

NOVEMBER 2017

THE DELTA ADVISOR™

A NEWSLETTER FOR DELTA PILOTS



Leading Authority on Successfully Investing Your 401k Plan

CAPTAIN'S BRIEFING:

NO CHANGE in the models.

- **Make sure you are keeping track of your trade dates for the 30-day hold period!**

Captain's Table - **Inside an Index**

Go to page 5

With Halloween in the rearview mirror now, it makes you wonder: why do we like to be scared so much in the first place?

Experts will tell you there are several reasons, but basically fear works on our bodies like a stimulant. When we get frightened, a lot starts to occur in us physically. Our hearts beat faster. We breathe more intensely. We perspire and get butterflies in the pit of our stomachs. There's also a hormonal component. When we perceive a threat, we feel more physically powerful and strong. We also feel more intuitive emotionally. This jolt to our physical and mental state is a feeling that we as humans are naturally drawn to. In those fearful moments, we're more in tune with our senses. In many real ways, we're more "alive."

ECONOMIC NEWS

The U.S. economy remains lively and has been growing for the last 99 months (i.e., no recession), an expansion exceeded in length only 2 times since 1900, according to the National Bureau of Economic Research (NBER). It's also picking up steam: for the first time since 2014, the U.S. economy has recorded back-to-back quarters in which GDP

has grown at an annualized rate of at least 3%. Economists had expected growth to moderate in Q3 because of Hurricanes Harvey and Irma. However, the 3.0% growth achieved in Q3 may be hard to sustain moving forward. Since employment gains are responsible for about half of GDP growth, and with September's unemployment rate clocking in at 4.2%, a rate at the lower end of the spectrum, there is limited room for employment to boost GDP growth moving forward.

Sentiment indexes in Europe have been mixed recently. One German business climate survey hit a record high in October, which is notable considering the backdrop of uncertainty surrounding Brexit, Catalan independence, and the final makeup of Angela Merkel's ruling coalition. Uncertainty abounds in the United Kingdom as well. In the wake of the June 2016 Brexit vote, business investment has been flat, owing to uncertainty over the U.K.'s future relationship with the EU.

In Asia, Chinese economic indicators suggest a slowing economy, but one still firmly in growth mode. In Japan, Prime Minister Shinzo Abe won a landslide victory in the recent general election, opening the way for a push to amend the country's pacifist constitution. Abe campaigned on the idea that the threat from North Korea requires leaders to remove any doubt over the legitimacy of Japan's military. Abe's victory was received well by investors as the Nikkei 225 Index pushed through 22,000 for the first time in 21 years.



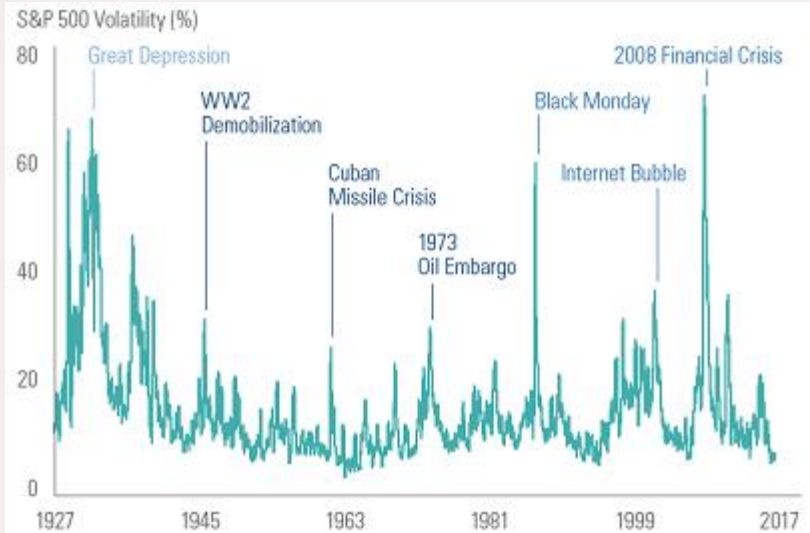
Source: Goldman Sachs Global Invmt Research, Natl Bureau of Economic Research, and GSAM.

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



CAPITAL MARKETS

It was in October of 2007, 10 years ago last month, that the S&P 500 peaked before beginning a painful 17-month tumble that resulted in a more than 50% drop in value. What a difference a decade makes. The volatile, plummeting market action that prevailed 10 years ago has given way to the steadily rising, record-breaking markets of today. The major indexes climbed to record highs in September and then, as solid quarterly earnings reports began rolling in, did so again in October. Every major U.S. stock index advanced each week in October, extending the streak of positive weeks to seven in a row. The Dow topped the 23,000-point mark for the first time ever in October, and it was the index's fourth 1,000-point milestone of 2017, a year that began with the index slightly below 20,000. It took only two and a half months for the Dow to climb from 22,000 to 23,000. All the while, market volatility has remained near record-low levels. In fact, volatility in the third quarter was the market's least volatile quarter on record.

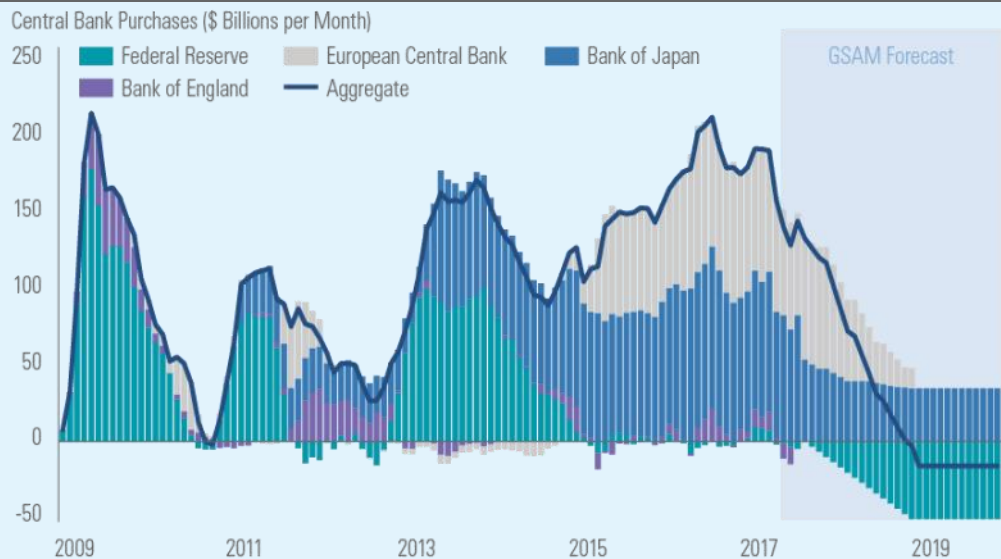


Source: Haver and GSAM.

International stocks advanced in October as well. The MSCI EAFE Index, the primary equity benchmark for stocks from Europe, Australasia, and the Far East, posted a gain of more than 1.5% during the month. Japan's stock market advanced to its highest level in more than two decades in October, while emerging market stocks, as tracked by the MSCI Emerging Markets Index, posted gains of more than 3%.

CENTRAL BANK POLICY

After having already raised rates twice in 2017, the Fed kept interest rates unchanged at its most recent meeting. The minutes from the Fed's mid-September meeting show that policymakers appear to be leaning toward raising interest rates one more time, in December. Fed Chair Janet Yellen presided over what most believe will be one of her final meetings as chairman, and speculation swirls about who will replace her. President Trump is likely to tap Fed Governor Jerome Powell to be named chair. Among the leading candidates, he is viewed by many as closest to Yellen on his policy views, and he is set on normalizing interest rates.



Source: Haver and GSAM.

The European Central Bank (ECB) announced in late October that it would begin slowly tapering its stimulus program. The ECB will halve its bond-buying program, and only buy €30 billion worth of European bonds each month starting in January 2018 and ending in September, a period longer than the six-month interval some had feared. The current amount is €60 billion a month. ECB president Mario Draghi said that interest rates will stay at present levels well past the end of the quantitative easing program, with the central bank keeping open the option of increasing the size and duration of QE if necessary. In addition, the ECB said it will reinvest the principal from maturing bonds for an extended period after the end of the bond-buying program.

Even as its peers in the U.S. and Europe begin to wind down stimulus, albeit ever-so-slowly, the Bank of Japan (BOJ) will continue its extraordinary monetary policy, keeping its short-term interest rate at -0.1% and maintaining its yield curve control and asset purchases. The BOJ's argument is that extraordinary measures continue to be needed for an extraordinary problem. Their main problem is that, in terms of people, Japan is shrinking. The country's strict immigration policies and its low birth rate mean that economic growth via more workers just isn't an option. In 2010, Japan's population was 128 million. By 2100, it's projected to fall to 85 million, a drop of 34%! (source: The Brookings Institute).

Velocity Composite Fund Score™ Ranking

Ticker	Fund Name	Score	YTD	1MoPerf	3MoPerf
-	Small/Mid Cap Growth	1265	17.58%	2.12%	4.04%
-	Large Cap Growth	1219	20.90%	3.07%	5.36%
-	S&P 500 Index	1141	17.13%	2.34%	4.79%
-	International Equity	1129	25.08%	1.51%	4.04%
-	Large Cap Value	1107	11.18%	0.49%	2.83%
-	Intl Eq Idx	1104	22.57%	1.51%	4.06%
-	Emrg Mrkts Eq Idx	1058	33.98%	3.51%	5.39%
-	Emerging Markets EQ	1044	28.05%	1.96%	3.85%
-	Fid ContraFund Pool	1038	30.40%	4.82%	7.56%
-	Small/Mid Cap Index	941	13.97%	1.43%	5.35%
-	Small/Mid Value	880	7.52%	1.85%	4.76%
-	LifeCycle 2020	864	9.75%	1.02%	2.37%
-	Diversified Bond	601	4.74%	0.15%	0.60%
-	Bond Index	576	3.31%	0.00%	0.47%
RRRZX	Deut Real Estate R6	470	N/A	N/A	N/A
GOBSX	LM BW GLB OPP BD IS	405	11.02%	N/A	N/A

APPROXIMATE Future Publication Dates

12/5/17

1/4/18

2/5/18

3/5/18

4/4/18

5/3/18

Ins Ctrct/Stable Value will not appear in the monthly rankings since it technically mimics a money market fund.

Definitions & Notes:

1. Tickers: The majority of the funds in the Delta Plan are not really mutual funds. They are composites or comingled funds, etc.

YOU WILL USE THE FUND NAME TO TRADE. Data from proxy funds is used to make all calculations for the funds listed above.

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. Proxies of each fund are used to calculate the score and historical returns.

Delta 401k Plan Conservative Model

Symbol	Fund Name	Allocate
-	Ins Ctrct/Stable Value	60.00%
-	Large Cap Growth	10.00%
-	Small/Mid Growth	10.00%
-	S&P 500 Index	10.00%
-	Large Cap Value	10.00%
		100.00%

Delta Pilots 401k Plan Moderate Model

Symbol	Fund Name	Allocate
-	Ins Ctrct/Stable Value	36.00%
-	Large Cap Growth	16.00%
-	Small/Mid Growth	16.00%
-	S&P 500 Index	16.00%
-	Large Cap Value	16.00%
		100.00%

Delta Pilots 401k Plan Aggressive Model

Symbol	Fund Name	Allocate
-	Ins Ctrct/Stable Value	19.00%
-	Large Cap Growth	27.00%
-	Small/Mid Growth	27.00%
-	S&P 500 Index	27.00%
		100.00%

• NO CHANGE in the models.

- IN A MONTH WITH TRADES—

THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

- **READ:** Your 401k plan has trading restrictions, so you need to 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 Ins Ctrct/Stable Value. Then, they will be automatically invested into the correct allocation when you make changes to follow a model.

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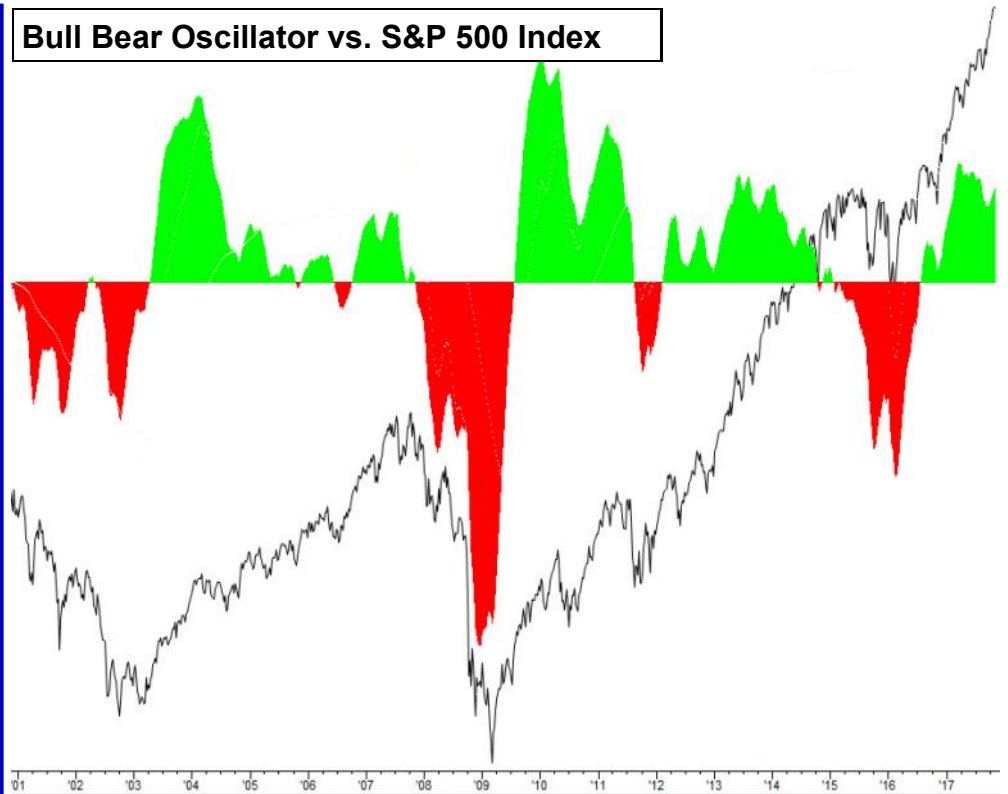
Provided by Smith Anglin, a Registered Investment Advisor

Fear & Greed Index

At the end of September, the Fear & Greed needle was at 90, a reading of Extreme Greed. October was a good month for the markets and quarterly earnings data has been mostly positive, but by month-end the Fear & Greed reading had slipped to a 72. While a sentiment of Greed still prevails, perhaps investors are beginning to feel this market may be topping.



Bull Bear Oscillator vs. S&P 500 Index



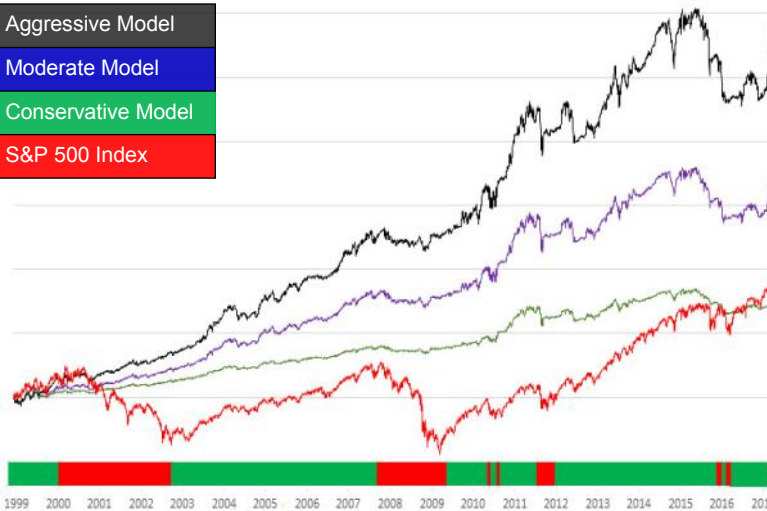
Worry-Free 401k Flight Path Models™ - Delta

Aggressive Model

Moderate Model

Conservative Model

S&P 500 Index



DAL

■ DAL ■ S&P 500 ■ XAL

Delta Air Lines stock (DAL) roared to mid-month gains of almost +12% before falling off to finish out October up just under +4%. DAL handily bested the NYSE ARCA Airline Index (XAL), which lost -1% in October, and it also outperformed the S&P 500, which gained +2% during the month.



Delta Pilots 401k Plan (as of October 31, 2017)

Performance Stats

	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model Annualized	6.96%	1.06%	9.79%	9.51%	21.94%	33.74%	93.58%
				3.07%	4.05%	2.95%	3.96%
Moderate Model Annualized	10.93%	1.70%	15.84%	12.00%	43.02%	57.66%	189.58%
				3.85%	7.42%	4.66%	6.45%
Aggressive Model Annualized	14.24%	2.40%	22.47%	23.46%	53.08%	89.00%	294.26%
				7.28%	8.89%	6.57%	8.40%
S&P 500 Annualized	16.91%	2.33%	23.63%	36.31%	102.72%	106.38%	172.24%
				10.88%	15.18%	7.51%	6.07%



from the CAPTAIN'S TABLE

Inside an Index

The seasons are changing, but not much seems to be changing with stocks. Leaves are falling. Stocks prices are ascending. Another day, another new all-time high. Even the first trading day of Q4 welcomed new highs, and the Dow Jones Industrial Average crossed 23,000 for the first time on October 18th. The media seems to set off fireworks each time we cross another “thousand” so it’s never hard to lose track, but is there really that much reason to celebrate? It’s time for some back to basics on the Dow as we near the halfway point of the final quarter of 2017.

The Dow, short for the Dow Jones Industrial Average, is a stock benchmark that is over a century old. Charles Dow created the Dow back in 1896 to serve as a measure for the U.S. economy, and it originally included only 12 companies. The benchmark calculation was really simple... add the stock prices for those 12 companies and divide by 12. Makes sense for a benchmark labeled an “average,” right? Over the years the benchmark has accumulated more stocks, and it currently holds 30 of the largest companies in the U.S.

Initially, the Dow was made up of railroads, various manufacturers, and utilities. Today, the Dow still represents some of the largest industrial companies, but it also represents a fair share of financials, cyclicals, healthcare, and some information technology, although not a lot. The Dow has certain nuances, or flaws, and the first I can point out is the method used to determine its holdings. Dow stocks are currently determined by a committee, and there really are no clear-cut rules or criteria for becoming a member holding. Holdings change based on market conditions and based on a what I’ll call an “eye test,” for lack of a better term. So there’s really not a whole lot to the Dow’s “composition methodology,” if you want to call it that.

Also important is the weighting methodology, which determines how much percentage share a stock gets in the index. Indexes like the S&P 500 and many other major benchmarks are built based on company size, or capitalization weighting (“cap weighting” for short). If an index is cap weighted, then the biggest companies make up the largest share of the index. The Dow is a price-weighted index, so the actual stock price plays a very large role in

the composition. Currently, the Dow’s three largest holdings are Boeing (7.5%), Goldman Sachs (7.1%), and 3M (6.9%), and all of their share prices trade in the \$200’s. Apple is currently the 7th largest holding, even though its cap weighting and revenues outsize the likes of Boeing and Goldman Sachs combined. Apple’s revenue is more than twice as much as Boeing and seven times as much as 3M. Go figure.

So where are Google, Amazon, and Facebook? They’re not reported in the Dow. A Bloomberg article recently looked into Dow holdings and made a few interesting observations. First, we haven’t seen a lot of big companies split their stock price. Stock splits are maybe old fashioned, and a higher share price is possibly some sort of accomplishment for these companies. It’s great for them, but high stock prices don’t make Google or Amazon easy additions to the Dow. Amazon’s earnings reports are no stranger to being openly criticized, and stretched P/E multiples don’t make it an easy add to the Dow. Also, Google has multiple share classes, which complicates matters. But maybe Facebook replaces a dusty old holding someday?

The Dow’s biggest problem is that a portfolio of 30 stocks is not as diversified as most investors should be. Concentration can quickly create wealth, but the opposite is also true as well—it can quickly destroy wealth. There have been single trading days where the Dow closed higher by over 5%, but there have also been days when it closed lower by more than 7%. Many investors would be out of their comfort zone with down days like that.

The second biggest problem that I see is the weighting method. Price weighting is a flawed method for a building an investment benchmark. It’s fine when your top holding is up 70% for the year, which is where Boeing currently stands; that’s actually great for Dow investors. But, what about when your smallest stock holding is up \$1, and your largest stock holding is down \$1? In percentage terms, your smaller holding has a larger numerical gain compared to the larger holding’s loss, but your larger holding is your larger holding, so you suffer. Price weighting also creates situations where the top 10 holdings of the 30 holding benchmark can make up nearly 55% of the portfolio. That’s a lot of concentration to those 10 companies that became the top 10 based mainly on stock price!

It’s amazing to see how far back the Dow has come since depths of the Financial Crisis, and even since the 2016 presidential election. In years like 2017, where stocks venture into uncharted territory, we often see a flurry of new all-time highs over the course of the year, and that’s exciting. But when it comes to the Dow relative to your finances, you have to draw a line between what’s exciting and what is meaningful. For most investors, a meaningful investment strategy involves being prudently diversified across a lot more than just 30 stocks.

It requires a thoughtful approach to investment choices, regardless of stock price, stock splits, or stock share classes.

It probably sounds like I'm picking on the Dow, and I am, but I've seen first-hand that informed clients are happier clients. Ultimately, you should know that your investment strategy is driven by something a bit more advanced than a math exercise we learned in middle school. If you want a better idea of what your personal benchmark should be, just give us a call. We'd be more than happy to help you better understand what stocks and the economy mean relative to your finances.

Steve

Steve Anglin, CPA is a Managing Partner at Smith Anglin Financial, and the Head of the Tax Preparation Services. He is also responsible for Smith Anglin's compliance supervision. He holds a BBA in Accounting and a BBA in 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.

WHAT SHOULD REALLY SCARE YOU

There's also a darker side to our fears and our desire to face them. Psychologically, it's appealing to vicariously experience what's unknown, forbidden, and even bizarre. This is why horror films are so popular with adults and why most kids love a good ghost story. Both allow us to explore a fearful experience in a safer way. After all, for most of us, our daily lives don't typically present ways to experience these intense feelings.

But Americans fear real world problems too. Chapman University in Orange, California polls Americans each year about their fears and recently released their Top Fears of 2017 survey.

(<https://blogs.chapman.edu/wilkinson/2017/10/11/americas-top-fears-2017/>). This is the fourth year the school has conducted the survey, and the top ten fears listed is instructive into what Americans are the most apprehensive about at that time, even though one could argue the fears may be driven by headlines in the media. Two top ten fears involved government and policy, four involved environmental issues, and another two related to war. However, the remaining two fears in the top ten, while not being sensational, are very telling. Both related to running out of money. It's apparent that Americans know deep down that they aren't saving enough for the future ... and they're dead right.

According to the Center for Retirement Research at Boston College, the balances for 401(k) and individual retirement accounts (IRAs) held by households ages 55 to 64 – basically families within 10 years of retirement - reached a median \$135,000 in 2016. Sadly, the Center found that half of households that are close to retirement have no 401(k) savings at all. A lot of Americans would tell you that, for them, saving for retirement just isn't an option. A recent survey found that 43% of survey respondents said they "have difficulty [even] making ends meet" (source: National Financial Well-Being Survey, Consumer Financial Protection Bureau). No wonder saving is so hard.

The data is just as dismal for Americans on the cusp of retirement. The median value of a retirement account for someone 65 and over is about \$60,000. Let's assume at 65 you're going to live another 20 years; \$60,000 isn't much to live on if you had to spread it out over two decades. This is important because the other two "legs" of the retirement "stool"—Social Security and pensions—are increasingly under pressure. As of January 2017, the average retiree receives \$1,360 per month from Social Security. That's \$16,000 a year, before taxes and Medicare premiums. About one-third of adults over 65 also collect a pension, but it's not usually a large amount of money. In fact, the median private pension was only \$9,376 per year, according to the Pension Rights Center.

So, for those who collect Social Security and are lucky enough to also collect a private pension, they are getting roughly \$25,000 a year in income. And those are the lucky ones. Anyone looking for more income is going to need to tap their personal savings or find extra income somewhere. That gets us back to the 401(k). That \$60,000 is roughly \$3,000 a year assuming a 20-year lifespan. That's not going to do much to move the needle. In fact, you'd need **10 times** that amount of savings, around \$600,000, to make a significant impact, but the vast majority of retirement plan balances aren't anywhere near that.

Given how difficult the situation is, you'd think people would be throwing money into retirement funds, but oddly they're not. Vanguard says that only 10.9% of 401(k) plan participants contribute the maximum amount allowed by IRS guidelines. That's partly because most people don't make enough money to contribute the total amount, but a lot of other people are just not incentivized enough to save. One thing's for sure: if we don't find some way to get people to save more, a lot of people are going to need to work well into their eighties, or they're going to outlive their retirement savings.

(Continued on page 7)

(Continued from page 6)

The good news for you is that the typical person reading this newsletter isn't average. As an airline pilot with Delta, you have good retirement plans that most of you are maxing out every year. On that note, 401k contribution limits are increasing next year, from \$18,000 to \$18,500.

One last thing: while it didn't make the fear list, we know that many investors are worried about "the next big crash." There's no crystal ball, but consider this. You have normal procedures for a long list of things that can happen while you fly. You know the weather forecast, and your flight instruments help you fine tune your outlook for the trip. You rely on those tools to help you best prepare for any surprises, and they can give you a pretty good indication of what to expect.

Market moves are not as easily measured and predicted, but economic and market data are helpful in forecasting trends. When you fly into bad weather, you rely on specific procedures for handling the turbulence and the rocky flight. Investing is similar in that you should rely on a consistent and disciplined approach to handling risk and volatility in the markets.

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