Demming Financial Services Corp.

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2nd Quarter

Heads Up…

As a result of recent regulation changes, certain account paperwork will need to be updated in the coming months. Thanks in advance for your cooperation!

As a friendly reminder, for your protection, it is our ongoing policy that any requests for funds sent to us via email will also be confirmed by phone.

Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

Please note, the main inbox for prompt email correspondence is info@demmingfinancial.com!

While most of us are moaning about having to pay our taxes today, are you aware that all of the state governments are sitting on billions of dollars of unclaimed property? Unclaimed.org is the best place to start your search.

Also, please be sure to check out our website at www.demmingfinancial.com!

Doing Well and Doing Good?

Growing interest in the impact of fossil fuels on the global climate may spark questions about whether individuals can integrate their values around sustainability with their investment goals and, if so, how.

As citizens, individuals can express their political preferences around sustainability through the ballot box. As investors, they also can express their preferences through participation in global capital markets. One key question these investors face is how to do this without compromising their desired investment outcomes. For instance, how can they reduce their portfolio's environmental footprint while maintaining sound investment principles and achieving their investment objectives?

Sustainability preferences are not generally restricted to greenhouse gas emissions. Many investors may also have concerns about land use and biodiversity, toxic spills and releases, operational waste, and water management, among other issues. Thus, it is a challenge to achieve the dual goal of efficiently considering sustainability preferences while building investment solutions that help meet investors' financial goals. One way to approach this challenge is to focus first on developing an investment methodology that emphasizes what research indicates are reliable sources of higher expected returns while also aiming to minimize unnecessary turnover and trading costs.

For instance, this may mean starting with a broad universe of stocks ranging from very large companies to very small companies, and then systematically pursuing higher expected returns by increasing the weights of those securities with smaller market capitalizations, lower relative prices, and higher profitability.

Next, investors can evaluate those companies being considered for investment using a focused set of environmental issues that reflect their primary concerns. By using a holistic scoring system, rather than a completely binary “in” or “out” screening process, investors may be able to preserve diversification while recognizing those companies with positive environmental profiles. This involves looking at companies across the entirety of a portfolio and within individual sectors with the goal of incorporating sustainability preferences while also maintaining the characteristics of the original strategy.

For example, if one is trying to reduce a portfolio’s greenhouse gas emissions and potential emissions from fossil fuel reserves, the worst offenders across all industries may first be deemphasized or excluded from the portfolio altogether. An across-industry comparison of this nature provides an efficient way to significantly reduce the aggregate greenhouse gas emissions per unit of revenue produced by companies within a portfolio with a minimal reduction in diversification. Next, companies may also be rated on sustainability considerations within each industry. This added level of scrutiny is recognition that, in the real economy, capital markets and the supply chain are highly interconnected. For example, a retail company may consume electricity from a utility company and transportation services from a trucking company, both of which are consumers of fuel from an energy company. Comparing companies within sectors recognizes this interconnectedness and can be used to overweight the most sustainable companies within a given industry. This could include retail companies that improve the energy efficiency of their facilities, utilities that produce electricity using solar or wind power, trucking companies that improve the fuel efficiency of their fleets or use alternative-fuel vehicles, or energy companies that increase efficiency, reduce waste, and improve their overall environmental footprint. On the other hand, companies with poor environmental sustainability ratings relative to industry peers may receive a lesser weight or may be excluded.

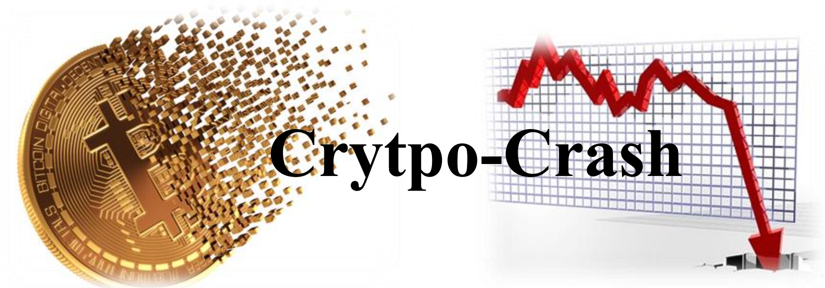
A Suggested Approach to Sustainability Investing

1	Apply a methodology that emphasizes the sources of higher expected returns while minimizing unnecessary turnover and trading costs.
2	Systematically evaluate company sustainability metrics across all major industries.
3	Emphasize investment in companies acting in more environmentally sound ways than their industry counterparts.
4	Exclude or underweight companies based on other key environmental and social considerations while maintaining broad diversification.

Using such a combination of company selection and weighting may allow for substantial reduction in exposure to greenhouse gas emissions and potential emissions from fossil fuel reserves—important goals for many investors—while providing a robust investment strategy that is broadly diversified and focused on the drivers of expected returns.

Conclusion

The key takeaway for investors is that investing well and incorporating values around sustainability need not be mutually exclusive. By starting with a robust investment framework, then overlaying the considerations that represent the views of sustainability-minded investors, this allows for a cost-effective approach that provides investors the ability to pursue their sustainability goals without compromising on sound investment principles or accepting lower expected returns.



Crytpo-Crash

Last year, it was hard to turn on your computer without reading about the dramatic rise in cryptocurrency values, or see advertisements for ways that you, too, could participate in this get-rich-quick opportunity to buy virtual money that is backed by no government on Earth.

It's almost always the case that when an investment becomes wildly popular and experiences a dramatic runup in price, that is exactly the wrong time to invest. And it turns out that cryptocurrencies were no exception.

While the stock markets were dropping moderately in value, cryptocurrencies lost their owners an estimated $60 billion in the last week of March, including a $20 billion drop over one dramatic six-hour period. Bitcoins are trading below $7,000, and the trend is taking them toward their February 6 low—and, perhaps, further. In case you're not up on other cryptocurrencies, there's something called Ether (now $381 per coin); Bitcoin cash ($691.48); Litecoin ($116.27) and Ripple (49 cents).

The problem, as always, is figuring out whether these alternative currencies are actual investments. For now, there are very few stores which accept them as actual money. Bitcoin's primary purpose in the marketplace has famously been to enable drug and weapons traffickers to buy and sell without leaving a paper trail for international police agencies to follow. Chances are, those markets are not of much interest to you or your portfolio, so it might be wise to watch this crytpo-mania play itself out from the sidelines.

2018 First Quarter Market Report

Is the bull market finally over? For the first time in nine calendar quarters, the U.S. investment markets delivered a negative overall return. It was only a slight decline, but the decline reminds us that markets can and do go down from time to time.

After starting the year strong, the Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—finished the quarter down 0.76%.

Large cap stocks posted identical small losses. The Wilshire U.S. Large Cap index dropped 0.76% in value. The widely-quoted S&P 500 index of large company stocks dropped 1.22% in value during the year's first quarter.

Meanwhile, the Russell Midcap Index fell 0.46% in the first three months of the year.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies posted a 0.73% loss over the first three months of the year. The technology-heavy Nasdaq Composite Index finished the quarter with a gain of 2.33%, making technology the standout performer of the year so far.

International stocks are fully participating in the downturn. The broad-based MSCI EAFE index of companies in developed foreign economies lost 2.37% in the recent quarter. In aggregate, European stocks were down 2.57% over the last three months, while MSCI's EAFE's Far East Index lost 0.67%. Emerging market stocks of less developed countries, as represented by the MSCI EAFE EM index, gained a meager 0.93% in dollar terms in the first quarter.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, fell 7.42% during the year's first quarter. The S&P GSCI index, which measures commodities returns, gained 2.37% in the first quarter.

In the bond markets, coupon rates on 10-year Treasury bonds have continued a slow but steady rise to 2.75%, while 30-year government bond yields have fallen slightly to 2.97%. Five-year municipal bonds are yielding, on average, 2.06% a year, while 30-year munis are yielding 3.01% on average.

What's going on? The first quarter saw the first correction—that is, a decline of more than 10%--in three years, which dragged returns down from a roaring start to the year. Industry pundits have many triggering effects to point to, from chaos in the White House to the possibility of a global trade war, to fears of inflation or higher interest rates, to the simple fact that U.S. stocks have been priced much higher than their historical averages. They aren't getting much explanatory data from the economic statistics; the unemployment rate is testing record lows and new jobs are being created at record levels. More importantly, annual earnings estimates for S&P 500 companies rose 7.1% during the first three months of the year—the fastest rise since FactSet began keeping track in 1996.

Ironically, the small downturn plus the jump in earnings may have forestalled a bigger corrective bear market later. The S&P 500, by some measures, is now trading at 16.1 times projected earnings for the next year, compared with 18.6 in late January when the markets were extraordinarily bullish. Stocks are not as overpriced as they once were, and the corporate tax cut could lead to higher reported earnings throughout the year.

Some are questioning whether the large cap indices fully reflect the overall U.S. economy these days. As mentioned earlier, the technology sector is generating positive returns. If you were to take Amazon.com, Microsoft, NetFlix, NVIDIA Corp., Cisco Systems and Apple, Inc. out of the S&P 500, the downturn would have been much worse, as companies like Procter & Gamble, Exxon Mobil and General Electric all lost value. As tech roars and more traditional companies see their shares losing value, technology makes up a greater portion of the capitalization-weighted indices, and its returns will have a higher impact in the future.

In any case, it appears that investors have become increasingly nervous about their stock investments. Over the past three months, the CBOE Volatility Index--the VIX index--widely known as Wall Street's "fear gauge," posted its biggest quarterly rise since the third quarter of 2011, jumping 81%. The VIX reflects option traders' collective expectations for the S&P 500 index's volatility over the coming 30-day period, and by this measure, traders had been very calm for the 18 months before early February. Now the VIX is at or near its historical average, which suggests that the equities markets are going to experience a totally normal bumpy ride going forward. This is a good time to fasten seat belts, and also consider whether you'd have the patience to ride out a bear market. We can't predict when that will happen, of course, but I think everybody realizes that the bull market cannot last forever.

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Sources:

https://www.marketwatch.com/story/cryptocurrency-market-sheds-a-further-20-billion-in-total-value-overnight-2018-03-30

: Dimensional Fund Advisors LP.

Diversification does not eliminate the risk of market loss. There is no guarantee an investing strategy will be successful. Investment risks include loss of principal and fluctuating value. Sector-specific investments can also increase these risks. Environmental and social screens may limit investment opportunities.

Small and micro cap securities are subject to greater volatility than those in other asset categories.

All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Investors should talk to their financial advisor prior to making any investment decision.

Wilshire index data: http://www.wilshire.com/Indexes/calculator/

Russell index data: http://www.ftse.com/products/indices/russell-us

S&P index data: http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usduf--p-us-l--

Nasdaq index data:

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Reminder: Please send a copy of your 2017 Tax Returns upon completion. Feel free to send them or request your preparer to send them to info@demmingfinancial.com.

Thanks!