

SEPTEMBER 2016

# THE EXPRESS ADVISOR™

A NEWSLETTER FOR FEDERAL EXPRESS PILOTS



Leading Authority on Successfully Investing Your 401k Plan

## CAPTAIN'S BRIEFING:

- **NO CHANGES** in the models.

- **Make sure you are keeping track of your trade dates !**

Captain's Table — Go to page 5

Student Debt Crisis—Part 1

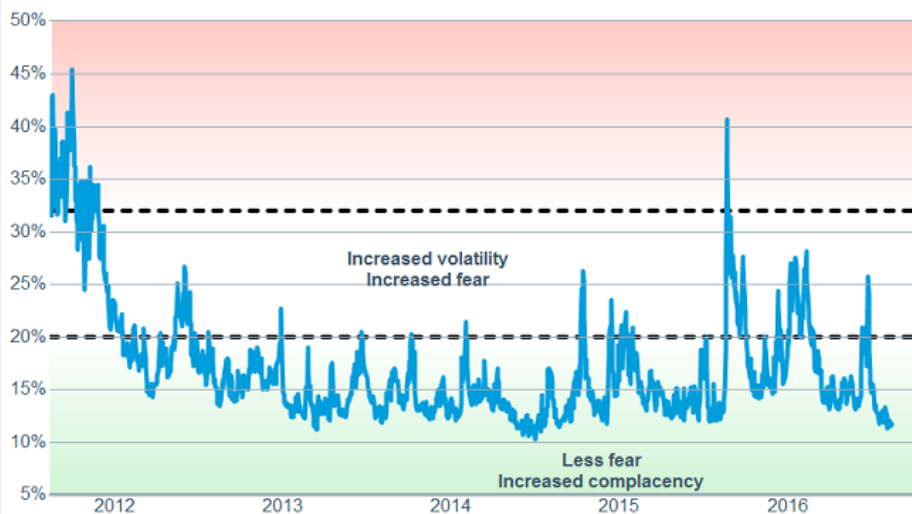
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If you slipped into a coma on August 1st and just regained consciousness on August 31st, you might have looked around and thought that you really didn't miss much while you were out cold. The world's capital markets were sitting right about where they started. The S&P 500 traded in a very narrow range with market volatility subsiding to near multi-year lows amid the traditionally slow summer vacation season, but there's more to the story. Sure, Congress wasn't in session (which is good, right?), and most of continental Europe seems to take all of August off every year anyway, but seasoned market watchers know that a lull in volatility like we've seen recently can't last forever. After the Labor Day holiday, Wall Street traders will come back to work which should help trading volume pick up, and you can be sure that politicians and central bankers will return with their "fixes" for problems that didn't just go away during a ho-hum final month of the summer.

— CBOE Volatility Index (VIX)

Source: FactSet, Chicago Board of Trade. As of Aug. 16, 2016.



## THE ECONOMY

The latest batch of U.S. economic data isn't great, but it also doesn't appear to point to an imminent recession. The economy is growing, but just barely. The latest estimate of GDP growth shows the economy was slightly weaker in the spring than initially thought. GDP expanded at an annual rate of 1.1% in the second quarter, down from a late July estimate of 1.2% - a number that was already far below consensus expectations when it posted. However, consumer confidence has firmed, due in part to continued improvement in the labor market, and wages that are finally starting to rise. Housing looks okay as well. Additionally, revolving consumer credit and bank loans are on the rise, indicating consumers may be more comfortable taking on debt. Unfortunately, business confidence remains subdued, reflected in weak productivity. A contributing factor to weak productivity is undoubtedly ongoing tepid capital spending due to lackluster small business optimism.

(Continued on page 2)

"You're flying toward an unknown financial future— WE HAVE CHARTS!"



(Continued from page 1)

In other markets, Eurozone confidence edged lower in August, suggesting the Brexit vote has started to take its toll on the single currency bloc. Now the European Central Bank (ECB) can add to its case for more stimulus to sustain the recovery and revive inflation, currently stuck at 0.2% in August. Other data released by Eurostat showed the bloc's unemployment rate unchanged at 10.1% (more than double the U.S.). The figures could push the ECB to launch additional stimulus as early as its next policy meeting on Sept. 8, which could involve extending the duration of its bond-buying program by at least another six months. Growth is at an absolute standstill in Japan. Second quarter GDP came in at 0.2% annualized as the extraordinarily stimulative policies of Japanese Prime Minister Shinzo Abe have failed to achieve liftoff.

In contrast to the developed world, emerging markets (EM) have had an active summer for several reasons. Aside from the potential for tighter global financial conditions and fading optimism on the strength of recoveries in Brazil and Russia, the rebounding growth momentum in China may soon begin to fade. Much of the fear that weighed on EM performance last year was derived from the risk of a sharp economic slowdown, or "hard landing," in China. After China's manufacturing PMI in 2015 hit the lowest levels since the 2008-2009 global financial crisis, it rebounded to near the highs of the five-year range. This suggests that the momentum that has lifted EM stocks may soon begin to fade.

## Central Banks

Readers of this newsletter know that central bank policy, in the U.S. and around the world, has been a major focus for several years now. Global central bank policies demand attention because of their scope and scale. The scope was massive: to save the global economy and prevent the collapse of financial markets. The scale of policy implemented has been largely unprecedented, with central bank balance sheets larger now than they have ever been before. Their continued experimentation with old and newly devised monetary tools is an unrelenting effort to spur economic growth, encourage spending, stimulate lending and force savers to put their money at risk in the markets. Will it work? We'll see. One way to evaluate monetary policy decisions is to consider whether they encourage or discourage growth. The U.S. central bank, our Fed, is desperate to get the economy growing like it did pre-crisis. The average growth rate of the U.S. economy over the last 50 years (through 6/30/16) has been +2.8% per quarter (i.e., quarter-over-quarter change expressed as an annualized result), but every quarter since October 2014 has reported less than +2.8% growth. (Source: DOL). Recent growth has obviously been below average. That's what the Fed says it's trying to fix. But can it? Should it? We know this: whether intended or not, central bank policies have been very effective in creating asset price inflation in stocks, bonds, and real estate. For almost a decade now central banks around the world have unleashed round after round of quantitative easing (QE), zero interest rate policies (ZIRP), and most recently negative interest rate policies (NIRP). The Fed hasn't waded into the NIRP waters, at least not yet, but we may be heading that way. FOMC Chair Janet Yellen said late last year that negative interest rate policies weren't off the table, and just last week FOMC Vice Chair Stanley Fischer endorsed the use of negative rates in other economies and thinks they have helped. The Fed has acknowledged that they required banks to include the possibility of negatively yielding Treasury rates in recent stress tests, so we know they're getting help evaluating the possible impact of negative rates. Maybe what was once thought unthinkable in the U.S. is actually on the horizon? Negative rates may seem to work for central bankers, but they can be devastating to large swaths of investors like retirees, savers and people who need income from traditionally less risky assets like bonds.

## CAPITAL MARKETS

Over the long haul, markets are driven primarily by three factors: earnings, valuations, and central bank policy. In the wake of the global financial crisis and the Great Recession that followed, the influence of central bank policy (see above) has been pushed to the top of that list of factors. Earnings growth in recent quarters has been less than stellar but is expected to improve over the next year or so, largely in part due to the U.S. consumer. The Price-Earnings ratio of the S&P 500 sits right at its long-term average, so stocks can no longer be considered cheap. But because bond yields are so low right now, the higher earnings yield found in the stock market has attracted a lot of otherwise income-oriented investors, which means stocks may still push higher. A caveat to the earnings yield found in stocks right now is in order, though. According to FactSet, dividend payouts at S&P 500 companies for the past 12 months amounted to almost 38% of their net income over the period, the most since February 2009. This level of payout is unsustainable in the long run, and something will have to give. Net income will have to increase for these dividends to remain in play, or dividends will need to be cut.

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## Velocity Composite™ Fund Score Ranking

Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
VSCIX	Small Cap Index Fund	<b>1143</b>	0.64%	5.43%	16.80%	12.43%	32.38%	96.34%
V1674	Vanguard Target Ret 2010 Tr Select	<b>996</b>	0.04%	2.81%	6.29%	7.70%	18.50%	36.57%
VMCIX	Mid-Cap Index Fund	<b>875</b>	0.14%	4.60%	13.27%	11.40%	38.43%	96.12%
J6560	Janus Core PI Fixed Inc	<b>850</b>	-0.22%	2.23%	3.65%	5.55%	13.70%	16.17%
VEMPX	Extended Market Index	<b>752</b>	0.88%	5.70%	16.64%	10.09%	30.76%	91.97%
VTPSX	Total Int'l Stock Index	<b>660</b>	0.70%	4.62%	11.86%	7.65%	9.17%	21.51%
VWNEX	Vanguard Windsor Fund Admiral Shs	<b>658</b>	1.84%	3.45%	13.27%	8.90%	29.43%	95.63%
V1680	Vanguard Target Ret 2040 Tr Select	<b>658</b>	0.40%	4.17%	11.01%	11.31%	26.75%	63.77%
VWELX	Vanguard Wellington Fund Admiral Shs	<b>650</b>	0.20%	3.29%	9.50%	12.58%	28.69%	66.30%
VWILX	Vanguard Intl Growth Fund Admiral Shs	<b>633</b>	2.06%	7.19%	14.60%	12.84%	16.47%	36.06%
VSMGX	Vanguard LifeStrategy Moderate Growth	<b>633</b>	0.25%	3.70%	8.87%	9.99%	23.43%	48.26%
VTRIX	Vanguard International Value	<b>630</b>	0.65%	4.37%	10.51%	3.73%	4.91%	25.47%
VPMAX	Vanguard PrimeCap Admiral Shs	<b>575</b>	1.28%	5.63%	12.22%	16.14%	50.48%	115.13%
VIIIX	Vanguard Institutional Index Fund	<b>550</b>	0.14%	3.96%	10.94%	15.97%	41.61%	100.73%
VSCGX	Vanguard LifeStrategy Conservative Gr	<b>525</b>	0.11%	3.32%	7.30%	8.91%	20.72%	37.69%
V1686	Vanguard Target Ret Income Tr Select	<b>318</b>	0.00%	2.75%	6.07%	7.54%	16.73%	29.93%
VBMPX	Total Bond Market Index	<b>293</b>	-0.16%	2.45%	4.23%	5.92%	13.68%	16.80%
VIPIX	Vanguard Infl-Protected Secs Institl Shs	<b>245</b>	-0.45%	2.64%	4.20%	5.52%	8.54%	8.18%

### APPROXIMATE Future Publication Dates

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

**\*\*\* 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 PI 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 PI 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%
VMCIX	Mid-Cap Index Fund	27.00%
V1674	Vanguard Target Ret 2010 Tr Select	27.00%
VSCIX	Small Cap Index Fund	27.00%
		100.00%

### • NO CHANGES in 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.

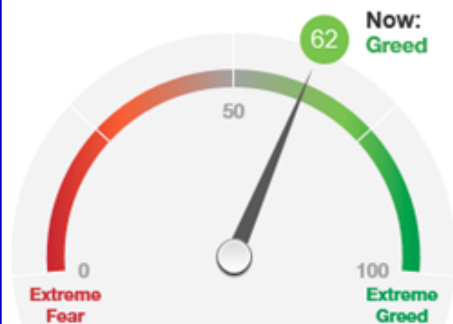
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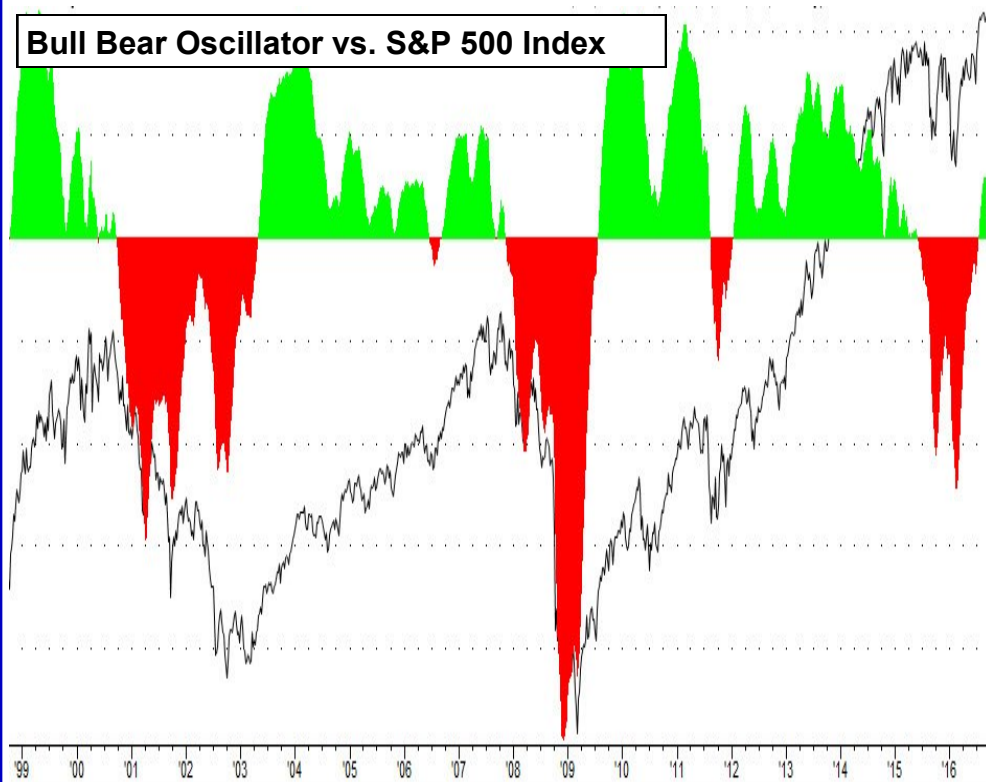


## Fear & Greed Index

The S&P 500 took a breather and basically broke even in August following a wild June (Brexit vote surprise fallout and recovery), and a July where stocks around the globe advanced nicely. The Fear & Greed meter ticked down from a 77 in July to a 62 this month. YTD, the market is up +7.8%.



## Bull Bear Oscillator vs. S&P 500 Index



## Worry-Free 401k Flight Path Models™—FedEx

Aggressive Model

Moderate Model

Conservative Model

S&P 500 Index



**FDX**—FDX stumbled in early August and then appreciated nicely for most of the rest of the month. The stock dipped into negative territory YTD following the Brexit selloff, but has since advanced more than 12%. YTD, FDX is up more than 10%.

FDX S&P 500



## FedEx Pilots 401k Plan (as of August 31, 2016)

### Performance Stats

	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model Annualized	-0.88%	0.50%	-1.80%	9.16%	13.97%	24.42%	56.82%
				2.96%	2.65%	2.21%	2.68%
Moderate Model Annualized	-1.06%	0.30%	-2.70%	18.92%	25.32%	46.29%	119.30%
				5.94%	4.62%	3.88%	4.73%
Aggressive Model Annualized	-2.80%	0.50%	-2.40%	33.81%	31.60%	67.65%	188.58%
				10.20%	5.65%	5.30%	6.43%
S&P 500 Annualized	7.70%	0.27%	12.40%	41.10%	97.30%	104.70%	91.23%
				12.16%	14.56%	7.43%	3.89%



## from the CAPTAIN'S TABLE

### Student Debt Crisis —Part 1

This is Part One of a two-part series on the Student Debt Crisis now facing America. In this piece, we'll look at how bad the problem really is and how we got here. In Part Two, we'll look at proposed fixes and how with some good planning you can avoid or at least take steps to minimize becoming a student loan debt casualty.

When I packed up for my freshman year of college at Baylor University thirty-one years ago last month, I did so with a lot of gratitude. For years my mother reminded my twin sister and me that she would do everything she could to put us through school. She was a school teacher and a divorced, single parent for most of our childhood, but we always knew that one of her goals was to send us off into the world with a college education and no debt. She didn't make much teaching, so there wasn't much saved up when we graduated from high school. This meant loans, and I remember watching her sign all that student loan paperwork on our behalf, knowing that I owed it to her to do my best in college. It took a number of years after I graduated for her to pay off those school loans, but she did it. Thanks again, Mom.

Those loans were paid off more than 20 years ago, and a lot has changed since then in the higher education financing world. Unfortunately, a whole lot of the change hasn't been for the good. I don't know the exact data on how many students from my generation borrowed for college, how much they borrowed, and what percent repaid their loans in full, but for students and their parents who have borrowed for college over the last decade, the data is bad – catastrophically bad, and the fallout from this student loan debt crisis may take a big toll on our economy.

It's hard to imagine the student-loan industry and the burden of student debt getting any worse for taxpayers and borrowers than it is now. According to the Education Department, more than 40% of the 43 million Americans who have borrowed more than \$1.3 trillion from the government's main student-loan program aren't presently making payments or are behind on more than \$200 billion loaned to them. Almost 4 million,

about 10%, of those borrowers, were in default as of July 1, 2016. "Default" is defined as having gone at least a year without making a payment. More than three million more of those borrowers were delinquent as of that date. "Delinquent" means being at least one month behind on payments. Additionally, another three million were in "forbearance" or "deferment", meaning they received permission to temporarily halt payments due to a financial emergency, such as lacking the means to make payments due to being unemployed or not making enough at their present jobs. Bear in mind that these figures don't include all of the student loan borrowers still in school and those with government-guaranteed private loans.

This explosion in unpaid student debt comes on the heels of a more than decade-long boom in student loan borrowing. Now the fear is that millions of these borrowers may never repay, possibly leaving the Federal government – aka the U.S. taxpayer – on the hook for what some estimate may be more than \$500 billion. Sadly, the data shows that millions of these borrowers aren't even trying to pay on their loans. According to Navient Corp., a major student loan servicer, 90% of borrowers they attempt to contact after falling behind never respond to their inquiries and more than half never make a single payment before defaulting. That might be a little more understandable if the attempted contacts were infrequent, but Navient claims they attempt to reach each borrower on average 230 to 300 times - through letters, emails, calls and text messages – over the first year that payments become due. Navient's research also shows that some borrowers aren't repaying their loans even when they can afford to do so. Borrowers seem to prioritize other bills - such as car loans, mortgages, and utilities - over paying on their student loans. Of course, many borrowers are truly unable to make payment on their student loans as they lack sufficient income, especially those who dropped out of school and never secured the degree that was supposed to get them that higher paying job in the first place. Surprisingly though, the average borrower in default owes relatively little—generally less than \$9,000, but student advocates claim that even relatively low loan balances can seem huge to someone unemployed or in a low-paying job, and with other expenses to juggle.

So, how did we get here? The simplest answer is that about 15 years ago, the federal government decided to invest heavily in programs whose goal was to upgrade our nation's workforce, and thus its economic productivity. Billions of dollars were spent financing the tuitions and other educational expenses for millions of student loan borrowers. Enrollment in U.S. colleges and graduate schools soared 24% between 2002 and 2012. Millions more attended trade schools that award career certificates. A large share of the federal dollars spent came through grants, low-interest loans and loan guarantees. Total outstanding student debt—almost all guaranteed or made directly by the federal government—quadrupled between 2000 and 2016.

Another contributing factor to the crisis began in 2010 when the Obama administration dispensed with the private intermediaries that had administered federal loans since the 1960s and replaced them with a new institution known as Direct Lending, to be administered directly by the Education Department. At the time, the Congressional Budget Office estimated that Direct Lending would save the government \$62 billion between 2010 and 2020. However, the CBO's estimate was hugely miscalculated as program advocates failed to anticipate how two other Obama-backed college affordability initiatives – "Income-Driven Repayment" and loan forgiveness - would create a cataclysmic hit to the federal student-loan program's finances. There are several Income-Driven Repayment programs, but they all essentially work the same way. Qualifying student borrowers who are struggling financially are allowed to make reduced payments, or even defer payment on their loans altogether, for a period of time. While in the short term this can really help the borrower, over the long run it can actually make things worse because their loan balances continue growing due to accumulating interest. Today, more than 20 million borrowers find themselves in this predicament.

However, the most significant explosion in student debt might still be to come. In 2007 Congress passed the Public Service Loan Forgiveness Program, which allows borrowers who went to work for non-profit organizations or government agencies to have their loans forgiven after 10 years of service in those jobs. It's foreseeable that tens of thousands of teachers, firefighters, social workers, police officers, doctors, and nurses who meet their employer's definition of "full time" might qualify to have their loans forgiven. While this would be a great deal for those indebted student borrowers, it just means that much more debt that the federal government will have to assume, which ultimately ends up at the feet of the U.S. taxpayer.

So, as you can see, the problem is immense. Is there any way out of this mess? That's what we'll explore next month in Part Two of this series.

Have a great month.

*Rex*

*Rex Moxley joined Smith Anglin in 2001. Since then, he's served as a Managing Partner and as a member of the firm's Investment Committee. 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 Marketing, a graduate degree in Law 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.

The major U.S. stock market indices pushed to new highs in August following the sharp selloff after the Brexit vote in the U.K. in July. According to Ned Davis Research, investor sentiment is neutral right now, and longer term sentiment remains relatively pessimistic. Additionally, investors have pulled \$95 billion out of U.S. equity mutual funds and exchange-traded funds (ETFs) this year. These close to record outflows means there is continued doubt out there among investors, which is actually a healthy sign for the markets. Remember, investor sentiment tends to work in a contrarian fashion to the markets. Euphoric investor sentiment is a big indicator that the markets have gotten ahead of themselves.



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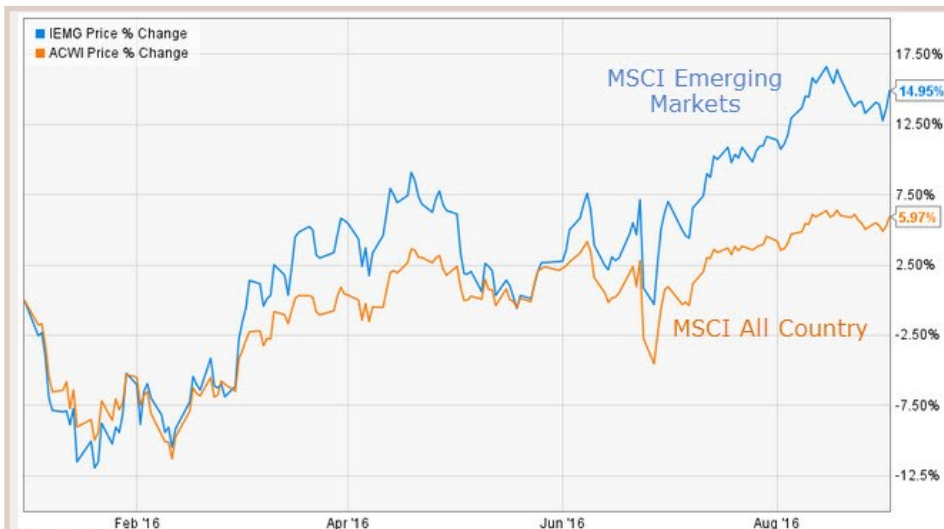


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This summer has been especially hot for emerging market stocks, which lagged developed markets in 2015 and got off to a cold start in 2016. As of mid-May, the MSCI EM Index was flat for 2016 but has since posted more than a 13% gain for the year through the end of August, relative to just a 5% gain for developed market stocks as tracked by the MSCI World Index.

## INTERESTING TIMES

There's an old saying: "May you live in interesting times." Tradition has it that its origins are Chinese, but no one knows for sure. We live in an age with so much exciting potential, and also one that seems fraught with its fair shares of perils. The world of transportation is experiencing huge changes. Automated cars and drones that will deliver packages, and at some point people, are right around the corner. The technology is already here. Now engineers and lawmakers just need to work out the details. Even automated ships are coming, which really makes more sense than automated cars. Honestly, could there be anything more mind-numbing than sailing a cargo ship across the Pacific Ocean?

Ship designers, their operators, and regulators are already gearing up for a future in which cargo vessels sail the oceans autonomously with minimal or even no crew. Experts claim unmanned shipping could cut transport costs by 22%. The retailing world is experiencing huge changes as well. E-commerce sales increased 24% in just the last year and now account for 9% of all retail spending. No wonder so many department store malls are going out of business.

Conversely, our world is threatened by the harmful effects of unsustainable debt levels and global terrorism, among other concerns. According to the Congressional Budget Office, our national debt now stands at \$19.5 trillion and is projected to reach \$28.2 trillion as of the end of fiscal year 2026, only ten years from now. It was less than \$10 trillion a decade ago. The war on global terror costs the U.S. an estimated \$100 billion each year on average, and even more in the toll taken in lives lost and damaged. The world is a dangerous, risky, and yet exciting place. A prudent investor is wise to evaluate those risks carefully and have a plan in place for whatever the world may throw at him. Interesting times indeed ....

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