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Second Quarter Fund Performance "The Storm's Approaching"

By Michael Sheridan, Senior Consultant

The second quarter of 2017, as well as the year to date results for all of the funds in the plan, met or exceeded our benchmarks. From any valuation perspective, the funds have done well, especially when matched against risk/reward ratios.

Our 2016 decision to include at least one Index fund, as well as one actively managed fund in each investment risk category, has shown to be a good decision. As would be expected, the index funds matched their benchmarks.

Our actively managed funds mostly matched or exceeded their benchmarks for either stock or bond funds.

We had strong reasons, including reductions of expense ratios, to replace the Fidelity Target Date funds last year with similar funds offered by American and those replacements have all done well.

Bond funds, with their lower risks but lower reward expectations, matched their benchmarks, except for the Inflation Adjusted fund. This fund will continue to underperform compared to its benchmark until inflation resumes at some moderate level. As we read almost every day, inflation is low and is now one of the primary drivers of the Federal Reserve's decision as to whether or when to increase interest rates.

So what's there not to like? Why the subtitle of "The Storm's Approaching?" It is because most analysts, including your FBMC staff, do not believe these performance levels are sustainable. We think that the stock market is overpriced and not representative of historically sustainable levels. With almost daily disruptions in global or political activities, abnormal seems to be the new normal (for now).

It is our observation that there are limits on how much anything can be valued – especially when there are alternatives to purchasing (or not!) – and when stock values (known as Market Capitalization, i.e.; total number of shares multiplied by current stock price) exceeds perceived or actual value.

I wrote about some of these excesses in past columns, especially with regard to the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google). Throw in such groundbreaking disruptive companies, like Tesla, and you have a group of stocks that are dominating their indexes in Market Capitalization. They sell for prices (except Apple) that far exceed the values that their profits (or lack thereof) deserve.

These are example of wonderful and innovative companies that both investors and traders like and want to own, but at what price and when?

We think that a storm is approaching and a stock market correction is overdue. A correction is 10% or more and a recession usually is categorized as a 20% or more sell off. If we are correct, why give up so much profit that you have earned in your plan? Why not sell off some of your positions and reinvest into lower risk offerings?

I **do not** believe that we are about to go into a recession; our economy is too strong and on sound footing. It's just that most quality stocks in sound market sectors are so overpriced. The S&P 500 average Price Earnings ratio is now over 22 as compared with the historic perspective of around 15. The FAANG stocks comprise around 40% of the market cap for this index.

My 50+ years of participation and observation of investing in publicly traded company stock or bond offerings is that anyone who thinks they can predict any traded investment's top or bottom is playing a fool's game. We are not going to play a fool's game.

So, going on the old fashioned (but for me a still very valid) axiom, "All profits are good, regardless of how much," we think that now is the time you might consider taking some profits in stock funds that you own in VISTA 401(k) and transfer to lower risk funds in the plan.

I would not do this for the Target Funds because the American Funds managers are doing just that, as they rebalance each fund in their glide path to their target dates, which should be close to your planned retirement date.

You might want to consider using some of the Balanced Funds (Stock and Bond combinations in the same fund). Vanguard; Wellesley is a conservative mixture of about 60% Bonds and 40% Stocks. Perhaps this is a good combination until the stock market stabilizes toward sustainable values and you can again shift back to the funds you currently like – but at realistic prices. Vanguard; Wellington is an actively managed, but moderate risk fund that maintains about 40% Bonds and 60% Stocks.

We will monitor market dynamics on an almost daily basis, and along with participation from your plan's Advisory Council, will reach consensus about when to make recommendations about rebalancing again in the future – back into a greater stock mixture.

International markets have been beaten down for a long time and stocks from European and Pacific Rim countries are nicely rebounding this year. However, they too should be considered for profit taking and rebalancing.

That leaves our three all-bond funds for consideration. As mentioned above, inflation growth is not yet at the point where our fund in this category should be considered for your rebalancing processes of moving assets into this fund.

I think that the Government Bond fund is a healthy alternative and presents minimal downside and some upside, as interest rates rise.

The Fidelity; Total Bond fund is a good mix of government and private sector bonds that is outperforming its indexes. You may choose to transfer much of your profits into this fund for the near future.

The plan's money market fund is not an investment. As I have stated for years, it is a place to temporarily park money. It does not have an annualized yield of even 1%, has not had it for years and is unlikely to return much more than 1% in the foreseeable future. Its return is less than "break even," despite our economy's meager current inflation rate. That means when factoring inflation into your return, you are losing money. Why continue to do that when you know the outcome?

I suggest that a healthy place to transfer any money market assets (that you continue to own in the plan) would be either to the Government and/or Total Bond funds. The only exception is for those of you who have retired, or will be soon, and need the predictable availability and known values of your assets for your planning.

I suggest that you might want to go to our website, scroll through it and take the Investment Risk Profile for an indication of your tolerance for risk. Be guided by the results and make your rebalancing decisions accordingly.

I am uncomfortable suggesting a healthy mix between stocks and bonds at any time because of the wide range of our participant ages and dates before retirement – when they will need their funds. However, if I was in a pre-retirement circumstance with at least 5 years before retirement, I would own a 60% Stock and 40% Bond mix. If you are closer to retirement than 5 years or have already retired, my recommendation would be a smaller stock and larger bond percentage mix.

Please understand that when our world stabilizes and stock markets return to some semblance of normality, we will reverse our recommendations and suggest a greater percentage of stocks than we currently recommend. That would allow you to buy funds that concentrate on high-quality companies whose stocks have returned to reasonable prices.

Yes, this is nothing more than adherence to the old adage of "buy low and sell high."

This column is one of the longest that I have written, but I believe it is our responsibility to notify you of our predictions that The Storm's Approaching and we all may wish to seek safe places.

Furthermore, when you rebalance, hopefully in the next few weeks after reading this column, that you diversify, diversify, diversify! Best wishes and call us if you want to talk about these matters.

Credits: Thanks go for your School District's participation in the Vista 401(k) Advisory Council meeting on June 9, 2017, and the insightful guidance that led to these recommendations. Special thanks go to Joe Flynn of M-DCPS for suggesting the subtitle for this column.

Is an Annuity Right for Me?

By Daniel Miller, Retirement Plan Analyst

When making a big purchase, such as a television or hardware tool, we have the advantage of using the product to see if we like it and if we don't, return it to the store for a full refund. This helps us prevent buyer's remorse on a significant purchase. And that is what this article is aimed to help you with: prevent buyer's remorse on a retirement annuity.

While many annuities come with a "free look" period, often between 14 and 30 days, this isn't enough time to assess the performance of an annuity vs. other options. If you find you do not like this investment strategy, your options to change may be limited or non-existent. Annuities also often have surrender charges invoked when participants leave the contract early. For those staying invested to the maturity date of their annuity, excessive fees may hinder the long-term performance of the contract, especially when compared to the broader market. A vast majority of annuity contract purchases are never annuitized, which means the contract is cancelled and money withdrawn before the annuity begins its payback period. This leads us to ask the question, "Why would people purchase a product they're not going to use?"

The short answer is an annuity is an investment contract sold most often by a for-profit life insurance company. Expertly-designed communication and marketing materials do an excellent job of highlighting the strengths of an annuity, which are guaranteed income in retirement and downside protection, while hiding the weaknesses, including high fees, poor performance and surrender charges. Field agents for these companies are also keen to promote these strengths and focus on our innate fear of the unknown to sell their product. They may not advise the commissions involved in a contract purchase. The vast majority of our participants reading this newsletter already have guaranteed income from Social Security and the Florida Retirement System. With secure sources of income already established, if an annuity you purchase returns only half what a Vanguard S&P 500 Index Fund does over 10 years – while charging you higher fees and providing less access to your invested capital why have the annuity?

The majority of annuities sold and in effect today in your 403(b) plans are variable or indexed annuities. Variable annuities provide access to the broader market through mutual funds and allow you to invest in a strategy to achieve variable returns for your annuity. An indexed annuity tracks a market index, such as the S&P 500, and gives you a percentage of the performance of that index as your return. Both annuity types do offer downside protection in market down years. However, the average performance of these annuities over the long term is often significantly lower than the broader market. This is a direct result of the high fees and contract limitations on returns these annuities contain.

Thankfully, the new Fiduciary Rule from the Department of Labor aims to ensure agents selling you an annuity are acting in your best interest, and not just merely recommending a suitable, but fee laden, product. We are already seeing shifts in this industry as providers are lowering fees on new annuity contracts and providing updated guidance on recommending rollovers to their accounts. As with any contract, make sure to read the fine print and ask questions about fees and performance to fully understand the contract you're purchasing. Despite the negatives outlined in the paragraphs above, there may be a time, particularly when you actually retire, that an annuity may make sense for your retirement plan. We encourage all participants to speak with a financial advisor to determine if a product, such as a Single Premium Immediate Annuity, Fixed Annuity, or other annuity product, is the best option for your retirement goals.

In conclusion, the Vista 401(k) Plan is designed around the premise of being a low cost, simple and convenient retirement plan. This plan has no hidden fees, no complicated annuity contracts, and offers 25 mutual funds for participants to design a retirement strategy that best fits their goals. We want to help our participants and all employees make decisions that benefit them over the long term in their retirement plan. Give us a call today at 1-866-325-1278 to learn more about the Vista 401(k) or to ask any general investment questions you have.

Disclosure: FBMC Retirement Services encourages participants to do their due diligence in assessing their retirement accounts.

Good Personal Finance Habits Lead to Better Outcomes

By Robert Pumphrey, Retirement Service Representative

When you learn good habits, you tend to have better outcomes. Spending less than we earn and not living beyond our means is one of the most important personal financial goals we can achieve. This allows us to save for emergencies, put money away for retirement and pay off outstanding debt. It's the primary habit that enables us to achieve some level of financial freedom. In this article, we will provide you some common ways to save more money and to establish some financial habits to reach your goals.

"Pay yourself first" is a popular phrase in personal finance and retirement planning that means automatically routing your specific savings contribution from your paycheck at the time it is received. This is one of the best habits to follow by getting money directly from your paycheck and into savings first. Many Americans spend more time and money planning for their vacation than they do planning for their retirement and placing your savings on autopilot ensures you consistently save. In fact, if you are not contributing to your school-sponsored Vista 401(k) Plan, it requires only $25 a paycheck to get started. Rather than saving what is left over at the end of month, save first and spend afterwards. Your 401(k) contributions are automatically deducted from your paycheck and you benefit from paying less federal income taxes as each contribution is assessed pre-taxed. It is easy to start your 401(k) account and make a commitment to saving for your retirement.

Another good habit to saving more money is to determine the amount you spend each month and what amount you can afford to set aside for savings. Often, the hardest part about saving money is getting started. Generally, the first step to saving money is to calculate how much you spend. This step requires some time and energy to establish a budget, utilizing your valuable personal time. Don't get discouraged by what your budget uncovers. The purpose is to help you to understand where your spending goes so that you can strive to spend with goals and purpose in mind. A few common steps to making a budget include:

- **Set realistic goals**
- **Identify your income and expenses**
- **Separate needs and wants**
- **Put your plan in action**
- **Be easy on yourself, as a budget takes time**

While you are taking the time to look at your spending habits, you might discover an opportunity to create a savings category within your new budget. As a starting goal, try to put away 10-15 % of your income. If you are finding it hard to set aside that much immediately, begin by "taking baby steps" to reach your goal. Most of us are familiar with the phrase "Eat the Elephant One Bite at a Time." If you are a 20-pay employee during the school year, $25 per payroll toward your 401(k) plan equals $500 a year. Upfront, that may seem like a lot to save. But when calculated over a yearly period, this is less than $1.50 per day – less than a cup of coffee at your local convenience store. Taking those small commitments to save now will mean your retirement plan, or emergency fund, or even a summer savings account will be stronger and carry a larger balance than they otherwise would have.

Summarizing, we hope that we have provided you with a better understanding of how to focus on saving and strategies you can put into place today.

Secure Your Retirement Nest Egg!

By Toni Milton, Retirement Solutions Analyst

Even though your salary as a School Board employee may be modest, you probably feel some retirement financial security knowing you have the stability of the Florida Retirement System to support you when you retire. However, your FRS pension and Social Security payments may not be enough to cover your living expenses in retirement. And while retirement can be an exciting time of new adventures, it also can be stressful and worrisome if you are not prepared. You may also believe now is not the time to investment money into a 401(k) plan. You may be focusing all your time, energy and money on living in the now, but the decisions you make now regarding your retirement plans – including how much you're saving – will be an important determining factor regarding your future financial security.

There are a few methods you haven't considered that could jump start your retirement saving. One method is consolidation, which means to reduce the number of different retirement accounts you may have. You may think that's a task you do once you retire, but if you have a retirement account that you can't contribute to anymore, why not roll it over to consolidate your assets? Regardless of your retirement date, rolling over old retirement accounts to the Vista 401(k) Plan can be beneficial to you. The Vista 401(k) Plan embraces the highest ethical standard and best business practices in order to offer superior quality and well-rated investments in this retirement plan. Also, remember that this 401(k) plan is one of the lowest cost options available to you. The Vista 401(k) Plan has institutional funds that are not available to individual account holders. There are also actively-managed funds with fees well under the industry average. Your employer may also offer you the opportunity to rollover unused sick time or sick leave to your 401(k) account. That's a way you can contribute without have deductions coming directly from your paycheck. To see if this is a benefit that may be available to you, check with the Risk and Benefits Office at the School Board.

If your retirement savings goals are based on the premise that the money you will receive from FRS & Social Security at retirement will be enough for you to live in retirement, chances are you are putting all of your eggs in one basket. The cost of living for retirees, particularly medical expenses, are steadily going up and outpacing inflation and cost of living increases. You may need to set aside additional money from your paycheck to supplement your retirement income. Why wait to begin thinking about how to accrue a retirement income? Take the time today to work through your budget and make a commitment to save today.

Planning is a big part of retirement saving, as it helps you visually see what income you will have, and expenses you will likely incur, in retirement. If you don't have a plan, chances are you won't be ready for retirement. Those who plan will have more retirement income than those who don't. Through your School Board's 401(k) plan, you can set aside money from each paycheck pre-tax for retirement. It's a simple, low-cost retirement saving option offered as a benefit by your employer. When you start contributing and your account starts to grow, don't focus all of your attention on the investment returns. Rather than focusing on short-term investment returns, think about an investment strategy that will maximize the reliability of your retirement account. Think about how you can contribute more to your account and increase your contribution when you are able – and don't forget about those compounding returns!

Educate yourself on your options. Read everything you can about retirement income strategies and investments. Now that you have some time on your hands, it's the perfect opportunity to take stock of your retirement accounts and make sure you're in the best possible position for saving for retirement. We encourage you to take advantage of your School Board-sponsored 401(k) plan. Remember, by diverting even a modest sum on a regular basis, you can build a substantial account value over the long term.

The DROPBox

Are you enrolled in DROP? Do you have questions about your distribution? Would you prefer to receive information specific to your needs?

Call us at 866-325-1278 or e-mail us at 401k@vista401k.com for one-on-one service from our experienced Retirement Services Team.

Upon termination, you must select a payout method for your DROP benefits from the following three DROP payout choices:

- Lump Sum Distribution – less income tax withholding (under age 55, an additional 10% tax penalty withheld)
- Direct Rollover – no tax withholding
- Partial Distribution and Direct Rollover – some income tax withholding

Here are some good reasons to rollover the DROP payout into a Vista 401(k) account:

- If you take the DROP funds as a payment directly to yourself, these funds will be taxable income for the current tax year.
- If you qualify for normal retirement from the School Board and reach the age of 55, you qualify to withdraw your funds without incurring the age 59½ withdrawal penalty from your 401(k) Plan. This means that if you choose to rollover your DROP funds to your 401(k) Plan, instead of a traditional IRA, you can withdraw funds before age 59 ½, without a penalty.

If you entered DROP in 2012, you will receive your payout distribution this year. Call Vista 401(k) at 866-325-1278 for the necessary forms to complete.

IMPORTANT LINKS

Fund Performance
Fund Performance for June 2017 is ready to view by **clicking here.**

Risk Tolerance Assessment
Have you recently taken an investment risk assessment for your 401(k) Account. **Click here** to begin this questionnaire.

Like us on Facebook and Twitter
Stay up to date on market activity and other important Vista 401(k) Plan information

Contribute to your retirement through the Vista 401(k) Plan today. Click here to Enroll!

Increase your contributions
Want to increase contributions to your 401(k) Account? Complete this **form** today!

Confirmed your beneficiary?
Have you confirmed the beneficiary on your Vista 401(k) Account? Complete this form to update your beneficiary information.

Have Questions?
Visit our frequently asked questions page on our website by **clicking here.**