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KWB & Associates, Inc.

Wealth Managers Group

WEEKLY COMMENTARY

September 18, 2017

The Markets

"In theory, there is no difference between theory and practice, in practice there is."

Yogi Berra was talking about baseball, but the concept also applies to diversification, according to the *GMO* White Paper, *The S&P 500: Just Say No.* From the title, you might think the authors – Matt Kadnar and James Montier – don't like U.S. stocks. They do:

> "Being a U.S. equity investor over the past several years has felt glorious. The S&P 500 has trounced the competition provided by other major developed and emerging equity markets. Over the last 7 years, the S&P is up 173 percent (15 percent annualized in nominal terms) versus MSCI EAFE (in USD terms), which is up 71 percent (8 percent annualized), and poor MSCI Emerging, which is up only 30 percent (4 percent annualized). Every dollar invested in the S&P has compounded into $2.72 versus MSCI EAFE's $1.70 and MSCI Emerging's $1.30."

The authors' concern is U.S. markets have performed so well, investors may be tempted to abandon diversification and concentrate their portfolios in indexed U.S. stocks. Kadnar and Montier wrote, "Human nature is to extrapolate the recent past. It is easy to see, given the strong performance of U.S. equities in both absolute and relative terms, why many are suggesting they are the only asset you need to own."

Focusing assets in the United States, according to *GMO*, ignores the most important determinant of long-term returns: valuation. "From our perspective, one has to make some fairly heroic assumptions to believe that the S&P is even remotely close to fair value."

High valuations haven't dulled the appeal of U.S. stocks for investors, though. Last week, the S&P 500 closed at a record high, and the Dow Jones Industrial Average posted its biggest gain since last December, reported *CNBC.com.*

Data as of 9/15/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.6%	11.7%	16.4%	8.0%	11.3%	5.4%
Dow Jones Global ex-U.S.	0.7	18.9	18.3	1.6	4.4	-0.2
10-year Treasury Note (Yield Only)	2.2	NA	1.7	2.6	1.8	4.5
Gold (per ounce)	-1.7	14.1	0.9	2.3	-5.7	6.3
Bloomberg Commodity Index	0.5	-2.6	2.6	-11.1	-10.5	-6.9
DJ Equity All REIT Total Return Index	0.4	8.1	7.1	10.5	9.5	6.7

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

7 STEPS TO PROTECT YOURSELF AFTER THE EQUIFAX BREACH. From May through July, hackers exploited a website vulnerability at Equifax, one of the major consumer credit reporting agencies. If you have a credit report, there is a chance your sensitive and personal information including Social Security numbers, birth dates, addresses, and driver's license numbers, may have fallen into the wrong hands. The stolen information could be used in tandem with passwords taken from other databases to commit financial crimes against you, reported a source cited by *Consumer Reports*.

Here are seven steps to take to help protect your assets and credit:

1. **Find out if you were affected.** From a secure computer or encrypted network connection, go to the Equifax website, www.equifaxsecurity2017.com. Scroll down and click on 'Potential Impact.' You will be asked to provide your last name and the last six digits of your Social Security number.
2. **Enroll in TrustedID Premier.** If your data has been breached, Equifax will offer enrollment in TrustedID Premier. The program provides up to $1 million in ID theft insurance, Social Security Number Scanning, 3-bureau credit file monitoring, and the option to freeze your Equifax credit report.

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3. **Place a fraud alert or credit freeze on your other credit reports.** Experian, TransUnion, and Innovis also provide credit reporting services. Contact each of the companies to place an alert or a freeze on your credit report:
   - **A fraud alert** warns both current and prospective lenders they must take reasonable steps to verify your identity before providing credit. When you're a victim of ID theft, an alert can be put in place for up to seven years.
   - **A credit freeze** is different. It restricts access to your credit report. If you request a freeze, the credit agency will send a letter with a personal ID number (PIN). Keep the PIN in a safe place. You'll need it to unfreeze your accounts, according to the Federal Trade Commission.
4. **Change your passwords.** Create new passwords for online banking, brokerage, and financial accounts. Each account should have a unique password. Best practices suggest passwords have 12 to 14 characters.
   You may want to consider using a password management application. They're designed to store and retrieve passwords so you can keep track of multiple long, unique password combinations without security issues like storing passwords improperly or failing to remember them.
5. **Activate two-factor authentication.** Two-factor authentication provides an additional layer of security for email and other accounts. After you enter your user ID and password, you'll be asked for a code to verify your identity. You can have the account provider text a code to your phone, although that creates vulnerability if your phone is stolen. A better option may be to download an authenticator app so you can generate your own code.
6. **Beware email links.** Some fraud attempts are obvious: text or email from a Nigerian prince or an update request from a financial institution where you don't have an account. Others may be more difficult to spot. As a rule of thumb, if you receive an email with a link requesting you update or make changes to a financial account, don't click on it. Call the financial institution or go directly to its website to make any changes.
7. **Keep an eye on your accounts.** Check bank, brokerage, and other financial statements for suspicious transactions. If you find unauthorized activity, report it to the institution and the proper authorities.

If you have any questions or concerns about this breach or the markets, please contact us.

Weekly Focus – Think About It

"The most effective way to do it, is to do it." — *Amelia Earhart, American aviation pioneer*

Sincerely for the firm,

Kerrick W. Bubb

President, KWB Wealth Managers Group

LPL Registered Principal