonds were up 5% in June and 15.0% for the year.

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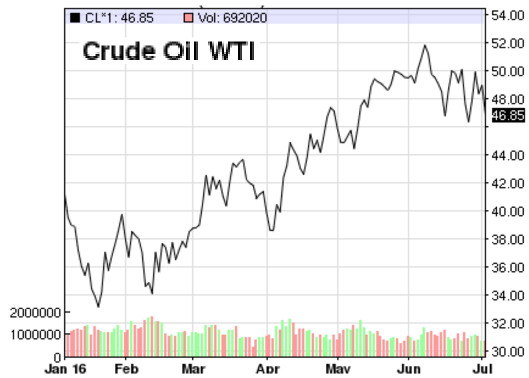
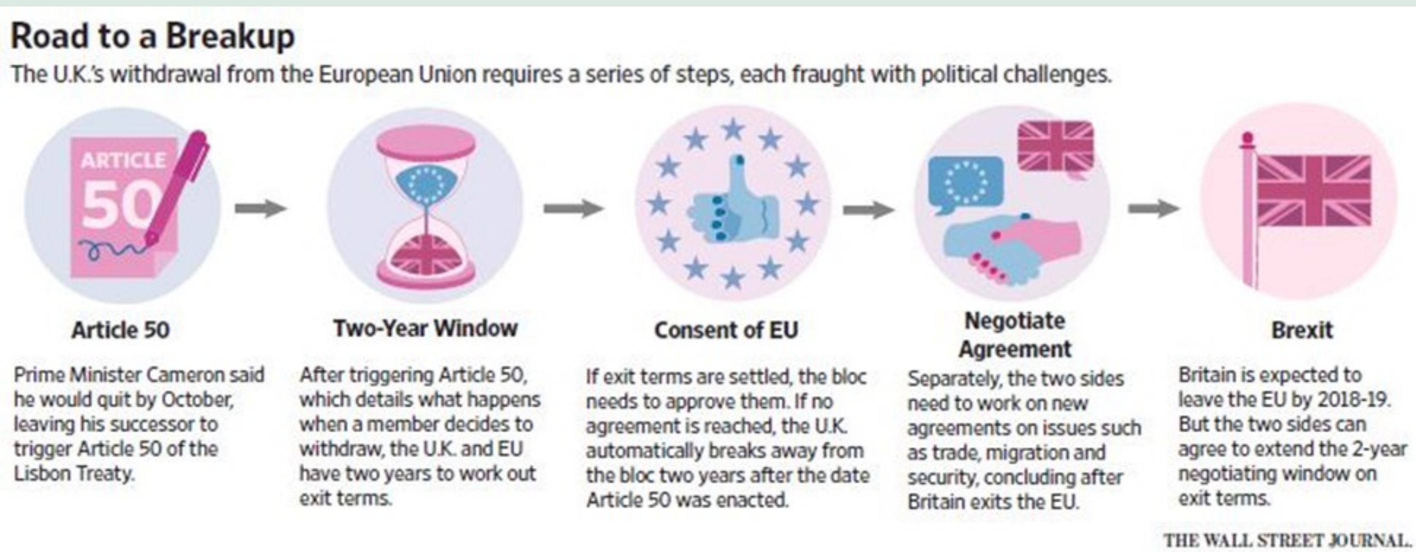
Commodities and real assets have enjoyed some appreciation year-to-date as well. Oil prices have climbed by nearly 30%, and several factors play into this change: the dollar giving back some strength, fires in Canada interrupting supply, and the drop in rig count finally impacting oil inventories. There is still not much near-term clarity on the oil war between OPEC producers and the U.S. frackers and shale players. And this lack of clarity on top of heightened uncertainty and fear probably explains a lot of the 22.9% increase YTD in the price of gold. Gold ramped up almost 9.1% in June, and over half of that price change came after the U.K. referendum.



WHAT IS BREXIT? Well, maybe we should first go back to the beginning and answer the question, "What is the European Union?" Extreme nationalism greatly divided continental Europe during the first four decades of the twentieth century and culminated in World War II. After the war, European integration was seen as a means to bring together the countries and peoples of the area. This integration first started with a cooperative political community, and eventually, political cooperation translated to economic cooperation. Through various commissions, councils, and treaties, the EU came into being in 1993 and the Euro was adopted as its currency in 1999.

A political and economic entity like the EU—which oversees a vast geographic region and population—brings with it governance, rules, and regulations. Simply put, an EU member country concedes some of its sovereignty to join and remain in the group. Essentially, the U.K. was part of an exclusive club, and they paid monetary dues and were expected to follow the rules that govern all club members.

Fast forward to 2012 and Prime Minister David Cameron initially rejected calls for a referendum (a vote) on the U.K.'s membership in the EU. But later, in January 2013, Cameron gave into political will and announced that the government would, in fact, hold a referendum before 2017 in order to gauge public support. There were and are a number of questions from the U.K. people about the benefits they receive from membership, and ultimately they tie back to economics and politics. There are those who are unhappy with their economic situation who voted to leave, believing that EU membership was expensive and not worth the cost. The politics of the EU has been a long-standing issue in the eyes of some. Member countries essentially ceded some power in lawmaking to the EU, and the most contentious issue of late deals with immigration. With the Eurozone suffering from dismal economic performance, a lot of workers from less affluent EU countries have moved to the U.K. in search of work, and there is little the U.K. could do to control the influx of people.



All of this caused two camps to emerge: the ***Remain*** camp and the ***Exit*** (or Brexit) camp. Opinion polls in May had the vote near a 50-50 split, and that changed little leading up to the vote on June 24th. However, polling in that final week favored the ***Remain*** camp. U.K. betting houses had the ***Remain*** camp in the lead, forecasting about an 80% chance of winning, and this caused a lot of money to start flowing into stocks based on the expectation that the U.K. would vote to remain in the EU. While the results were in fact close, the ***Exit*** camp pulled off an upset, with 52% of U.K. voters casting their lot to leave the EU and only 48% voting to remain in the union.

(Continued on page 6)

Velocity Composite™ Fund Score Ranking

Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
J6560	Janus Core Pl Fixed Inc	**1035**	1.93%	2.33%	5.34%	6.47%	12.68%	20.02%
V1674	Vanguard Target Ret 2010 Tr Select	**998**	1.09%	2.20%	4.46%	3.19%	17.41%	30.59%
VSCIX	Small Cap Index Fund	**958**	0.26%	4.09%	5.40%	-2.85%	28.05%	58.42%
VEMPX	Extended Market Index	**876**	-0.11%	3.45%	2.97%	-5.27%	26.68%	55.35%
VIPIX	Vanguard Infl-Protected Secs Instl Shs	**874**	2.36%	2.34%	7.03%	5.71%	7.72%	14.84%
VBMPX	Total Bond Market Index	**812**	1.95%	2.55%	5.82%	6.83%	12.85%	20.69%
V1686	Vanguard Target Ret Income Tr Select	**789**	1.11%	2.22%	4.62%	3.60%	15.51%	27.48%
VSCGX	Vanguard LifeStrategy Conservative Gr	**771**	1.08%	2.41%	4.78%	3.53%	18.91%	29.81%
VIIIX	Vanguard Institutional Index Fund	**742**	0.26%	2.03%	4.05%	3.47%	38.72%	74.82%
VMCIX	Mid-Cap Index Fund	**685**	-0.07%	2.19%	3.84%	-1.13%	35.26%	63.17%
VWELX	Vanguard Wellington Fund Admiral Shs	**659**	0.78%	2.96%	5.26%	4.62%	26.93%	52.71%
V1680	Vanguard Target Ret 2040 Tr Select	**654**	0.03%	2.09%	2.95%	-1.62%	23.81%	42.70%
VSMGX	Vanguard LifeStrategy Moderate Growth	**616**	0.65%	2.27%	4.04%	1.56%	21.12%	35.34%
VWILX	Vanguard Intl Growth Fund Admiral Shs	**473**	-1.36%	1.55%	-1.13%	-8.35%	12.11%	11.88%
VPMAX	Vanguard PrimeCap Admiral Shs	**466**	-2.35%	0.05%	-1.50%	-0.25%	41.85%	78.64%
VTRIX	Vanguard International Value	**425**	-0.64%	1.60%	-0.06%	-11.63%	3.13%	5.27%
VWNEX	Vanguard Windsor Fund Admiral Shs	**419**	-2.22%	1.04%	-0.50%	-6.74%	23.95%	61.57%
VTPSX	Total Int'l Stock Index	**213**	-0.97%	1.57%	0.44%	-9.16%	5.68%	2.46%

APPROXIMATE Future Publication Dates

8/3/16
9/6/16
10/5/16
11/3/16
12/5/16
1/5/17
2/3/17
3/3/17
4/5/17

***** Target Date & International Fund Notes:** Vanguard is apparently now limiting ownership of Target Date Funds to one at a time. After a review of our trading history, the system has used two maturities the most: 2040 and 2010. For this reason, we are keeping these and eliminating the rest from the system ranking. This makes the system easier to follow.

Definitions & Notes: 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.

FedEX 401(k) Plan Conservative Model

Symbol	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Fund	60.00%
J6560	Janus Core Pl Fixed Inc	10.00%
V1674	Vanguard Target Ret 2010 Tr Select	10.00%
VSCIX	Small Cap Index Fund	10.00%
VEMPX	Extended Market Index	10.00%
		100.00%

FedEx Pilots 401(k) Plan Moderate Model

Symbol	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Fund	36.00%
J6560	Janus Core Pl Fixed Inc	16.00%
V1674	Vanguard Target Ret 2010 Tr Select	16.00%
VSCIX	Small Cap Index Fund	16.00%
VEMPX	Extended Market Index	16.00%
		100.00%

FedEx Pilots 401(k) Plan Aggressive Model

Symbol	Fund Name	Allocate
VMRXX	Vanguard Prime Money Market Fund	19.00%
J6560	Janus Core Pl Fixed Inc	27.00%
V1674	Vanguard Target Ret 2010 Tr Select	27.00%
VSCIX	Small Cap Index Fund	27.00%
		100.00%

- **CHANGES in ALL the 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.**
- **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.

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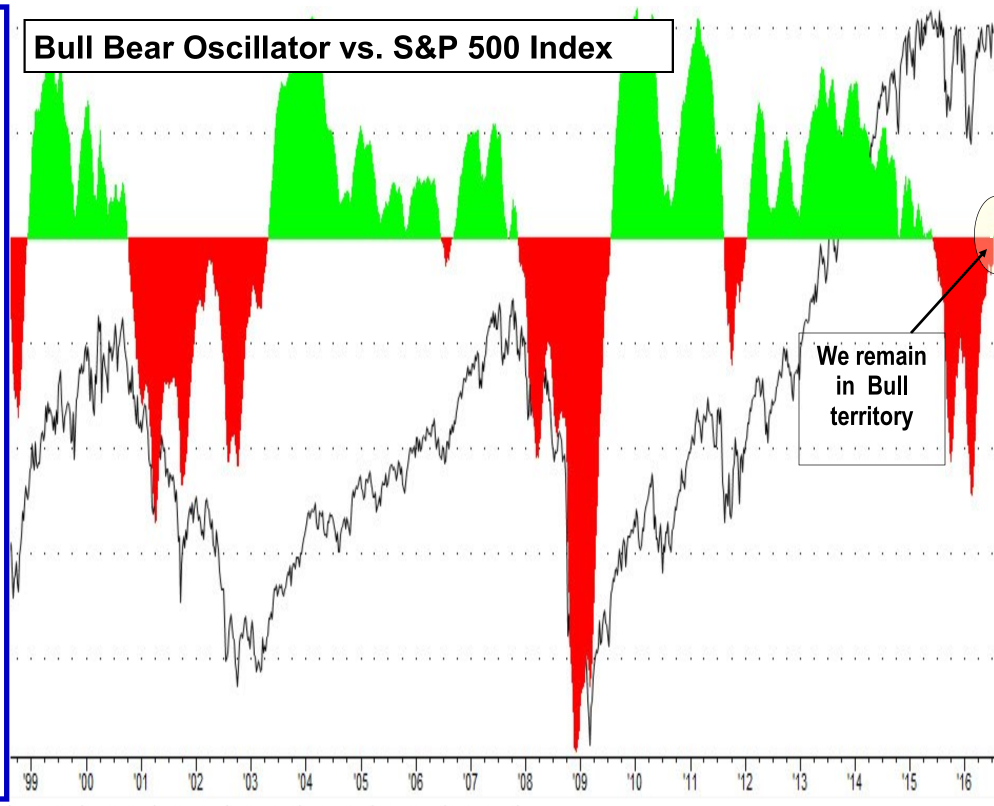
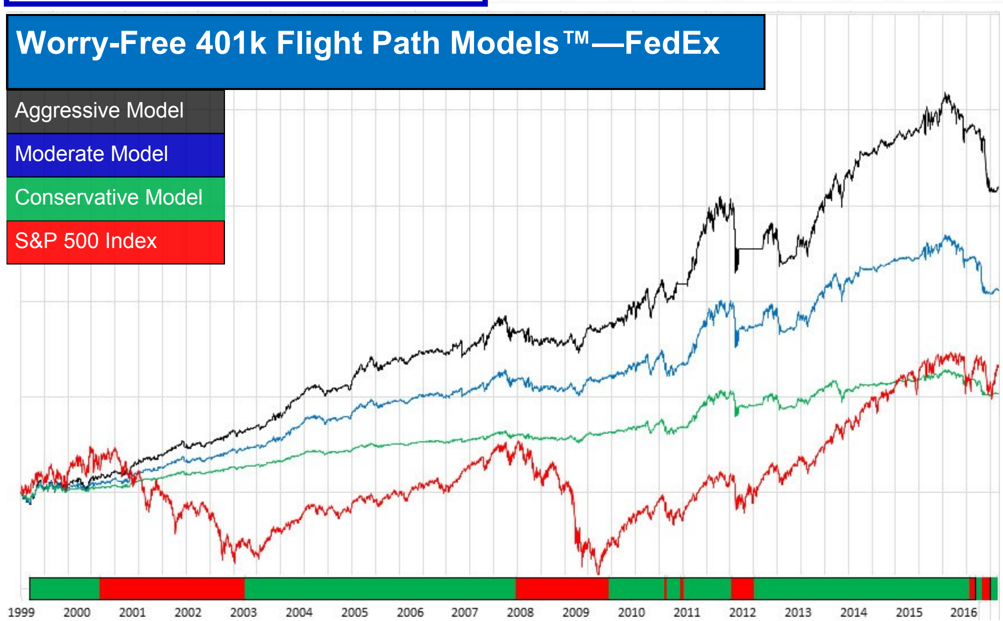
Fear & Greed Index

June was a crazy month for the markets due to the UK's referendum on leaving the EU. World markets advanced in the days leading up to the "Brexit" vote as polls showed a vote to remain the likely winner. However, after the votes were tallied and the Exit camp was declared the victor, markets plummeted for a few days, only to rebound sharply in the month's final three trading days. This optimism at month-end factored into June's "Greed" reading.

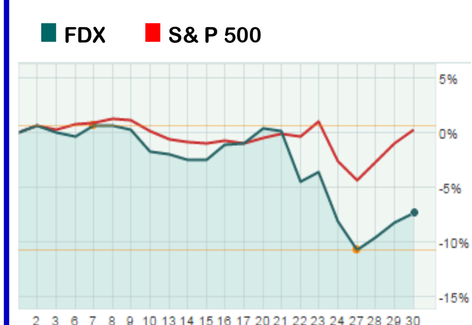
Bull Bear Oscillator vs. S&P 500 Index



Worry-Free 401k Flight Path Models™—FedEx



FDX—June couldn't end fast enough for FedEx. The stock was negative all month, and was down more than 4% even *before* the Brexit vote, the results of which sent the stock down another 7% on fears of how a changing UK may affect travel and trade. FDX rebounded some in June's final few trading days, but still closed the month out down 8%.



FedEx Pilots 401k Plan (as of June 30, 2016)							
Performance Stats							
	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model	-2.58%	-0.10%	-4.90%	6.40%	13.20%	27.80%	53.70%
Annualized				2.09%	2.51%	2.48%	2.56%
Moderate Model	-3.66%	0.30%	-7.80%	14.50%	24.10%	51.70%	114.30%
Annualized				4.62%	4.41%	4.26%	4.59%
Aggressive Model	-5.30%	-0.30%	-9.20%	28.10%	30.50%	74.70%	182.10%
Annualized				8.60%	5.47%	5.74%	6.29%
S&P 500	3.83%	0.30%	3.50%	39.20%	77.02%	104.65%	83.63%
Annualized				11.66%	12.10%	7.42%	3.64%

Emotions and Decision-making

Some time ago, one of my colleagues wrote a three-part white paper on how emotions can affect our decision-making processes. How it is next to impossible to remove the emotional bias from everyday decisions when it comes to finances. There was much discussion about how our brains process information and the paper even described the two sections of our brains that controlled specific functions. Although the brain uses both sections very efficiently most of the time, one of the sections of our brains is reasonably accurate at making short-term predictions and reacting to challenges. However, it has biases, systematic errors or short-cuts that affect specific situations.

These biases include things like *loss aversion* and *conservatism*. They also include a *hindsight bias*, an *anchoring bias*, a *recency bias*, a *bandwagon bias*, as well as, an *overconfidence bias*. They even include *decision paralysis* and the *status quo bias*. The bottom line is that while our brains are completely amazing in so many ways, without understanding and identifying how and why we may make decisions, they can leave us very vulnerable when it comes to financial matters.

I was reminded of all these emotions this month as we were dealing with the "Brexit" issues. I started thinking about how each client was taking in the information and processing it in their own personal way. Their past experiences, both good and bad, and how those would influence how they thought this issue would play out or what should be done about it. Many of my conversations came back to the question "what do we do now?" In some situations, a change was needed, as these types of situations can help reinforce what someone's real risk tolerance is. However, most of the conversations came back to the basic question: what has changed with regards to their long-term goals that would warrant a complete overhaul in the strategy?

This is not a new topic, and I am very aware of all the biases that must be overcome when trying to apply a consistent strategy to a long-term goal. But, I am not sure I had actually heard the term *short-termism*. The definition refers to an excessive focus on short-term results at the expense of long-term interests. In many situations, it seems the entire investing community has this problem. Shareholder value is thought to be created on a quarter by quarter basis. And some analysis of the global economic downturn suggests that the short-termism in regards to financial institutions and lenders are certain to have been part of the root cause. Accounting driven metrics and profit maximization can't always fully reflect the complexities of corporate management and investment, but these short-term hurdles can all too often cultivate misleading conclusions.

Without acknowledging how our brains work and overcoming the "fight or flight" emotions and our biases, we are hard wired to be terrible investors. And one of the most dangerous of all behaviors just might be called short-termism. That's a fitting way to describe a number of destructive actions: making decisions based on recent gains or losses, quickly turning over positions based on current news, making "fast money" trades and speculations, or overhauling an entire long-term plan based on short-term events.

It's okay to use your emotional side as a factor to help evaluate where you may fall on a risk-reward spectrum or to help determine what may be a suitable mix of stocks, bonds, and other assets for you. However, take a moment to stop and recognize all the biases that lurk in our minds and avoid letting reactive behavior be our own worst enemy.

Chris

Chris Lott, CFP®, CPA *is a Managing Partner at Smith Anglin Financial, and is a member of the firm's Investment Committee. He regularly meets with prospective clients, counsels existing clients, leads investment portfolio analysis and develops materials for communicating with the firm's clientele and target markets.*

He holds a BBA in Finance and Marketing 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.*

(Continued from page 2)

This surprise outcome sent markets into freefall. The FTSE 100 was down -5.6% at one point and the S&P 500 was sent down about -5.4%, but promises for a rate cut from the Bank of England helped world stocks reverse course and move higher. Central bankers continue to say and sometimes do whatever they can to save stocks.

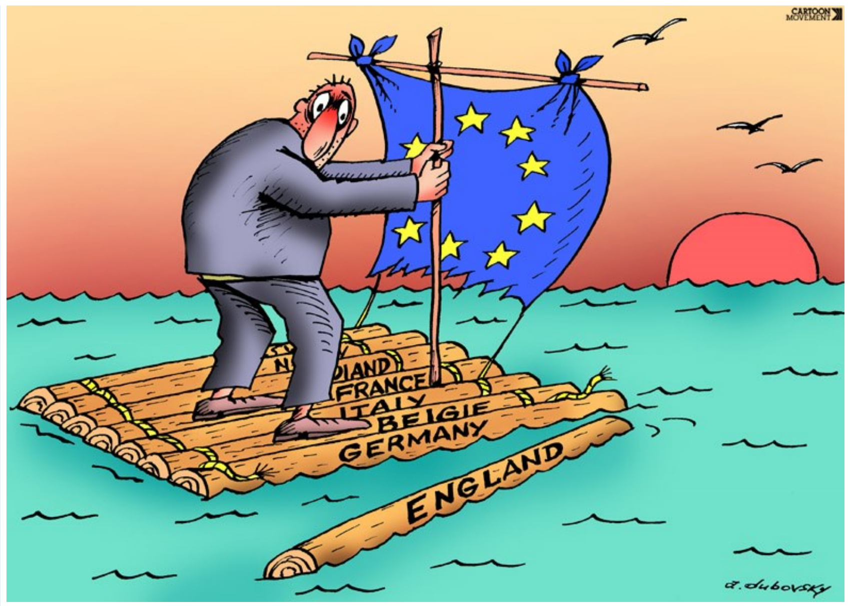
What's next?

The fallout from the U.K.'s Brexit vote wasn't seen only in the world's capital markets, it sent tremors through the houses of power as well. U.K. Prime Minister Cameron, who campaigned for the U.K. to remain in the EU, announced that he would be resigning from office in the next few months and would not be the one to invoke Article 50 of the Treaty of Lisbon, which formally initiates the "exit" process for a departing EU member. This means the U.K.'s EU departure will be delayed. In fact, the exit itself will likely take two years to conclude, if not more. The U.K.'s exit from the EU isn't really the biggest risk for Europe, the greater risk is the possibility of more EU countries following the U.K.'s playbook and holding referendums to exit themselves, which could cause the EU to be dismantled altogether. One would think that if you were an EU country considering an exit, you would wait and see how the U.K. exit works out before making the decision, but humans (and investors) are not always so rational.

So what do we know?

We know about the laundry list of social, political, and economic risks affecting the world's capital markets right now and we also realize that headlines themselves can cause short-term shocks in markets. Just look at the Brexit vote last week and the market reaction. The U.S. stock market sold off more than 5% in two trading days, and then made it back to basically breakeven in the next three trading days – a round trip in one week! We also know that making an investment decision based on a coin flip outcome is no better than betting on red or black at the roulette table. The best path is to invest prudently using a disciplined approach to manage short-term risks while seeking long-term growth and income.

Well, the year is only half over and if you have "headline fatigue," you may want to put in your mouthpiece. The second half of 2016 still holds a lot in store. Be ready for big headlines involving the Summer Olympics in Brazil, the continued spread of the Zika virus, Puerto Rico's debt crisis, the U.S. presidential election this fall, the U.K. prime minister election, and so on. But remember, it's all just Noise. Sometimes you wonder if you should do something different ahead of the next big event, but guessing is tough (again, people are not always rational). It's very easy to guess wrong, and it's difficult to be consistently right. The days following the Brexit vote do tell you something very important. Stocks didn't have to go very far down to find buyers. **Don't forget; there are two sides to every trade.**



We Getz Mail… "I have heard other pilots talking about doing an in-service rollover. What is that and why are they doing it?"

Simply put, if you meet certain criteria, you can move money out of your retirement plan account (401k, 403b, or similar plan) with your employer while you're still working. It's called an "In-Service Distribution" or "In-Service Rollover" (ISR), and it's completely okay with the IRS and your employer, if done correctly.

When and how can you do it?

Once you're 59 ½ or older, you can move money out of your retirement plan and roll it over into an IRA account that you'll need to set up outside of the Company. The money will no longer be in the Company plan, and the transfer won't generate any tax issues with the IRS, if done correctly.

Why does moving the money make sense?

- Investment Choices - You'll have access to many more investment choices outside of your Company's plan. Currently, you're limited to the investment options your employer chose to make available for you and your fellow employees within their retirement plan platform. After you roll the money over to an IRA, you'll have access to stocks, bonds, mutual funds, exchange traded funds (ETFs), and often separately managed accounts – meaning you'll have literally thousands more options to choose from.
- Control & Flexibility - You'll have greater control of your retirement assets in an IRA and you'll have the flexibility to decide which custodian you want to put your money with. Additionally, you'll no longer be restricted by the cumbersome rules of your employer's plan.
- Reduced Costs – You'll have the opportunity to reduce your costs by selecting investments with lower costs than those within your Company's plan.
- Risk Controls – You can elect to employ a professional manager who may use risk reduction strategies to avoid major value losses in your accounts.
- Increased Flexibility – Your IRA will have more flexible beneficiary provisions than existed at your Company's plan, meaning if you want to leave your assets to a non-spouse heir (your children or grandchildren, for instance), you'll be able to do that.

How much money can you move from your employer plan to your IRA?

The short answer is: It depends. Since each Company's retirement plan is different, the amount you can move varies from plan to plan. However, usually you can move up to around 80% of the account balance out of the plan and over into your IRA. Most retirement plans use a distribution formula which takes into account variables like contributions, vesting, and other items to determine the amount that can be moved out of the plan.

Do you have a question? Email us at airways@uspfa.org