Demming
Financial Services Corp.

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1st Quarter

Special Notes...

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**.

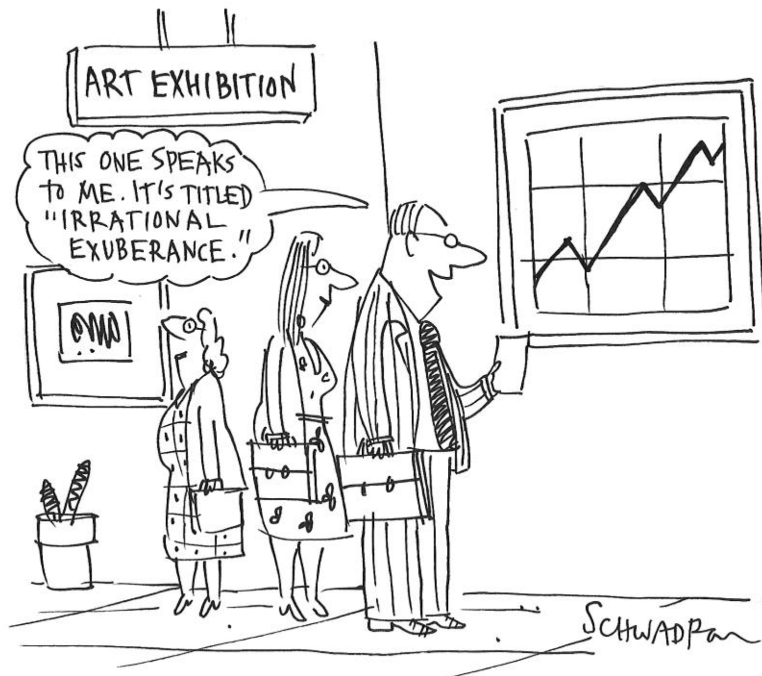
Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

If you haven't yet... Don't forget to send us a copy of your 2016 tax returns via email at info@demmingfinancial.com or mail!

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

Making that Impression

When you meet people, at work, in interviews, at parties, there is a lot of judging going on, and the good or bad impression you make usually isn't based on the words you say. A recent article in Forbes magazine suggests that you're most often evaluated on your unconscious behaviors, the things you probably never think about.



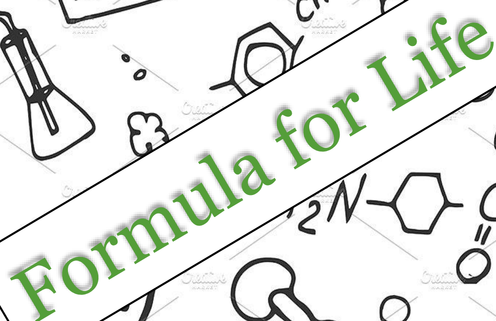
For instance? Apparently corporate interviewers are now in the habit of taking potential new hires to lunch, and watching how they treat the wait staff. If you're especially nice to the interviewers and other "important" people, but treat the waiter with disdain or indifference, then the conclusion is that you'd be a jerk with subordinates and support staff if hired into the office environment.

Checking your phone during a conversation is considered a sign of many negative things: a lack of respect, inability to give someone your full attention, poor listening skills, and, interestingly, a lack of willpower. At the least, it lowers the quality of face-to-face interactions.

People also notice how long it takes you to show interest and curiosity about them. We've all experienced conversations where someone talked about themselves the entire time; your conclusion is that they are loud, self-absorbed "takers." People who ask questions and show an interest in the other person give off the impression that they will be reciprocators who work well in teams.

Showing up late for the meeting or engagement is always a turn-off to new relationships, leading people to think that you lack respect and tend to procrastinate—or, worse, that you're lazy or disinterested. Interestingly, research shows that this is usually not the case—that tardiness is typically seen in people who multitask, or are high in relaxed, Type B personality traits. But you should recognize the impression you're making, however fair or unfair it may be.

The point here is that ***what you say matters less than what you do*** when people are evaluating you as a friend, colleague, romantic interest or new hire. If you want to change how you're perceived, addressing these nonverbal tendencies would be a great start.



If you're looking for a quick list of ways to improve your physical and mental health, you could do worse than follow a list compiled by Bala Afshar, author of The Pursuit of Social Business Excellence, who works as "chief digital evangelist" for the Salesforce CRM organization.

His list looks like this:

1. **Get more sleep**
2. **Find time to exercise**
3. **Drink more water**
4. **Eat less sugar**
5. **Stay teachable**
6. **Read and write more**
7. **Remove clutter**
8. **More random acts of kindness**
9. **Don't respond to negativity**
10. **Spend quality time with family**
11. **Laugh loudly**
12. **Forgive first**

How do you stop yourself from overspending?

The urge to splurge is one of the toughest challenges to a monthly budget, and leads to unhappy encounters with the credit card statement. But psychologists say there are solutions for the chronic over spender.

The first thing to understand is that overspending is viewed as a way to boost our self-esteem or overcome sadness—and if you consider it rationally, an extra pair of boots or a stylish pair of wireless headphones is not likely to provide that comfort for more than a minute or two.

So, before you buy, create some space between the spending impulse and the action by asking yourself how you're feeling. Bored? Sad? Irritated about something at work?

That gets you closer to understanding the nature of the urge. Then ask yourself: do you really need whatever you're holding in your hand? If the answer is not an immediate yes, then put it back on the shelf. What if you wait? Is there any risk to waiting a day or two to make sure it's a good buy?

Finally, an over spender can ask: how will I pay for it? Is this item in my monthly spending budget? Do I even have a place to put it? Often the urge to spend will pass after a few minutes, and might go away altogether for people who pass a 24-hour rule for purchases: if you still feel like you need it, you'll come back tomorrow and get it.

This won't cure the urges, but it might cure the most destructive consequences of them.

WHY REBALANCE?

You probably know that your investment portfolio is being rebalanced on a regular basis, but you might not know why. Is it for higher returns? For maintaining the agreed-upon balance of investments that is in your risk tolerance comfort zone? Does rebalancing help manage portfolio risk?

The answer to the above is "yes," "yes," and "yes," but with a qualification. Rebalancing an investment portfolio is most importantly a form of discipline, a way to reduce the impact of those dangerous emotions of greed and panic on the investment process.

Rebalancing is necessary because all of the moving parts in your portfolio rise and fall at different times and degrees. During a bull market, stock prices rise faster than bond values, causing them to make up a larger percentage of the portfolio than you signed on for. Similarly, when the bear growls, stocks will fall faster than bonds, causing your portfolio to become more conservative. Real estate investments and commodities often rise or fall at different times than stocks or bonds, pulling your overall percentage allocations away from the target mix.

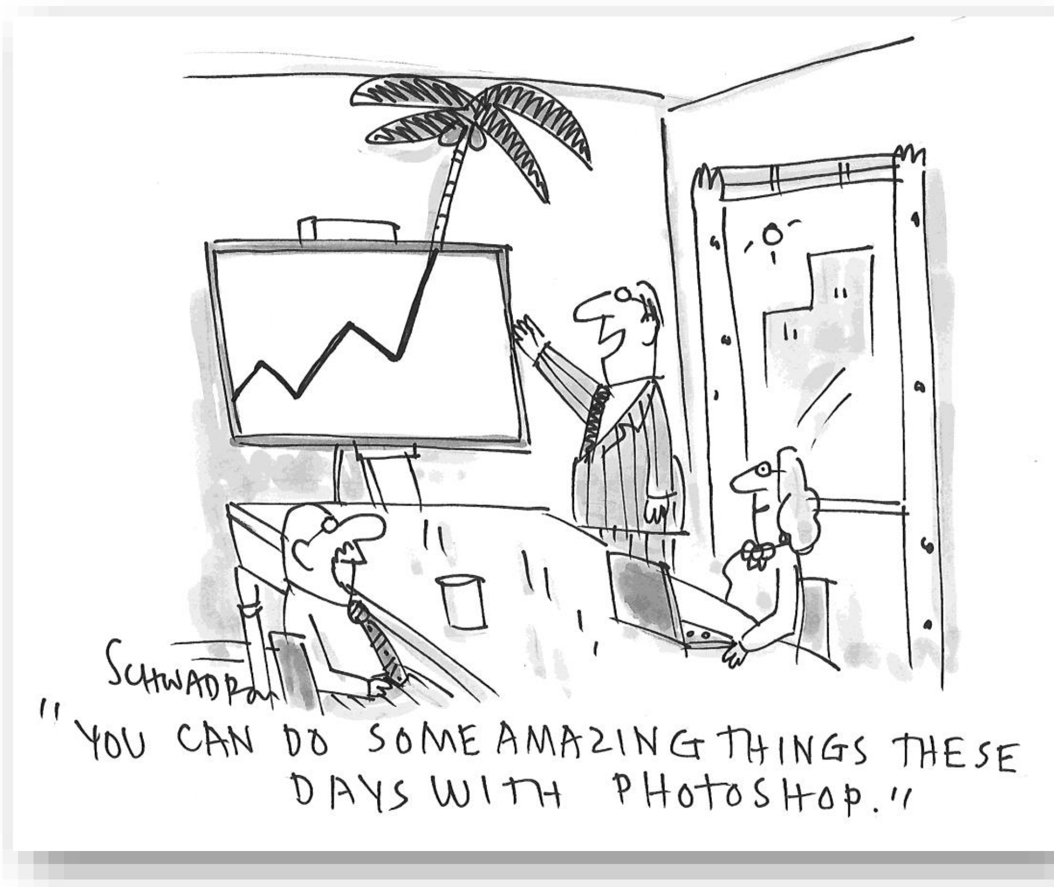
So, what does rebalancing accomplish? When you rebalance, you're selling the assets that rose in price and buying the ones that went down. This discipline results, over time, in consistently buying when an asset goes on sale, and selling when the asset becomes more expensive.

There are three ways to rebalance. The easiest is to use whatever new money is coming into the portfolio, monthly or quarterly, to buy the assets that have gone down, allowing you to make consistently fine adjustments that keeps the portfolio at its prescribed allocations.

Another possibility is to rebalance at certain times of the year—every three, six or 12 months.

Or you could follow the most complicated process, and rebalance whenever assets deviate by more than certain set percentages from the baseline asset allocation.

A recent article on the Seeking Alpha website notes that rebalancing reduces portfolio volatility, because you are not allowing the stock allocation to rise in the portfolio during bull markets (which would set you up for a bigger drop when the market rise turns into a bear market).

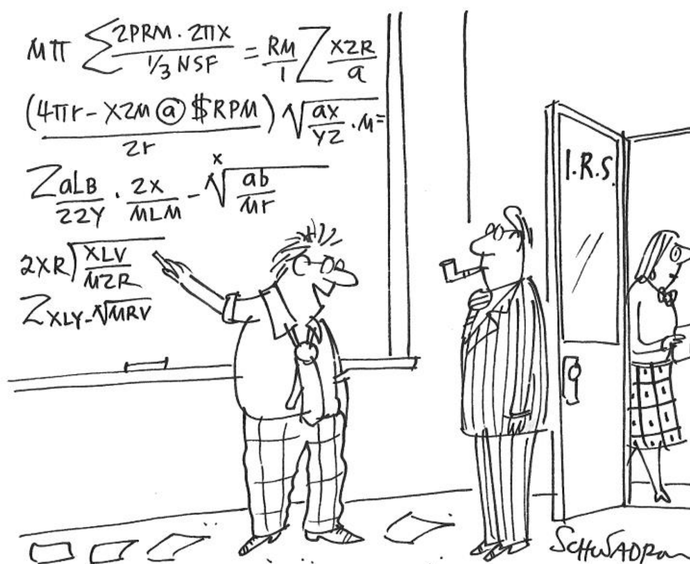


An illustration in the article, using a simple mix of 60% stocks and 40% bonds shows that rebalancing using the percentage deviation method would have led to higher overall returns from the beginning of 2000 to January 2016. It found that wider bands produced higher returns (and fewer rebalances), although of course there is no guarantee that this would be the case in the future.

But perhaps most importantly, rebalancing gives you back, over and over again, the portfolio that you expected when you started, the portfolio whose expected long-term returns are incorporated in your financial plan, the portfolio you were most comfortable with when the investment process was first discussed. And when it comes to making decisions in a time of crisis, having a rebalancing policy in place ensures that they will be made with discipline, rather than emotion.

2017 Year-End Investment Market Report

The bull market continued for another year, causing market indices to soar to new heights over and over again and—ominously—also pushing valuations further beyond the long-term averages.



A breakdown shows that just about everything gained in 2017. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rose 6.39% for the 4th quarter, finishing the year up 20.99%.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 6.70% in the fourth quarter, providing a 21.84% return for the year. The widely-quoted S&P 500 index of large company stocks gained 6.12% during the year's final quarter and overall returned 19.42% gains in calendar 2017.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies posted a 3.56% gain over the final three months of the year, to stand at a 13.45% return for 2017. The technology-heavy Nasdaq Composite Index rose 6.27% in the final three months of the year, to finish up 28.24%.

International stocks are also participating in the bull run. The broad-based EAFE index of companies in developed foreign economies gained 3.90% in the recent quarter, and ended the year up 21.78% in dollar terms. In aggregate, European stocks were up 22.13% in 2017, while EAFE's Far East Index gained 23.37%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, rose 7.09% in dollar terms in the fourth quarter, giving these very small components of most investment portfolios a remarkable 34.35% gain for the year.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a meager 1.70% gain during the year's final quarter, yet finished the year up a respectable 4.18%. The S&P GSCI index, which measures commodities returns, gained 9.90% in the 4th quarter, to finish the year up 5.77%.

In the bond markets, coupon rates on 10-year Treasury bonds have risen incrementally to 2.41%, while 30-year government bond yields have fallen slightly to 2.74%. Five-year municipal bonds are yielding, on average, 1.70% a year, while 30-year munis are yielding 2.62% on average.

This was a year when investors ignored the dire headlines, North Korean missile threats, investigations of the Presidency, hurricane devastation and a rapidly-growing national deficit to produce one of the smoothest investment rides in the past century. As you can see in the accompanying chart, which was compiled through the end of October, the VIX "fear" index has produced the lowest volatility since data has been collected starting in 1990. In October, the S&P 500 index broke its all-time record of consecutive days without a 3% drawdown. The biggest single-day drop in 2017 was just under 2%.

How long can this continue? Who knows? The S&P 500 is now trading at around 18 times forward earnings, which is above the historical average of 16—which, loosely translated, means you aren't getting a bargain when you buy stocks today. At the same time, we are experiencing low unemployment rates and solid profits for American companies. The U.S. economy is growing at a 3% rate. And the psychology of the markets doesn't match what you traditionally see at market tops: people still seem to be suspicious about how long the market rally will last, unlike the normal buying frenzy that often presages the next sharp downturn. (To see what a market frenzy looks like, are you hearing more about bitcoin than you have in the past?)

And indeed, not all stocks have prospered despite the rise in indices. A company called Range Resources lost 54% in 2017 due to continuing low fuel prices, and firms you've heard of incurred significant drawdowns, including General Electric (-43%), Mattel (-43%), Advance Auto Parts (-42%) and the Apache oil and gas company (-34%).

Eventually, there will be a broader bear market which will see most stocks lose value. It will be impossible to spot by forecasters, but will seem inevitable with the benefit of hindsight. The important thing to remember is that few people have ever become extremely wealthy by timing the market and jumping out because they think they can predict the next downturn. Many have gotten significantly wealthier by holding on whenever the raft hits the rapids. We missed the rapids in 2017, but everybody knows they're coming—someday, though perhaps not soon. Let's make sure we have a tight grip anyway.

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All of us at Demming Financial Services Corp. would like to wish you and your family a wonderful New Year!