A Compendium on Achieving Financial Independence

EnRich Financial Partners
ALIGNING YOUR MONEY WITH YOUR LIFE

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Year Past and Year Forward

The year 2015 will go down as a frustrating and poor year for global stock markets. Some markets, like energy and emerging markets which declined -23% and -15% respectfully, had truly bear market level returns. The most visible index, the S&P 500, came in with a slightly positive return for the year. However, as we explained in our November commentary, a very narrow set of about 20 stocks masked the nearly universal decline by the rest of the 480 stocks in the index. Indeed, there was a significant amount of day-to-day volatility, but remarkably the Index's overall variance this past year has been a bit less than average: peak and subsequent trough are separated by 12.4% as against the average since 1975 of 14%. One could not have inferred this through the endless commentary of financial journalism which spent countless hours trying to find the determinants of equity price movements this past year. Oil's steep price decline seems to have become the latest whipping post for why markets were so unstable, with more than half of all stocks being negative for the year. This was of course coupled with an obsession with the slowdown in China. There is no doubt that China's economic growth rate has slowed, but what was missing in the commentary is that China's growth rate will continue to slow, as all countries that move from early industrialization to mid-cycle Industrialization have. Thus, a slowing China is a perfectly normal part of the economic process.

> We can decide how much to draw on our retirement accounts, how much to invest during our working years, what long-term overall asset allocation to equities versus bonds to have, and how long we should work.

A globally diversified portfolio tilted to value stocks suffered in 2015 compared to high priced U.S. growth stocks. When following a sound investment process that has been out of favor for some time, we know it is tempting to feel disheartened and question whether the future will be bright. There will always be great unknowns. We have no predictive power to suggest that there will not be significant macroeconomic developments, geopolitical events or surprise variables like terrorist atrocities in the coming year. Nor do we have any predictive power to know whether equity markets will experience further setbacks in 2016 or rise to new highs.

Rather, we would like to make an entirely different point. We do not try to—because we can't—manipulate outcomes. This seems strange in a retirement planning world where one may "need" a certain outcome to achieve a sustainable and lasting retirement. We just recognize that we

- We have control over inputs.
- We can decide how much to invest and how long to work.
- We also have control over how to view markets.

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have no control over the delivery of returns from the market. Therefore, we have focused our efforts on inputs. We have complete control over inputs. We can decide how much to draw on our retirement accounts, how much to invest during our working years, what long-term overall asset allocation to equities versus bonds to have, and how long we should work.

We also have control over how to view markets. We can choose to live in fear of market declines. We can question our long-term strategy when markets don't deliver what we expect in the near term. Or, we can choose to genuinely believe in our philosophy of the capital markets and have faith that the global economic system will produce sufficient prosperity for us over time. One of America's great gifts to her people has been our ability to recognize that whatever the problem is—the economy, the Middle East, terrorists, Congress, or millions of others—we can meet it and our system can meet it. Yes, we have problems, and there will always be issues to solve. But over time, the market keeps rising to new highs - albeit punctuated at times by horrific declines - and economic prosperity keeps rising.

We recently came across this amazing compilation of advancements from the past 40 years. We hope you are as awestruck as we are by the US and global accomplishments listed here in spite of all of the problems the world faced during those four decades, as well as the sheer magnitude of the economic prosperity that has been achieved. We hope you feel the way we do, that when one focuses on the big picture rather than on the day-to-day or even year-by-year "noise," our faith is restored and our anxiety is reduced.

1975

Saigon falls. President Ford escapes two assassination attempts within seventeen days. Margaret Thatcher becomes the first woman leader of Britain's Conservative Party. Andrei Sakharov, the great hero of Soviet resistance, wins the Nobel Peace Prize. *Saturday Night Live* debuts on October 11. An American and a Soviet spacecraft link up in space; the event is memorialized on a beautiful ten-cent U.S. postage stamp.

- Global population: 4.1 billion, ***fully half of whom live in extreme poverty, as defined.***
- U.S. population: 216 million
- U.S. real GDP: $5.49 trillion

- S&P 500 year-end close: 90.19
- Earnings: $7.71
- Dividend: $3.73

1985

Gorbachev comes to power in the Soviet Union and meets with President Reagan. The Internet domain name system is created. Windows 1.0 is published, and the first successful human heart transplant takes place. The song of the year is "We Are the World." In the greatest marketing catastrophe since the Edsel, the Coca-Cola Company introduces New Coke. A first class U.S. postage stamp costs twenty-two cents.

- Global population: 4.85 billion
- U.S. population: 238 million
- U.S. real GDP: $7.71 trillion

- S&P 500 year-end close: 211.28
- Earnings: $15.68
- Dividend: $8.20

1995

The Oklahoma City bombing is the greatest domestic terrorist atrocity in American history. O.J. Simpson's murder trial begins and ends ten months later in his acquittal. Israeli Prime Minister Yitzhak Rabin is assassinated. The Rock and Roll Hall of Fame and Museum opens in Cleveland. Jerry Garcia dies. A postage stamp costs thirty-two cents.

- Global population: 5.7 billion
- U.S. population: 266 million
- U.S. real GDP: $10.28 trillion

- S&P 500 year-end close: 615.93
- Earnings: $37.70
- Dividend: $14.17

Year Past and Year Forward

2005

Hurricane Katrina devastates an American land mass larger than Great Britain. Saddam Hussein goes on trial for his life. July 7 becomes London's 9/11, as coordinated attacks on the bus and subway system claim 52 lives. Pope John Paul II dies; he will be canonized only nine years later. A postage stamp costs thirty-seven cents.

- Global population: 6.5 billion, ***but by the turn of the century, the rate of extreme poverty has fallen to one person in three.***
- U.S. population: 296 million
- U.S. real GDP: $14.37 trillion

- S&P 500 year-end close: 1,248.29
- Earnings: $76.45
- Dividend: $22.38

2015

A radical Islamic faction, ISIS, casts the Middle East into chaos and carries out terrorist atrocities in Paris and elsewhere. Refugees pour into Europe. The world's leading nations reach an accord with Iran on its nuclear development program. Yogi Berra dies. A postage stamp costs forty-nine cents.

- Global population: 7.29 billion, ***less than one in ten of whom live in extreme poverty.***
- U.S. population: 322 million
- U.S. real GDP through 9/30/15: $16.39 trillion

- S&P 500 year-end close: 2,043.94
- Earnings (full-year estimate): $118
- Dividend (full-year estimate): $43

This, then, is the tale of our four decades:

- Global population up nearly 80%, with extreme poverty slashed from one human in two to one in ten, creating wave upon wave of new middle class consumers.

- U.S. population up by half, and gaining a new person (through net births and migration) every fourteen seconds. And still with room to grow: population density per square mile in this country is 85, compared with almost 300 in France, 590 in Germany, 680 in the UK…and 870 in Japan.

- Real GDP more than tripled, on only a 50% population increase—meaning real GDP per capita has soared.

- The S&P 500 rose more than twenty times, on an earnings increase in excess of fifteen times and a dividend boost approaching twelve times. Far more significantly, these gains must be measured against an increase in the general level of consumer prices scarcely more than four and a half times. ***Surely this is the greatest accretion of real wealth by the greatest number of people in the history of the world.***

What are the megatrends underpinning this spectacular economic and financial progress? Well, there are two, and of course they form a virtuous cycle. They are ***the spread of the free market,*** as liberty vanquished communism and most extreme iterations of socialism during this period, and ***exponential progress in information technology.*** (Today, a middle school child carries in her backpack a smartphone with more computing power than the state-of-the-art mainframe had in 1975.) This cycle continues apace.

As we embark into 2016, please never hesitate to share with us any concerns you have, and likewise, share anything you would like for us to be doing that perhaps we are not or could be doing better. We have found the single best thing to facilitate our mutual relationship is to always exhibit candor and openness in our communication together.

We wish you peace, health, and prosperity in 2016!

This material may contain forward or backward-looking statements regarding intent, beliefs regarding current or past expectations. Such forward-looking statements are not a guarantee of future performance, involve risks and uncertainties, and actual results may differ materially from those statements as a result of various factors. The views expressed are also subject to change based on market and other conditions. Furthermore, the opinions expressed do not constitute specific investment advice or recommendations by EnRich Financial Partners.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value-weighted index. The Russell 2000 Index measures the total return of small capitalization U.S. stocks and is a market value-weighted index of the 2,000 smallest stocks in the broad-market Russell Index. The MSCI EAFE is a Morgan Stanley Capital International Index designed to measure the total return of the developed stock markets in Europe, Australasia, and the Far East. The MSCI EM is a Morgan Stanley Capital International Index designed to measure equity performance in global emerging markets. The S&P 500, Russell 2000, EAFE, and EM are unmanaged indexes. One cannot invest directly in an index. Past performance does not guarantee future results.

1975-2015 data obtained from the December 2015 issue of Nick Murray Interactive.