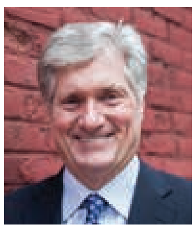
PAYNE CAPITAL MANAGEMENT CHRONICLE

YOUR PERSONALIZED PATH TO FINANCIAL FREEDOM

MAY 2017

Payne Capital Management: Your Personalized Path to Financial Freedom

Addressing Inherent Conflict of Interest



By Bob Payne, Managing Director and Chief Investment Officer

I saw an investment portfolio recently that was unintentionally comical, and clearly illustrated the conflict of interest inherent in some of the investment firms out there. In this case, the advisor actually worked for a specific mutual fund company, and every solution he provided to the client was based on his own company's mutual funds.

Payne's Pivotal Points:

1. Investors must be wary of firms that stand to directly benefit from the products they provide
2. A lack of portfolio diversity can render investors vulnerable to market fluctuations
3. The bull market that has existed since 2008 may obscure unwise investment allocations

The first step they took was to put the client's money in that company's index fund, which is the S & P 500 Index. Then they also took the growth side of the index, buying that firm's growth portfolio. After that, they purchased another growth portfolio mutual fund, then the blue chip growth portfolio fund, and then the select growth strategy fund. So the redundancy was just ridiculous.

Then they took the value side of the S & P 500, which the client already owned with the index fund, and bought the enhanced value index fund. Following that, they purchased the growth and income fund of that particular company, and finally the equity fund. So the return in every one of these funds was identical, and there was absolutely no diversification whatsoever. We live in a world where you can invest in as many as 10,000 to 12,000 stocks, but this company just chooses to own the same 500 over and over and over again. I guess their pitch is even though they own Apple in every fund, the names of the funds are different.

But the client was OK with that because his portfolio has been performing well. Yes, of course it has because we've been in a bull market since 2008. The problem is, what's going to happen tomorrow or next week or next year? This client is fully committed to the S & P. It could go up, but what happens if it goes down? He's at a point where he'll need to pull from that portfolio in the next couple years, so a huge hit would be disastrous.

We ran a back test on that portfolio, which is currently worth about $2.5 million, to see how it would have performed in a down market. The result was eye-popping, with the portfolio taking a 40-percent loss that equates to $1 million in real-dollar terms. The rationale I hear from many people is, since the stock market performs better over time than anything else, why not just ride it out.

Well, it's true that if you look at any 20-year rolling period in the history of the stock market, an investor will not lose money. The problem is if this client and his wife need money from their portfolio over the next couple years and it takes a big loss, they're not in a position to just wait until the end of a 20-year period to ensure they don't lose money. Their income needs won't go away because the market is down. That's why it always pays to diversify your investments.

AUDIO

TUNE IN at 77 WABC Radio NY

Every Sunday at 10:00 AM

Hear Bob and Ryan help listeners navigate through today's complex financial jungle.

http://paynecm.com/media/

$mart WOMEN Weekly Podcast

http://smartwomen.podbean.com/

CONTACT US

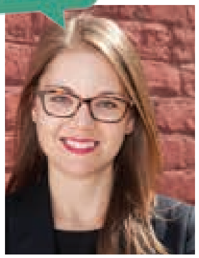
CONTACT US TODAY for your consultation

Ready to talk about your goals? Let our team steer you in the right direction to a secure financial future.

646.461.7670

info@paynecm.com • www.paynecm.com

Should You Open the (Brokerage) Window?



By Michelle McKinnon, Financial Advisor

I noticed an interesting article recently on *The Wall Street Journal* website titled, "Why More 401(k) Plans Offer 'Brokerage Windows.' What's a brokerage window? Well, it's a little different from what you might be used to seeing on your 401(k) account.

Three Keys:

1. A brokerage window is sometimes offered as an alternative option through 401(k) plans
2. This option entails additional fees but can offer nearly unlimited investment possibilities
3. Conducting targeted research will help determine if a brokerage window is right for you

Often when you go to the websites of Vanguard or Merrill Lynch or any other 401(k) platform, you'll log in and see a list of fund options. These are typically mutual funds with many different tickers and names. But sometimes at the bottom of the page, there's another option saying "brokerage link" or "brokerage window" that you may have never thought about opening…

This is actually a separate account where you can move your 401(k) funds to that offers almost unlimited investment options, from exchange-traded funds (ETFs) to mutual funds to even actual bonds sometimes. You might think that sounds great, but the *Journal* article emphasizes how you should be aware of a couple factors. First, there are often annual fees tied to that brokerage window, whereas most 401(k) accounts typically don't have a line-item annual fee.

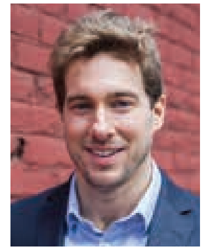
Second, we generally do not see commissions to buy or sell mutual funds within 401(k) accounts. But if you choose a brokerage window, you need to be on the lookout for commissions and front-end loads, which represent an extra percentage point paid to the mutual fund company to buy their product.

That said, I often encourage my clients to look at the brokerage link option because the pros often heavily overweight the cons- cheaper funds and more options!

So my advice would be to do your research rather than immediately discrediting the brokerage window option. First, check to see if a brokerage link or window is even available to you. Second, review your fees because even though you might have to pay commissions or an annual fee, the actual investments you can select may be cheaper than the typical 401(k) mutual fund options.

$mart WOMEN was created to help empower women by providing some financial tools and support so we can get smart with our money.

It's All About Emerging Markets



By Ryan Payne, President

I found an article recently on MarketWatch.com called *"Opinion: Incredibly Cheap Emerging- Markets Stocks Still Aren't Worth Buying."* This is even though emerging-markets stocks are up double this year compared to U.S. markets. But the author calls it a "pseudo rally" in emerging-markets stocks that's running out of steam because they're in a secular bear market.

Payne's Pivotal Points:

1. A recent article on MarketWatch.com warns investors to steer clear of emerging markets
2. That author's opinion actually defies extensive evidence to the contrary
3. The U.S. market is now fully valued and emerging markets are a smart buying opportunity

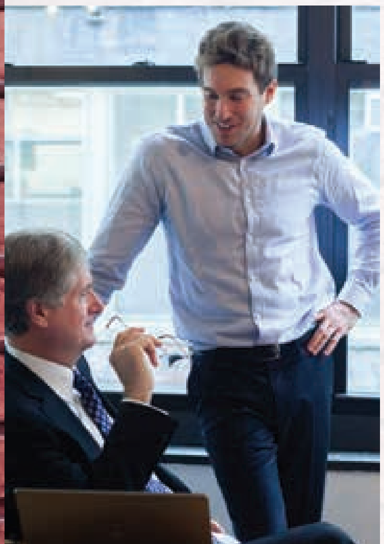
So his premise is the earnings growth isn't that great. Meanwhile, Morningstar analyzes trends like this and estimates that earnings for emerging-markets companies will grow at 10% annually for the next five years. Whereas the S & P 500 projects to grow at 9% a year. So emerging markets are predicted to grow faster than the U.S., and if you look at emerging -markets valuations, they're cheaper. So what am I missing here? Because it sounds like a pretty good deal. Maybe that author is short in the emerging markets and he hopes writing a negative article will get people to sell.

Then he goes on to say the U.S. dollar should remain strong. Well, the dollar actually took a huge hit last week, which was very good for emerging markets and they held up really well. So the author is wrong on that point too. Third, he says trade wars will hurt emerging markets most. Well, we've heard a lot of talk lately about a "Border Adjustment Tax" and still the emerging markets keep going up. Then he also says the Chinese economy is shaky. But the news coming out of China is they're likely to have pretty good growth, at about 6.5% a year. Whereas the U.S. by comparison is looking at about 2% growth.

So my argument, and I think what investors need to be concerned about, is you could have just owned the S & P 500 or large cap U.S. companies for the past eight years, and you would have been right because the market has been on a magnificent run. But the problem is if you look at historical valuations, right now we already have a fully valued U.S. market, and you're going to need a return on your portfolio moving forward. So it's important to reposition your portfolio globally, because many of the valuations overseas are a lot cheaper and have significantly more room to grow in the future.

You need to be smart about it, look at your portfolio objectively and recognize that the U.S. has had a great streak, but realistically it can't keep up that kind of growth. Especially when we now have what some would actually call an overvalued U.S. market. That's why articles like the MarketWatch story are totally off-base, because there are other markets around the world that historically do very well and right now are actually outperforming the U.S. market.

WELCOME to the May 2017 edition of the Payne Capital Management CHRONICLE,



bringing you insightful investment information from the dynamic financial experts at Payne Capital Management (PCM). Our content is based on timely topics in the field and real questions from investors. We believe the approach at PCM is both different and better. In this edition, you'll learn our perspective on a variety of fundamental financial matters, such as how:

- The bull market that has existed since 2008 may obscure unwise investment allocations
- Conducting targeted research will help determine if a brokerage window is right for you
- The U.S. market is now fully valued and emerging markets are a smart buying opportunity

We bring it all to you in an engaging style that helps makes sense out of complicated issues. At Payne Capital Management, our focus is to create a Financial Master Plan for you by emphasizing a scope far broader than just investment selections. This plan is based on **Four Fundamental Foundations**: Income Generation, Tax Optimization, Estate Planning, and Asset Protection. As always, thanks for reading and we hope you enjoy what we have to offer.

Ryan Payne

PCM President

Inside this Issue

PAYNE CAPITAL MANAGEMENT
231 West 29th Street
Suite 1002
New York, NY 10001
www.paynecm.com