New England Capital
Financial Advisors
Independent Objective Advice

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Adviser

January 2016
Volume 36

"It's not what you look at that matters, it's what you see."

-Henry David Thoreau: American author, Poet and philosopher

Expectations for 2016 and Beyond

By Christopher W. Beale, CFP®

This time of year more than any other, lends itself to both reflections on the immediate past and predictions into future.

A quick review of a rather unforgettable 2015 shows the Standard and Poor's 500 (Large U.S. Company Index) declined .73%; Wilshire Small Cap Index (U.S. Small Company Index) lost 4.86%; the EAFE Index (Foreign Companies in developed countries) down 3.30%. Emerging market stocks (EAFE ME) lost 16.96% in 2015. Even worse, the commodity index which includes oil and gas lost a whopping 32.86%. Interesting while China's Shanghai Index lost 43% during the awful summer selloff, it actually finished the year up 9%. Unless you only owned the "FANG" stocks (Facebook, Amazon, Netflix, Google) you probably had a subpar year.

Also of note in 2015, the Federal Reserve Board finally raised interest rates on federal funds by one quarter of one percent, thereby starting the process of "normalizing interest rates".

For my forward looking comments for 2016, let me first quote one of my all-time favorite economists, John Kenneth Galbraith, who said "There are two kinds of forecasters: those who don't know and those who don't know they don't know." I cast my lot with the former – I do know that I don't know.

(Continued on page 2)

A New Year's Resolution

By Christopher M. Lee, CFP®

The first of the year always brings with it the promise of new beginnings and the burden of self-improvement. According to research from the University of Scranton, some 45% of Americans decide to make New Year's resolutions. As Ben Franklin once said, "Be always at war with your vices, at peace with your neighbors, and let each New Year find you a better man."

Besides auspicious goals to go to the gym more, financially-themed promises for improvement are, unsurprisingly, always among the most popular resolutions made each New Year. With that being said, I'd like to share some ideas with you for some "financial resolutions" for 2016:

Budget: Take a look at what your expenses were for 2015 (and where the majority of them went). Most of them went probably went to "fixed expenses" which include mortgage, utilities, taxes, insurance, food and, possibly, non-mortgage debt repayment. The second categories of expenses are the "discretionary expenses" which may include gifts, travel, dining out, and clothing. This budget can help you get set up on a systematic savings plan, by paying yourself first (into savings/investments) therefore preventing some guilt you may feel when purchasing that 60 inch Smart TV.

Set up your Emergency Fund: You should have 3-6 months living expenses in a readily accessible account (i.e. savings, checking, or money market fund). For example, if your current average monthly expenses are $3,500, the most you should have in your savings, checking, or money market account is $10,500-$21,000. (If you exceed that amount, please call our office immediately and we will help you with this "problem"!)

(Continued on page 4)

Expectations for 2016 and Beyond

(Continued from Page 1)

With that being said, let's discuss what could happen in 2016 with growth, rates, inflation and stock valuations.

Growth in the U.S. should be about the same as last year. If the US economy was a car with a 4 speed transmission, we'll still be in 2nd gear, grinding out about 2-2.5% growth. Europeans are gaining momentum and the emerging markets hope to stabilize.

Interest rates in the U.S. should continue to rise albeit very slowly and very steadily, possibly ¼ of 1% every 3 months. Europeans should end their interest rate easing by the end of 2016 with improved economic outlook. U.S. core inflation which rose 1.9% in 2015 should be slightly higher and we should start to see some wage increases as unemployment further decreases. I see the same in Europe but China will continue to struggle as it transitions from a manufacturing economy to a consumer based economy.

I believe stocks are at fair value, neither cheap nor expensive. Earnings in the U.S. were down about 6% in 2015, but that was mainly due to the energy sector. We should get a bounce back in earnings in 2016. I wouldn't count out the U.S. stock market yet. As famous investor Sir John Templeton explained, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." I just don't see euphoria in this market yet, so I think we have some upside potential left although volatility will still be a major factor in the market.

I've stated in previous writings that I believe three mega trends still favor the long term investors: the emergence of the global middle class, the evolution in healthcare; and the positive disruptions caused by technological advances. I also think we must temper our expectations for long term returns in balanced portfolios. For example if bond returns are low due to the current interest rate environment (e.g. a 10 year Treasury Bond currently yields 2.2%), then the stock portion of a 60/40 Stock/Bond portfolio must return over 10.3% to generate a 7% overall return. If you are expecting a higher long term return, you may need to adjust the allocation to be more aggressive in order to achieve your financial goals. Likewise, you could increase the amount of money dedicated to achieve the goal or expand your time horizon.
In conclusion, let me offer suggestions to improve your returns.

First, disregard market forecasts – including mine. That's right, immediately delete this after reading. If you've printed this or received via paper copy – burn it. A survey of economists by the Wall Street Journal from December 1982 to June 2015 asks them to predict the direction (up or down) of interest rate over the next 6 months. Simple question – Do you think interest rates will rise or fall in the next 6 months? Their forecasts were wrong 61% of the time. You'd do better by flipping a coin.

Second, be patient and be disciplined. While growing up, my parents defined maturity as being able to forego immediate gratification for a larger, long-term reward. Remember the famous Stanford Marshmallow experiment by psychologist Walter Mischel where a child was offered one marshmallow immediately or two marshmallows if he would wait a short time. Follow up studies showed that children who were able to wait longer for the preferred reward tended to have better life outcomes, as measured by SAT scores, educational attainment, body mass index and other life measures.

Third, consider investing when feeling fearful. A $10,000 investment in the S&P 500 made on October 9, 2007 at the height of the previous Bull Market would have netted you $4,743 if you sold out at the bottom in March 2009. If you simply keep the money invested you would have $15,721 at the end of 2015. But, if you added an additional $10,000 in March 2009, your current value would be $50,511.

(Continued on page 3)

"When you get to the end of your rope, tie a knot and hang on."

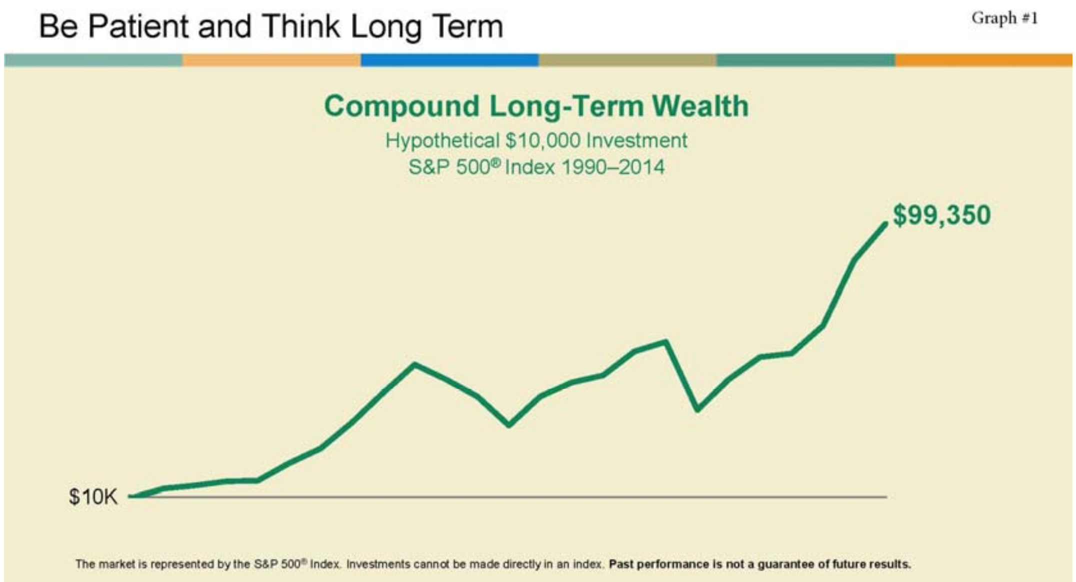
-Franklin D. Roosevelt U.S. President from 1933-1945

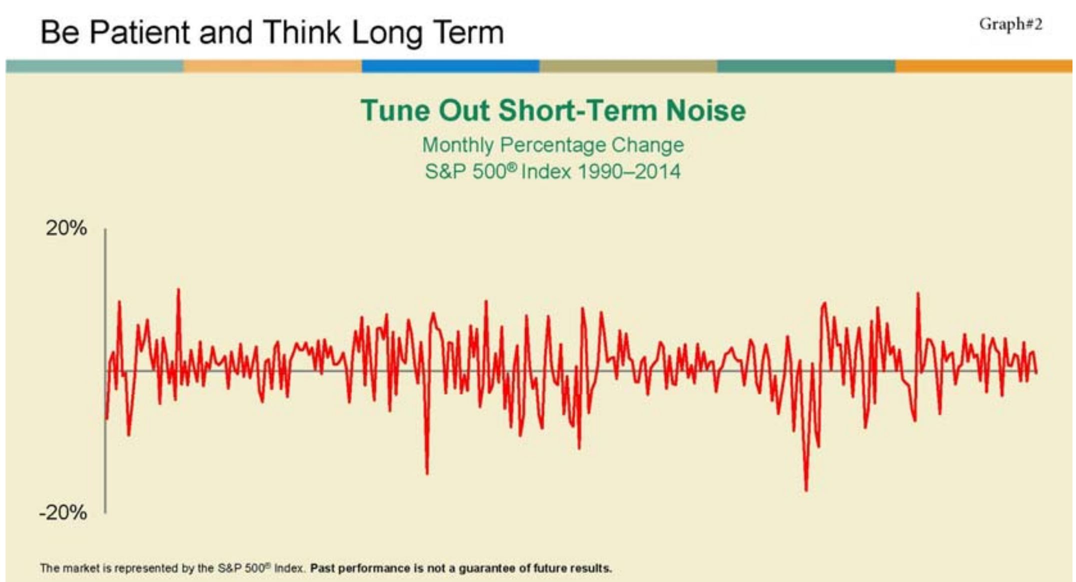
Expectations for 2016 and Beyond

(Continued from Page 2)

Fourth, don't try to time the market. Famous mutual fund manager, Peter Lynch said "Far more money has been lost by investors trying to anticipate market corrections, than lost in the corrections themselves."

Fifth, tune out the 24/7 market noise. No one wants an investment as shown in graph #2. Everyone wants the investment in graph #1. Actually both graphs are the same investment: $10,000 in the S&P 500 from 1990-2014, simply shown over time versus as a monthly percentage change.





Finally, call us if you have a question or concern. I can't guarantee we at New England Capital will always be right, but we will always place your best interest first. We do this because that is what fiduciary advisors do for their clients. We thank you for your trust and confidence. We strive every day to earn it, and we look forward to serving you and your family for years to come.

Sources:

1. Legg Mason and *The Wall Street Journal* Survey of Economists.
2. Marshmallow study reference

"Even if you're on the right track, you'll get run over if you just sit there."

-Will Rogers, American cowboy, actor humorist and social commentator

“Do not wait; the time will never be “just right.” Start where you stand.”

-Napoleon Hill
American author

A New Year’s Resolution

(Continued from Page 1)

Set goals: Set some goals for 2016 AND write them down. Something magical happens when you transpose it from your brain to paper. Do it and you may be surprised at the results! For example, your financial goal may be to pay off one credit card, donate $x to charity, or to improve your credit score.

Monitor your credit: It’s quite stressful to be a consumer in this day in age, with our new digital economy spawning unfamiliar financial threats and extending the timeframe for vigilance well beyond traditional banking hours. But new tools have also emerged to ease our transition to this new 24/7 personal finance environment, and credit monitoring is among the most helpful. Credit monitoring is essentially a surveillance system for your credit report, notifying you anytime key information on your file changes. It therefore increases the odds that you will find out about any administrative errors or suspicious activity before it can cause much damage.

Automate As Much as Possible: One of the most easily avoidable mistakes that people make in regards to their finances is missing due dates. Often due to pure forgetfulness, tardiness can have serious ramifications on your financial life – such as missed credit card payments fostering credit score damage. Luckily, avoiding such a negative event is as simple as setting up recurring monthly payments from a checking account. You can do so for your full balance, the minimum amount required or a customized amount, and this applies to a variety of different types of bills – from credit cards to cable. Of course, you’ll have to remember to review your monthly statements in order to avoid being overcharged or missing.

It is important to remember that the New Year isn’t meant to be a time for sweeping character changes. It is a time for people to reflect on their past year’s behavior and promise to make positive lifestyle changes. Setting small, attainable goals throughout the year, instead of a singular, overwhelming goal on January 1 can help you reach whatever it is you strive for! May your New Year be happy and prosperous!