Demming Financial Services Corp.

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The Association Factor

1st Quarter Newsletter

Special Notes…

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

With the New Year brings another tax season. Don't forget to send us or have your accountant send us a copy of your 2015 tax returns.

ANNOUNCEMENT:

We are happy to announce that Amber Adelman has joined our team at Demming Financial Services Corp. as a Financial Assistant. Amber will be assisting our clients with operational and insurance issues.

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

What's the best way to be happy and successful?

What do most happy and successful people have in common?

If you answered "**money**," or anything to do with meditation or networking skills, **you're off the mark**, according to Jason Butler, a former financial planner who is currently working as a motivational speaker. He says that after reading biographies of political, business, scientific and charity leaders, and hearing the personal stories of several hundred financial planning clients, one factor tends to be present in the happiest, most successful individuals, and it's entirely in your control: who you surround yourself with. Call it your "association factor."

"PUTTING DIFFERENT-COLORED EGGS ALL IN ONE BASKET IS NO WAY TO DIVERSIFY."

There are several dimensions to this. If you're an athlete who wants to improve your fitness or skill level, hanging out with (competing with) superior athletes will do more to help you 'up your game' than if you were associating with people you can beat without breaking a sweat. If you employ or work alongside people who have a diligent and service-oriented attitude, you can delegate work, avoid micromanaging, and feel confident that the workload will be shared fairly. If your social circle is full of people who are pessimistic, negative, defeatist or cynical, then it will pull you into pessimism or defeatism. We all know people who suck the life out of anybody they're around. Why let it happen to you?

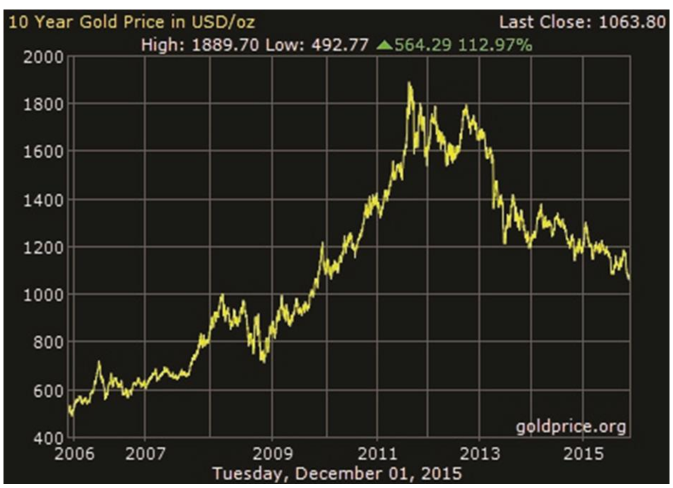
Butler says that cultivating meaningful personal relationships with the right types of people should be an essential priority for anyone who wants to live a meaningful, fulfilling, successful and happy life—which basically means all of us. You should consciously try to surround yourself with people who are optimistic, positive, capable and excited about the future.

The interesting thing about this advice is how few people seem to be intentional about their friendships. Most of us make friends by happenstance, because we shared an experience together or have something in common. Consciously creating a circle of friends, and constantly looking for business relationships that will be productive and supportive, is not often a priority.

But it can be, and the results could be dramatic. ***Article courtesy of: Bob Veres***

Should We Go Back on the Gold Standard?

If you watched the Republican presidential debates, you might have noticed that a number of candidates yearn for a return to the gold standard—that is, that every dollar issued by the government would be backed by a comparable value in gold bars that were stashed away in a government vault. Sen. Ted Cruz of Texas argued that the dollar should have a fixed value in gold, and Sen. Rand Paul of Kentucky added that printing money without backing in the precious metal destroys the value of our currency. Mike Huckabee, former governor of Arkansas, thinks that if not gold, then the dollar could be pegged to a basket of commodities. All are mostly concerned that printing money will cause runaway inflation.



But there may be several problems with this return to the fiscal system of the late 1800s and early 1900s. One is that inflation has barely budged even as the Federal Reserve Board was piling one QE stimulus on top of another, and the government was adding records amounts of currency to the money supply. Why? Because the velocity of money has been low—meaning, essentially, that banks have been sitting on growing piles of cash instead of lending it into the economy where it might have an inflationary effect.

Another problem is that, if pegged to gold, the money supply would be tied to one of the most volatile commodities in the world. In 2006, gold was selling for less than $600 an ounce. Then it peaked at $1,800 an ounce in late 2011. (See accompanying chart.) That means that the amount of currency floating through the global economy could have tripled in those five years. Today the price is in the $1,050 range, meaning an automatic 70% reduction in the amount of currency that would be available to the economy. Does it make sense for the number of dollars to be tied to the variations in a commodity whose value is sometimes called the "fear index?"

When the University of Chicago asked 40 leading economists whether a gold standard would improve the lives of average Americans, all 40 said no. They pointed out that the heyday of the gold standard actually experienced far greater economic volatility than we do today, and the nation's unemployment rate, on average, was almost a full percentage point higher than the period since President Nixon abandoned the gold standard once and for all..

Article courtesy of: Bob Veres

MyRA May Not Be YOUR RA

Suppose somebody offered you a choice between two cars. The first car was identical to the second car, with one exception: it would only travel at a constant speed of 30 miles an hour. In the other car, you could choose to travel at any legal speed, and quite a number of illegal ones. Meanwhile you can only buy the one-speed car if you make less than a certain threshold income, and eventually, if you drive enough miles in the one-speed car, you'd have to buy the car that can travel at any reasonable speed anyway.

Which car would you choose?

That's the interesting choice posed by a new retirement account that was launched on Wednesday. In his 2014 State of the Union address, President Obama announced that he was directing the U.S. Treasury Department to create a new retirement savings initiative: the myRA, officially named My Retirement Account. This week, the first retirement savers will put the first dollars into the program.

The myRA is basically a government-sponsored Roth IRA with the same contribution limits ($5,500 a year, or $6,500 for those 50-and-older). Like the Roth IRA, all myRA contributions will be made after-tax (in other words, no deductions for the contributions), but the money will come out tax-free when the taxpayer reaches age 59 1/2. However, unlike the Roth, where the money can be invested in zillions of possible combinations of thousands of mutual funds, ETFs and individual stocks, the myRA participant has exactly one investment option: the government's Securities Fund for federal employers, which earned 2.31% last year.

Moreover, there are limitations on who can participate in the myRA. Only people with no 401(k) or 403(b) retirement plans at work can make myRA contributions, and even then, only those with an adjusted gross income less than $131,000 a year ($193,000 for couples). Also: once you've accumulated the maximum myRA balance of $15,000, you have to move the money over to a private-sector Roth IRA. The only benefit: the myRA doesn't come with any custodial or account fees, but those are typically nominal when you open a private sector Roth IRA.

So why would people contribute to a retirement option that is identical to a Roth IRA, but with roughly a zillion fewer investment options? It's possible that unsophisticated investors will appreciate the simplicity of the myRA solution, where, instead of having to decide where to invest, they simply lend their money to the federal government and collect the (modest) interest. The fact that the myRA account has no minimums could be attractive. Most private sector Roths require at least $1,000 to be invested, but theoretically you could start your myRA with a penny.

It’s also possible that the U.S. Treasury Department is about to discover that there’s less demand for an inferior retirement plan than government economists had projected.

Article courtesy of: Bob Veres

2015 Year End Report:

In the year just past, we experienced many things—a prelude to a Presidential election, a renewal of terrorist concerns, a trip to Pluto—but in the investment markets, we will look back and yawn. Despite some entertaining ups and downs, particularly in the third quarter of the year, the markets ended pretty much where they began, eking out small gains and losses pretty much across the board.

The final three months of the year provided investors with gains that were tantalizingly close to wiping out the losses of the previous three. The Wilshire 5000--the broadest measure of U.S. stocks—gained 5.89% in the fourth quarter of 2015, ending the year down a mere 0.25%.

Large cap stocks were comparably flat. The Wilshire U.S. Large Cap index gained 6.77% in the fourth quarter, and managed to finish the year up 1.27%. The widely-quoted S&P 500 index of large company stocks was up 6.45% in the fourth quarter, but finished down 0.73% for all of 2015—its first yearly loss since 2008.

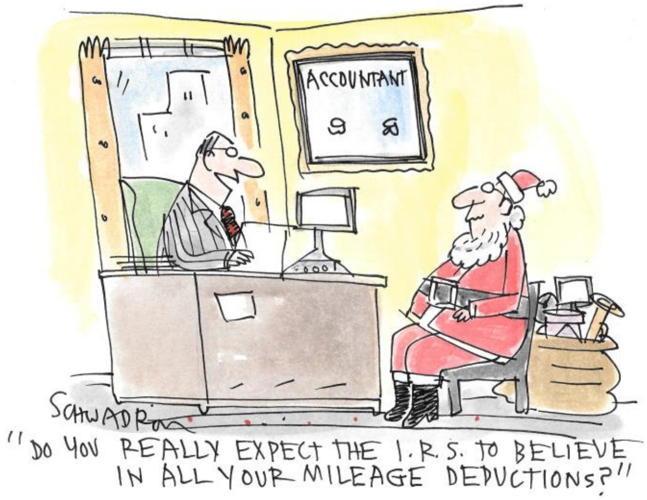
The Wilshire U.S. Mid-Cap index gained 2.34% in the final quarter, but finished the year down 2.63%.

This was a year to forget for investors in small company stocks. As measured by the Wilshire U.S. Small-Cap index, investors posted a small 2.62% gain over the last three months of the year, but in the end the index had lost 4.86% over the entire 12 months, dragging many diversified portfolios into negative territory. The technology-heavy Nasdaq Composite Index rose 8.38% in the fourth quarter, to finish the year up 5.73%.

International investments contributed a slight decline to overall portfolio returns. The broad-based EAFE index of companies in developed foreign economies gained 4.37% in the fourth quarter of the year, but finished the year down 3.30% in dollar terms. In aggregate, European stocks lost 6.06% for the year, while EAFE’s Far East Index was up 4.72%. Emerging markets stocks of less developed countries, as represented by the EAFE EM index, lost 16.96% in dollar terms for the year.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, gained 7.47% during the year’s final quarter, wiping out previous losses to finish up 4.23% for calendar 2015.

Many investors will look at their statements and see lower returns than the indices indicate, in part because a portion of their portfolio was invested in commodities or commodity producers—by far the biggest loser of 2015. Commodity investments are considered an



excellent diversifier, and nobody can tell when they're going to add significantly to a portfolio's value, but in the last 12 months, they continued a longstanding losing streak, with the Standard & Poor's GSCI falling 16.63% in the fourth quarter. Some have speculated that the largest contributor, a surprising continuation of the decline in oil prices, may have been accelerated by a Saudi Arabian attempt to flood the oil markets as a failed strategy to put American frackers out of business.

By the end of the year, investors in the commodity index were sitting on a whopping 32.86% loss. Don't look for a return to high oil prices in the near future, as oil production from post-sanctions Iran will soon hit the market, adding to what economists are already describing as an oil and gas glut.

Meanwhile, gold prices were off 10% in 2015, and gold investments actually outperformed silver, copper, platinum and palladium—the latter losing more than 30% in the past 12 months.

As always, there were many unpredictable anomalies in the investment world. In the currency markets, anyone lucky enough to have speculated on the Somali shilling would have experienced a nice 20% return for the year. A bet on the Azerbaijani manta, however, would have lost you 50%. In international stock markets, the Johannesburg (South Africa) market index gained more than 80%, while the Ukranian Equities Index dropped the farthest, falling almost 60%.

Meanwhile, bond investors started the year, as in years past, expecting that 2015 would finally see interest rates rise across the board. Many professionals have been holding very low-yielding short-term instruments or cash in their bond portfolio allocations as a defensive measure, and had to endure almost zero returns without the satisfaction of having ducked the long-anticipated nasty downturn in bond values.

According to Barclay's Bank indices, U.S. liquid corporate bonds with a 1-5 year maturity are yielding 2.74% on average, almost a third of a percent less than a year ago. Moving out to 5-10 years brings the yield up to 6.40%, about 0.84% lower than the beginning of last year. 20-year Treasuries are yielding 2.95%, and 10-year Treasuries currently yield 2.46%.

What's going to happen in 2016? Of course, nobody knows with any degree of certainty. But many professional investors are approaching the New Year with an unusual degree of caution. By most metrics, U.S. stocks are pricier than their historical averages. That doesn't mean they can't get more so, but it seems unlikely that people will pay a lot more for a dollar of earnings in the coming year than they will today. Meanwhile, economic growth is moderate at best, which suggests that, in aggregate, U.S.-based companies will only be able to grow their value at moderate rates as well. Ultimately, as the father of value investing once said "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

And, yes, there are some warning signs on the horizon. Nobody seems to know exactly what to make of the high-yield bond market. Is the recent downturn is a sign of some long-term problems or a blip on the screen? One could make the argument that emerging market governments and companies with low credit ratings have gotten away with giving their lenders extremely low (by historical standards) interest rates. If rates rise, investors may want to sell those bonds, and there could be a sudden rush for the exits, potentially causing liquidity problems for the funds that are holding them. But one would expect those funds to be preparing for this possibility, and similar dour forecasts have, in the past, had a habit of not showing up in the real world.

Another possible warning sign is China, which is becoming the 800 pound gorilla of the global markets. The Shanghai Composite Index lost 43% of its value during a frightening summer selloff, and China's economic growth has clearly slowed from the pell-mell double-digit growth rates of the past 20 years. But lost in the hand-wringing is the fact that China's primary index finished the year with a 9% gain overall. The selloff simply wiped out most of an enormous bull run in the first three months of the year. More troubling than the losses is the government's willingness to try to manipulate its equity markets, which means it's hard to discern the fair value of individual Chinese stocks. These interventions have also made market participants weary, adding to the volatility we see on a day to day basis.

Finally, we've finally seen the Federal Reserve Board's first tentative effort to let the short-term fixed income markets find their natural level, which has already led to higher mortgage rates. Nobody knows if or when the Fed will raise rates again in the new year, or what the impact would be, but the fact that it's an election year, and the economy is still not exactly robust but is growing, suggests that the central bank's policymakers will proceed very cautiously.

None of this is a traditional recipe for a powerful bull run in 2016, but the truth is, we have no idea what returns will be in the coming year. We do, however, have confidence that any future bear market will be followed by a subsequent recovery, and eventually (who knows when?) the U.S. and European markets will again be testing and surpassing their previous record highs.

Will that happen in the next 12 months? All we can say is that the markets often punish those who try to outsmart them. If the market goes down in the coming year, it will mean that we all will be able to buy stocks at cheaper prices in anticipation of the next rise—whenever and however it arrives.

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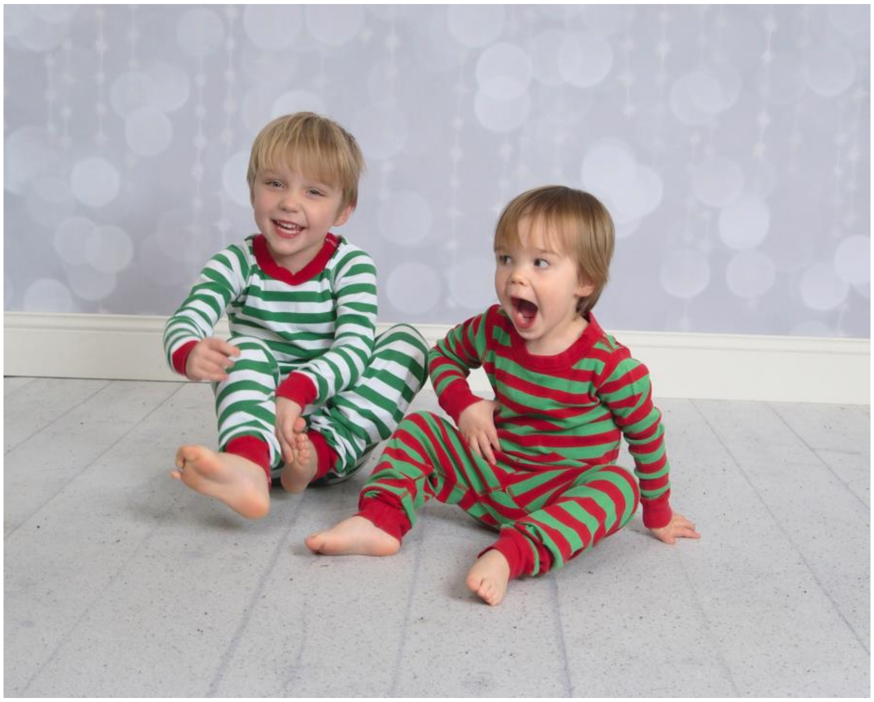

We at Demming Financial Services Corp. hope that you and yours have a safe and happy start to this New Year!