James A. Braziel, CFP®
Registered Principal, NPB

Braziel & Associates, LLC

PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

1074 East Avenue, Suite L | Chico, California 95926
(530) 895-3344 | (800) 675-3344 | Fax (530) 895-3141

James H. Braziel, CFP®
Registered Principal, NPB

ADVISORS' THOUGHTS

On June 23, 2016 **global investors were surprised** by Brexit. The term Brexit is an abbreviation for **British Exit from the European Union**. The Brexit outcome sent global stock prices into a brief tailspin. The **dire predictions** of a **large market rout** being eminent if the vote was to leave, grew louder and louder in the days just after the election. However, a **funny thing has happened** in the ensuing weeks, **global stock markets rebounded** and in some cases are now touching all-time record highs.

The **full economic impact** from the British vote to leave will take **months and years to play out** as the actual departure from the European Union will not occur for some time. The process is the United Kingdom needs to invoke Article 50 of the Treaty on European Union and that gives both parties two years to negotiate the withdrawal.

There are a couple of **important lessons** that can be learned from the British vote and the brief market turmoil. **Economic outcomes** as the result of a political vote can take **years to play out**. Meanwhile, company earnings are influenced by the current economy and their individual efforts to enhance their business. **Stock prices** overtime are **driven by** their **earnings**, **and what investors are willing to pay for those earnings** based on their other choices, such as cash and bonds. Today we are in a historically low period of interest rates, and investments that may grow overtime such as stocks and real estate remain attractive if the economy is growing.

(Continued on Page 4)

BENCHMARK RETURNS THROUGH 06/30/2016

	3 Mo.	6 Mo.	12 Mo.
DJIA	1.38%	2.90%	1.76%
S&P 500	1.90%	2.69%	1.73%
Russell 2000	3.74%	1.41%	-8.14%
MSCI EAFE	-2.64%	-6.28%	-12.70%
MSCI Emerging Markets	-0.32%	5.02%	-14.21%
Barclays Inter-term Bond	1.15%	3.33%	6.42%
Barclays Long-term Bond	6.27%	14.55%	18.81%
ML High Yield Bond	5.78%	9.20%	1.70%

Source: Wall Street Journal and Morningstar Principia
Does not include reinvestment of dividends

DJIA: A price weighted average of 30 stocks.

S & P 500: A market value weighted index of 500 stocks.

Russell 2000: A market value weighted index of 2000 stocks.

MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

MSCI Emerging Markets: A stock market which captures large and mid cap representation across 21 Emerging Market countries..

Barclays Capital Treasury Intermediate-Term Bond Index: An index comprised of US Treasury securities with maturities between 2 and 10 years.

Barclays Capital Treasury Long-Term Bond Index: An index comprised of US Treasury securities with maturities of 10 years or longer.

ML High Yield Bond: An index of non-investment grade corporate bonds.

YOUR DURABLE POWER OF ATTORNEY

During the estate planning process there is often a great deal of planning and thought that goes into who will inherit the estate and how will they inherit it – outright or in trust. There may be several meetings learning about different planning techniques, discussing alternatives and reviewing draft documents. Once you become comfortable with your plan it is now time to sign your living trust, will and other planning documents.

There is **one document** that **may appear** to have **little significance** due to its typically short length, **but is very powerful** and its terms **should be considered carefully before signing**. That document is a **Power of Attorney**.

Powers of attorney (POA) can be durable or springing and can be very broad or for a specific purpose. A **durable power gives an agent** (the "attorney-in-fact") the **authority to act on your behalf**. It is **always in effect** and should be **given to a person** in a position of **absolute trust** to act **in your best interests**. A springing POA becomes effective based on a specific event, usually incapacity.

The **power of attorney** is used to **handle financial matters** not governed by the trustee of your living trust. This may appear unnecessary when you are getting a living trust because after all one of the purposes of the living trust is to manage your assets when you are unable. However, there are **numerous occasions when the living trust does not guide your financial decisions.**

Many investments, such as company **retirement plans** and **IRAs** are **not titled in a living trust** but are rather owned by the individual. If you were incapacitated or unable to make financial decisions on your own, **decisions to make contributions or withdrawals** on your behalf would **need to be made by the attorney-in-fact who holds the POA**. A **trustee** of the living trust would have **no authority to make retirement plan decisions.** Other major types of assets that are often owned by individuals are life insurance and annuities. In fact, for some, the majority of their assets are held in title as an individual and not in their living trust.

How about **benefits from Social Security, Medicare, civil or military service**? These are **all programs for the individual** so any **questions or decisions that need to be made with their regard** would **need to be made by the POA** agent for the individual. We have spoken to successor trustees for clients who have been frustrated that their role as trustee did not allow them to get assistance with Social Security.

The power of attorney document may refer to the probate code for that state where there is a statutory form power of attorney and incorporate that states language by reference. Therefore, the document you are signing may only be a few pages, but in essence is much longer. In addition, items may be added to expand or clarify specific situations on which the agent may act, or the scope may be limited by excluding certain areas.

One area that **sometimes is included** within a **power of attorney** is the ability to **amend or create trust documents** on your behalf. This is obviously a **very powerful position to put someone in** and the individual granting that power must have complete faith that their agent will act in the best interest of the individual granting the power, and not their own.

In fact, one estate planning attorney sometimes takes a unique approach with clients and their Durable POA. In a recent conversation I had with this attorney he commented that he will sometimes have the client sign a POA, but not give it to the agent or tell them about it. If the client then needs to use the POA, the client (if he/she is able) or this attorney will produce the POA for the agent. This keeps the document (and any temptation) confidential until needed.

A **recent estate planning situation** we worked on for a client had this **broad power to create or amend a trust in the draft of the Durable Power of Attorney.** And while this probably would have been fine if their spouse were still alive, it was not okay for their heir to have this broad power. Even though our client had a strong relationship with their heir, it was **decided best to eliminate the possibility** of someone **making changes to the clients living trust** (or replacing it entirely).

One should keep in mind that the person you select to be your agent may be the perfect person today, but may not be the right person down the road. If something **changes with the capacity or relationship with your POA** agent you should **make changes to the POA right away** and not delay. Furthermore, your **POA document might work fine for your first choice**

SMALL DOCUMENT—BIG POWERS

agent such as a spouse, but **may not be right for your backup choice**. These are important considerations when granting such broad powers to someone.

There are numerous important areas that a Power of Attorney may need to be involved in making decisions on behalf of someone. Despite the typically short length of this POA document, selecting **the proper agent** and having the **correct terms** are just **as important** with the Power of Attorney as having the **right successor trustee** of your trust or executor of your will.

ALL MONEY MARKET FUNDS ARE NOT THE SAME

Change is coming to the money market fund (MMF) industry. Beginning October 14, 2016 **some MMFs will have a floating net asset value** (FNAV) along with other reforms designed to better protect investors and the financial system.

To help understand these changes let's take a step back to look at what is a money market fund and why changes are being made. A **MMF** is actually a **mutual fund** that **invests in short term, high quality debt securities** such as US treasuries and commercial paper. Funds that invest mostly in corporate debt securities are referred to as "prime" funds.

Like all mutual funds the price can fluctuate although it has been extremely rare with a money market fund. Currently the portfolio value would have to change by 1/2 of 1% or greater for the typical $1.00 per share money market fund price to change. **MMFs** have **unique rules for how their holdings are valued** due to the conservative nature of their holdings that other mutual funds do not share.

During the week of September 15, 2008 Lehman Brothers declared bankruptcy and **several money market funds saw huge redemption requests** (particularly from large, "institutional" investors) **forcing them to liquidate** enough of their **remaining holdings** to have to **break the $1.00 share price**. Because of this and other disruptions during the financial crisis the **move to reform the money market industry began**.

One change is a **redefining** of what is an **institutional vs. retail prime money market fund**. Today the distinction is based primarily on the minimum dollar amount of investment while the **new definition** focuses on **who is the investor**. Natural persons (individuals, trusts whose beneficiaries are natural persons etc.) will be considered retail investors, while entities will be considered institutional investors.

Today institutional investors can invest in retail **MMFs** potentially causing large swings in the funds asset base. Beginning in **October this will no longer be the case** thereby creating **better protection for the retail investor** holding a retail MMF.

Moving forward **Institutional prime** and **tax-exempt money market funds** will have a **floating net asset value** (FNAV) rounded to the 4th decimal point ($1.0000) instead of the current 2nd decimal point ($1.00). Furthermore, the Institutional MMF will now use a market based price instead of one based on the original cost to value their portfolio holdings.

Additional measures designed **to protect investors** are the addition of **liquidity fees and redemption gates** to both retail and institutional prime and tax-exempt MMFs. These features are **added to address the potential of large withdrawals** on a fund and its **impact on investors** during periods of market stress. These MMFs **may charge up to a 2% fee** (liquidity fee) or **may suspend withdrawals for up to 10 business days** on withdrawals if their liquid assets fall to a certain threshold.

The result of these above measures is that some investment companies are changing their retail prime money market funds to government money market funds so their share price and liquidity features will remain the same. For the investor, some will need to make a change while others will be fine where they are. In many cases if a change is needed it will automatically occur directly at the fund level without any client action. **We are following** the implementation of these **money market fund reforms. For your managed accounts we will be making any change if needed** and for your **unmanaged accounts we will help you decide** which MMF to use and assist you in making those changes.

Investing based on politics has usually been a **bad long term strategy**. In recent years we have had numerous events such as a high stakes game of chicken with raising the debt ceiling, including the downgrade of US government debt. Today in the US we are in the midst of another political season, with dire predictions for the US if one presidential candidate wins over the other. Of course, depending on who you speak with, about half the people feel one candidate will ruin America and the other half of the people feel the other candidate will ruin America. The reality is that the **stock market** and **economy** are **not controlled by one person or political party**.

In spite of the recent market turbulence we are pleased to report **positive returns in most of your accounts for the 2nd quarter**. The beginning of the 3rd quarter through mid-July has continued the upward trend with the S&P 500 reaching new all-time highs.

A look back at the second **quarter shows a mixed picture** with large company US stocks, as represented by the **S&P 500, gaining 1.90%** while the large company **foreign benchmark, MSCI EAFE lost 2.64%**. Within the stronger domestic stock market, smaller companies began to show some life in the past 3 months as the small company Russell 2000 gained 3.74%. Smaller companies have been trailing large company stock for some time now as illustrated in the Russell 2000 declining 8.14 over the past year, while the S&P 500 index increased 1.73%.

A closer look at our **economy** has shown some **recent signs of improvement**. After a dismal gain of only 11,000 jobs in May the job market snapped back in June with a **robust gain of 287,000 jobs in June**, the Labor Department said. For the second quarter payroll growth averaged 147,000, enough to absorb new entrants into the job market according to economist surveyed by the Wall Street Journal. In addition, **worker paychecks have been increasing**, with average hourly earnings of private sector workers **increasing 2.6% in June compared to a year earlier**. This matched the strongest annual growth rate since the summer of 2009.

Positive developments in the job market can lead to increases in consumer spending. The US Census Bureau reported a **strong increase for retail and food service sales for June of 0.6%** when compared to May. Total sales for the April 2016 through June 2016 period were up 2.6% from the same period a year ago.

These **economic indicators** and others have been **recently exceeding their pre-release forecast**. In fact in the article "*All of a Sudden, U.S. Economic Data Looking Good Again*" the Wall Street Journal reported on this development on July 15th. They cite the following: "The Citi U.S. Economic Surprise Index, which gauges how data compare with economists' forecasts, is at its highest since January 2015. Meanwhile, it's positive for the first time since November – meaning data are topping expectations rather than missing."

Whenever results exceed expectations this can be **very positive for stock investors**. It means that whatever stock valuation methodology they are using may have been underestimating the earnings and earnings potential for the stock market.

We are entering a period magnified by political rancor and media hyperbole about the November election. It is easy for some to be distracted during a period of heightened noise from a long term investment program. From our perspective **we will follow** how the **economy and corporate earnings** are doing, being **mindful of political events**, and **search for areas to invest regardless of who wins** in November.