SEVENS REPORT *alpha*

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Additional Breakout Sessions:

Lessons Learned from Four Decades of Tracking Advisers' Returns (Mark Hulbert, Founder, Hulbert Financial Digest and Hulbert Ratings)

- He has objectively tracked the performance of hundreds of investment advisers for 40 years.
- His systems track what advisers are doing, not what they are saying.
- Analysis shows it is tougher for advisers keep up their return persistence. Repeat market-beating performance on a year-over-year basis is really difficult to achieve.
- Randomness and luck clearly play a role, but the results are even worse than would be expected on the assumption of pure randomness.
- It is notoriously difficult to separate the relative roles of luck from skill.
- Benjamin Graham: "One lucky break, or one supremely shrewd decision—can we tell them apart?—may count for more than a lifetime of journeyman efforts."
- Luck plays the predominant role in investment performance, but it doesn't account for everything. Unfortunately, the additional factor of skill has, on balance, a negative impact.
- Emotions interfere with skill. Our emotions overreact by leading to buy when we should sell and sell when we should buy.
- Hulbert averages recommended exposure levels in different market arenas: Broad stock market, Nasdaq stocks, gold and bonds. Current sentiment index readings: Broad stock market (59.9%), Nasdaq stocks (64.7%), gold (16.7%) and bonds (2.6%). Based on historical averages, broad stock market and Nasdaq stocks are high… and gold and bonds are low.
- Lesson #1: Beating the market is almost entirely a matter of luck.
- Lesson #2: Our emotions make matters even worse.
- Lesson #3: The corollary of lesson #1 and lesson #2 is that contrarian analysis would be helpful.
- Lessons #4: Don't do something stupid. Avoiding the biggest mistakes is probably the most important thing you can do.
- Lesson #5: Don't just do something, sit there. The

fewer things you do, the better. If you do decide to do something, do it for reasons/trading rules you have specified in advance.

- Lesson #6: Have patience. Don't give up on a strategy just because it lags the market along the way. No one beats the market all the time.

- Lesson #7: Consider a strategy that invests in high momentum stocks. Momentum has been one of the best performers going back to 1926.

- Lesson #8: Keep risk low. High risk inevitably leads to losses so big that recovery becomes unlikely.

Tom's Takeaways: Overall, I liked this presentation because it reminded me of the core principles that make for a successful investor and advisor. More practically, in thinking about hard it is to consistently outperform, look for active funds where a first-rate portfolio manager is having a bad year—the bad year is likely an anomaly, not the new normal.

Why Smart Investors Underperform and How to Improve (Spencer Jakab, Investing Columnist, The Wall Street Journal)

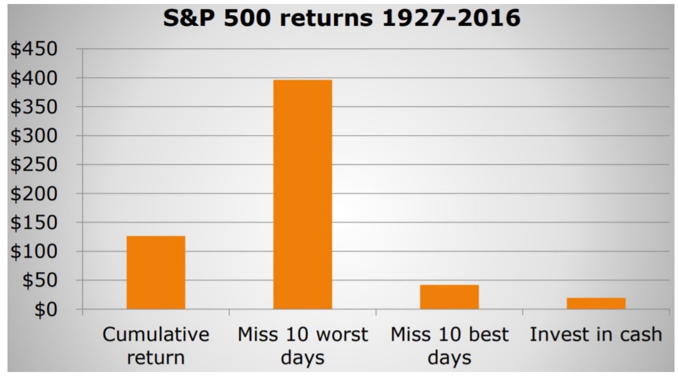
- The average investor is actually below average. Sounds ridiculous, but it's true due to the magic of poor timing and high costs.

- An investor's worst enemy is himself/herself. Benjamin Graham: "The investor's chief problem—and even his worst enemy—is likely to be himself." Daniel Kahneman: "We're blind to our own blindness. We have very little idea of how little we know. We're not designed to know how little we know."

- Even if you bought SPY at the top in October 2007 (the worst possible date of 10/9/07), you'd be up over 100% right now.

- A lot of the best days in the market occur after some of the worst days. You have to be in it to win it.

- A family member of his bought Amazon in an online account back when internet trading started up. This person forgot about the account and only recently discovered it. If this person would have been watching it the whole time, AMZN experienced 2 annual drawdowns of 70%-plus in the early going. Who would have stuck with the stock through that volatility? Not many folks, unless you weren't watching.



- A previous study was done on how advice-giving investment bank analysts did return-wise in one particular year. The study followed every buy and sell recommendation and measured the outperformance/underperformance versus the market. Results: Credit Suisse (+3.4%), Nomura (+2.8%), Cantor Fitzgerald (-0.2%), BMO (-1.5%), Barclays (-2.4%), UBS (-2.5%), Citigroup (-3.1%), RBC (-4.2%), Bank of America Merrill Lynch (-5.2%), FBR (-5.6%), J.P. Morgan (-6.7%), Goldman Sachs (-8%), Baird (-8.9%), Deutsche Bank (-8.9%), Mizuho (-11.8%), Canaccord (-16%). Takeaway: It's incredibly hard to predict the future in the short term.

- It's great to be a pundit. If you're a pundit, make big predictions because you might get one right. If you get one wrong, people will forgive and forget. But if you get one right, they'll remember it.

- Advice: Be cheap (don't be cheap in terms of financial planers). Be lazy (studies show people who trade the least, do the best—activity is your enemy). Be robotic (rebalance regularly). If you do these things, you will do way better than the average investor.

Tom's Takeaways: A nice reminder how bad Wall Street analysts can be (they're not always this bad!). Generally, for most investors, keeping expenses low… investing for the long term… and periodic rebalancing is the best way to go. Often, this is the same advice that many financial advisors follow in client portfolios, too.

Momentum Investing: Simple, but Not Easy (Wesley Gray, Ph.D., CEO, Alpha Architect)

- The most basic momentum strategy that everyone talks about and writes about is stock picking momentum (specifically, relative strength momentum). For example, compare the relative performance of stock A to stock B at some point in time. Buy the winner and either don't buy the loser or sell short the loser.
- Even Fama and French acknowledge the historical evidence: "The premier anomaly is momentum…"
- Momentum is an open secret.
- Various academic papers highlight momentum has capacity constraints. Academics say $5 billion. Whereas, institutional investors that actually manage money say it's well over $50 billion. Practitioners use S&P 500 trading data and estimate costs are less than 10 bps. Academics do not have access to S&P 500 trading data and estimate costs of close to 65 bps.
- There are a lot of investors who are trading momentum and don't even know it. Often times, the highest momentum and lowest momentum funds are sector funds.
- The ETF crowding argument lacks evidence because for every dollar on the buy, there's pretty much a dollar on the sell.
- Higher risk + mispricing = expected excess return. In the end, the magic formula for earning excess returns is "no pain, no gain."
- Fact #1: Momentum can win big. It works, but it requires focus and frequency. The more concentrated and higher turnover in a momentum strategy, the more you are going to make (gross of costs). If you do it right, you can earn premiums by using a momentum strategy, but you'll have to persevere through volatility along the way.
- Fact #2: Momentum can kill you. Long-only momentum portfolios can underperform and lose big at times. If the market blows up, a long-only momentum strategy is going to blow up, too.
- Fact #3: Fancier momentum typically just contains more problems. It tends to be the case that slow-grinding, low volatility momentum stocks have a higher probability of continued success than rip-roaring, momentum stocks.

Tom's Takeaways: As I said, I'm a fan of momentum, as it's powered the market higher through 2017. Relative strength is one of my favorite indicators. Alpha Architect has several momentum-based ETFs worth investigating if you don't have any momentum exposure: QVAL, IVAL, VMOT, QMOM, IMOM. Sticking with the international theme, I like IVAL and IMOM.

The Value of Dividends (John Buckingham, CIO, AFAM Capital)

- The secret to investing in stocks: Although the stock market experiences ups and downs, the long-term trend is up.
- History is filled with plenty of disconcerting events, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.
- On an annual basis, big selloffs happen more often than not. There have been corrections of 10% of more in 24 of the last 40 years.
- Myopic loss aversion is the combination of a greater sensitivity to losses than gains and a tendency to evaluate outcomes frequently. Over time, investors who got the most frequent feedback (most information) took the least amount of risk and earned the least amount of money.
- Betting against the financial media and investor sentiment will serve you better than betting with.

- Beware of investment newsletter "doom and gloomers." Remember, fear always outsells greed in this business.

- Volatility is part of the investment process. Selloffs, downturns, pullbacks, corrections and bear markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes. On average, 10%-plus setbacks occur every 10 months, which is about the same frequency as 10%-plus rallies, but the magnitude of the gains historically has been far greater than the losses.

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	29514%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	16803%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	14758%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	5806%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	6281%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	4529%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	3470%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3408%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	2586%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	3655%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2265%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2412%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2082%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1451%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	965%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	939%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	686%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	554%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	522%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	478%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	461%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	403%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	182%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	157%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	84%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	153%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	177%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	129%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	111%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	241%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-8%**	**19%**	**42%**	**71%**	**3509%**

As of 11.1.17. Source: Al Frank using Bloomberg and Ned Davis Research Events & Reaction Dates

- Few investors earn the market return due to poor market timing. For instance, in 2016, the S&P 500 produced a annual return of 11.96%, while the average equity mutual fund investor earned just 7.26% (a performance gap of 4.70%).

- From 6/30/27 to 8/31/17 as measured by annualized returns, dividend paying stocks returned 10.5% (with a lower standard deviation), while non-dividend paying stocks returned 8.7%.

- Although major market averages are trading near all-time highs, the payout on the S&P 500 (1.93%) is still rich compared to yields on fixed income instruments. The Schwab Value Advantage MMF yields 0.98% (average of 2.5% over last 25 years).

- Dividends aren't guaranteed. But, evidence suggests corporate America has a long history of raising quarterly payouts. Whereas, the coupons on most debt instruments are fixed.

- Mix value with dividends. Throughout nine decades of market history, value stocks have outperformed growth stocks by 400 bps per year, while dividend payers have outperformed non-dividend payers by 180 bps per year.

- Despite the major market averages residing near record highs, value stocks (Russell 3000 Value Index) trade at a lower-than-normal P/B ratio (over the past 22 years) and the valuation gap with growth stocks (Russell 3000 Growth Index) is as wide today as it has been since 2000.

- Myth debunking: Rising rates won't kill the stock market; Historically, value stocks outperform growth stocks, but the annualized difference is even more pronounced, on average, for 2, 3 and 5 years following the first rate hike; On average, dividend payers beat both the S&P 500 and non-dividend payers 2, 3 and 5 years following the initiation of a Federal Reserve tightening cycle.

- AFAM Capital's Baker's dozen of bargains (undervalued dividend payers): **Archer-Daniels Midland (ADM)**, **American Railcar (ARII)**, CVS **Health (CVS)**, **Delta Air Lines (DAL)**, **General Motors (GM)**, **International Business Machines (IBM)**, **Kimco Realty (KIM)**, **Kimberly-Clark (KMB)**, **Kohl's (KSS)**, **Merck (MRK)**, **Seagate Technology (STX)**, **Total (TOT)**, **Whirlpool (WHR)**.

- Widows move at their own pace and are often not aware of their emotional changes.

- Although common wisdom dictates rules of no-action and no-new-decisions for a period of one year, it may not be practical.

- Checklist of short term needs and long term needs:

Industry	Ticker	Company	10/31/2017 Price	Target Price	Price Multiples EPS	S	TBV	EV/ EBITDA	FCF Yield	Debt/ Eq (%)	Div Yld	Mkt Cap
Food Beverage & Tobacco	ADM	Archer-Daniels-Midland	40.87	50.18	17.2	0.4	1.7	12.5	5.9	48%	3.1%	22,857
Capital Goods	ARII	American Railcar	39.80	50.89	14.5	1.5	1.4	7.7	-5.6	95%	4.0%	760
Food & Staples Retailing	CVS	CVS Health	68.53	120.94	11.7	0.4	nmf	7.7	13.3	nmf	2.9%	69,665
Transportation	DAL	Delta Air Lines	50.03	69.89	10.4	0.9	nmf	5.2	2.3	nmf	2.4%	35,670
Automobiles & Components	GM	General Motors	42.98	55.11	6.9	0.4	1.7	2.9	8.5	184%	3.5%	61,049
Software & Services	IBM	Int'l Business Machines	154.06	195.74	11.3	1.8	nmf	11.8	7.9	nmf	3.9%	142,627
Real Estate	KIM	Kimco Realty	18.16	26.02	11.8	nmf	1.8	nmf	nmf	nmf	6.2%	7,730
Household & Personal Products	KMB	Kimberly-Clark	112.51	143.28	18.4	2.2	nmf	11.6	5.4	nmf	3.4%	39,576
Retailing	KSS	Kohl's	41.76	54.40	10.8	0.4	1.4	4.8	11.7	88%	5.3%	7,040
Pharmaceuticals, Biotechnology	MRK	Merck & Co	55.09	72.63	14.2	3.8	37.6	11.4	5.6	543%	3.4%	150,250
Technology Hardware	STX	Seagate Technology PLC	36.97	45.91	9.0	1.0	nmf	7.5	10.5	nmf	6.8%	10,696
Energy	TOT	Total SA	55.72	76.92	13.3	0.9	1.3	6.5	4.2	36%	4.4%	140,768
Consumer Durables & Apparel	WHR	Whirlpool	163.93	218.76	11.7	0.6	nmf	9.4	5.5	nmf	2.7%	11,780

Tom's Takeaways: I like Buckingham's Baker's dozen of bargains. Combining dividend yield and a discounted valuation gets you off to a nice start, but I'd lump in "dividend growth," as well. Plus. dividend growers should do even better than dividend payers in a rising rate environment (which is again why we like Alpha recommendation DIVY).

Life After Loss: Tough Issues for Surviving Spouses (Karen Altfest, Ph.D., EVP, Altfest Personal Wealth Management)

- According to the U.S. Census Bureau, hundreds of thousands of women and men are widowed in the US each year. Many widows have not taken an active role in family finances.

- What to expect? Shock, disorientation, denial, anxiety, anger, guilt, depression, vulnerability, loneliness, overconfidence, acceptance, new reality.

- Issues widows may face: Where will they live? How will they access their money? Will they have enough money? Who are their advisors? What do they do with investment portfolios? Who do they listen to?

Take care of funeral needs; Determine current cash flow needs; Ensure adequate liquidity; Review financial statements and records; Handle estate needs; Apply for benefits; Gather documents; Check on health care insurance; Retitle accounts in widow's name if needed.

- Most widows need outside help to deal with practical steps and financial issues. Widows should lean on friends, relatives and trusted financial professionals for help.

- Need to assess where money will come from: Salary; Insurance; Real estate; Social Security; Portfolio; Other sources.

- Set a roadmap... Adapt to a new style of life: How will your life be different? What are you adding? What are you giving up? Think about goals: Cash flow account; Create your wish list; Reassess your risk tolerance; Rebalance your portfolio.

- Watch out for new friends, unusual offers and permanent changes.

- Things not to do: Make job changes; Make a decision that cannot be changed again if need be; Move to a new location without trying it out as a renter first; Sell the family home without evaluating annual costs; Change advisors before getting full information; Change portfolio without learning more; Give money to new people who befriend you or new causes.

- Groups for widows to join: W Connection and Modern Widows Club.

Tom's Takeaways: This session appealed to me from a practice management standpoint. Widows and widowers need to be handled with special care. Going the extra mile for these folks—and using some of Altfest's advice—could separate you from other advisors and maintain/strengthen specific client relationships.

The Truth About Living Trusts (John Horn, Attorney, Horn & Johnsen SC; Dera Johnsen-Tracy, Attorney, Horn & Johnsen SC)

- According to Rocket Lawyer, over half of Americans have no estate plan in place.

- Myth: Estate planning is just for wealthy people. Truth: Everyone needs an estate plan. Even younger people, especially those with minor children, need to have an estate plan in place to provide instructions to their loved ones in the event of a debilitating accident or untimely death.

- Goals of estate planning: Plan for the present, plan for incapacity, plan for death, avoid probate and save taxes.

- Essential estate planning documents: Property Power of Attorney, health care power of attorney (living will, HIPAA), personal property memorandum, funeral planning, will or living trust.

- Wills/probate… It does: Names a guardian for minor children; Designates a personal rep; Establishes how assets will be distributed upon death (can include testamentary trusts). It doesn't do: Provide for mental incapacity (i.e., avoid living probate); Avoid death probate. Pros: Court oversight. Cons: Costs and stress to family; Lack of privacy; Court procedures/meddling.

- How to avoid death probate? Name direct beneficiaries on all assets. Create a fully funded revocable trust.

- Common mistakes made on beneficiary designations: Naming minors as direct beneficiaries; Naming individuals with special needs as direct beneficiaries; Naming financially irresponsible beneficiaries; Naming multiple beneficiaries on a TOD deed; Naming one child as a beneficiary on a financial account or life insurance policy.

- Types of living trusts: Testamentary trusts: Created within a will; Don't avoid probate. Irrevocable trusts: Medicaid qualification; Charitable giving; Estate tax planning. Revocable living trusts: Avoid probate, if properly funded.

- Revocable living trust: A legal document utilized as a will-substitute; Grantor creates the trust, then transfers assets into the trust.

- Common misconceptions about living trusts: Expensive; Only for wealthy people; Have to give up control over your assets; Have to pay trust fees; Need a separate tax ID number and have to file a separate tax return; Asset protection from lawsuits and nursing homes.

- Living trust pros and cons… Pros: Avoids probate and guardianship; Coordinates beneficiary planning; Provides the most protective results with the least amount of pain and exposure to your family. Cons: More expensive to create than a will or ad hoc beneficiary designations.

- Don't be like Prince! "Prince was a major star and a cultural influence; but he was a human being… It comes down to taking care of business. If you don't care of it, you're leaving a mess to the family or the courts."—New York Times

Tom's takeaways: I'm not super-proficient on the financial planning side, so this information was useful to me. Financial advisors can definitely gain an edge in estate planning and will probably need to with the fee

compression—and shift to passive products—that's going on in the industry. And these attorneys make a good point about Prince (and all the other celebrities who were ill-prepared for death)—Estate planning prep work is paramount.

An Overview of Retirement Income Strategies (David Blanchett, Ph.D., Head of Retirement Research, Morningstar)

- Retirement risks: Longevity (unknown planning horizon), Macro/market (investment volatility, interest rate volatility, taxation, sequence of returns), inflation (rising costs of living), personal spending (health & long-term care, helping other family members, divorce, fraud/theft).

- 3 key unknowns with retirement projections: Life expectancy, returns, consumption.

- Longevity: Most important risk for retirees. There has been a massive increase in life expectancies throughout the world. Females live longer than males. Wealthier people live longer. People from specific foreign countries (i.e., Japan, France, Spain, Sweden, etc.) live longer than Americans. Probability of one member of a healthy 65-year-old couple living to age 95 is 43%.

Probability of 65 Year Old Living to Age 95

	Male	Female	Both	≥1
Average American	7%	13%	1%	19%
Healthy American	20%	29%	6%	43%
Healthy American in 15 Years	25%	33%	8%	50%

- Returns: Estimates are typically based on historical returns. But, there's always sequence risk—when you experience bad returns is very important for retirement portfolios. There's never been a time when the CAPE ratio was this high and bond yields were this low (pretty good historical evidence suggests this is a tough time to invest based upon valuations). Morningstar's return projections are the lowest they have ever been.

Morningstar's 2017 Return Forecasts

	Arithmetic Nominal Returns			Geometric Nominal Returns			
	10 year	20 year	21+ year	10 year	20 year	21+ year	Std Dev
Cash	1.3%	2.0%	3.2%	1.3%	2.0%	3.2%	2.0%
Bonds	2.8%	3.6%	5.5%	2.7%	3.4%	5.4%	5.2%
US Stocks	4.4%	6.8%	9.3%	3.2%	5.7%	8.2%	15.6%
International Stocks	7.7%	8.4%	9.1%	6.4%	7.0%	7.8%	17.3%

	Arithmetic Real Returns			Geometric Real Returns		
	10 year	20 year	21+ year	10 year	20 year	21+ year
Cash	-1.2%	-0.5%	0.7%	-1.2%	-0.5%	0.6%
Bonds	0.3%	1.0%	2.9%	0.2%	0.9%	2.8%
US Stocks	1.8%	4.2%	6.6%	0.7%	3.1%	5.5%
International Stocks	5.1%	5.8%	6.4%	3.8%	4.4%	5.1%

- Consumption: Average annual change in CPI-E (consumption basket for the elderly) has been 3.07% vs. 2.92% for CPI-U (general population). Medical inflation has averaged 5.42% per year vs. 3.63% for CPI-U (medical inflation has been growing about 50% faster than general inflation. The longer you live the higher the odds of needing nursing home care or home health care and the higher the costs (can hedge by buying long term care insurance, but it's really expensive).

- 3 stages of retirement: *Go-go*: Retirees maintain lifestyle; Travel; Group does not consider themselves "old." *Slow-go*: Between the ages of 70 and 84; Brought on by the body saying slow down; 20-30% budget decline. *No-go*: 85+ years old; Significant changes in retirement lifestyle is brought on by health issues.

- Retirees fear outliving their retirement money (61%) more than death (39%).

- You can self-fund retirement—and longevity risk—with an annuity. The primary reason annuities exist is as a risk management tool. You buy an annuity to hedge out the risk of outliving your resources.

- 3 main components of annuity payouts: Principal, interest (much smaller portion today), mortality credits.

- There are all kinds of flavors of annuities today. He doesn't really like any of the "Frankenstein" annuities in the marketplace. For example, a variable annuity with a guaranteed lifetime withdrawal benefit (some are ok, most are not).

- Types of annuities he likes: Immediate annuity: Over 2,000 years old; Straightforward—give the insurance company a pile of money and they cut you a check as long as you live. Deferred income annuity: Longevity insurance; Like an immediate annuity, in that, you give the insurance company a lump sum, but it doesn't start paying you for 5, 10 or 20 years; His favorite annuity right now (allows you to decide when you want guaranteed income to start—if you live that long). Qualified longevity annuity contract (QLAC): A deferred annuity funded with an investment from a qualified retirement plan or IRA.

- Best annuity around: Social Security.

Tom's Takeaway: Annuities get a bad rap. Some annuities deserve it, but not all. I agree with Blanchett on sticking with the simplest forms: SPIAs, DIAs, QLACs, etc. An annuity at its core, is a contract between an individual and an insurance company. At the end of the day, guaranteed income for life can give senior investors piece of mind.

Automated Investing Solutions (David Koenig, Chief Investment Strategist for Schwab Intelligent Portfolios, Charles Schwab)

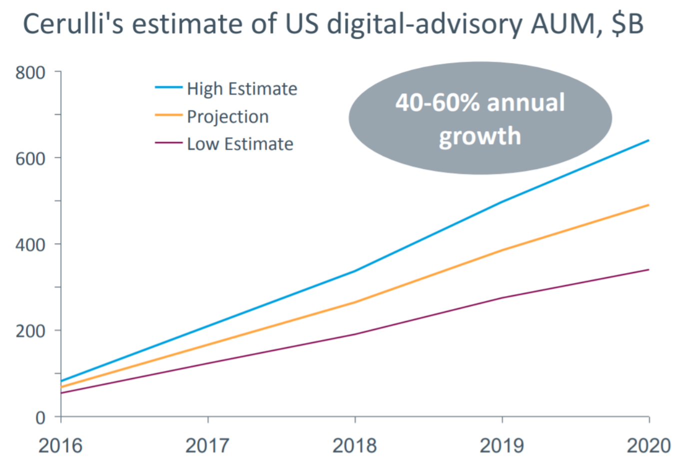
- The fundamentals you need for investing success: Establish a financial plan… Start saving and investing today… Build a diversified portfolio based on your tolerance for risk… Minimize fees and taxes… Build in protection against significant losses… Rebalance your portfolio regularly… Ignore the noise.

- Successful planning can help propel net worth. In a study of Americans over 50, successful planners—those who stuck with their plans—achieved an average total net worth of 3X higher than those who didn't plan.

- Important trends are reshaping investment advice: Changing investor demands, evolving technology, rapid industry growth.

- Digital advice is growing rapidly and removing barriers: Diversified portfolios; Digital delivery; Easy account opening; Low costs; Low minimums; Automated rebalancing & tax-loss harvesting.

- Forrester 2016 study… Investor interest: 22% interested in robo-advice, 21% believe robo-advice is as good as humans, 26% willing to invest with robo-advisor; 39% prefer a mix (robo and human advice). Opportunities to educate: 53% worry robo-advisor won't work in investor's best interest, 39% don't understand how robo-advisor can make investment decisions, 33% would consider robo-advisor if fees are lower than human advisor, 31% would consider robo-advisor if it had human insight.



- Schwab results illustrate appeal of digital advice… Schwab Intelligent Portfolios: Launched in March 2015; $19.4 billion AUM; Average account size $117K; 11% have $250K+; 15% have $1 million or more.

- The challenge for investors to generate retirement income: Plan what's possible; Build a portfolio; Set up a distribution; Monitor progress to help stay on track.

- Schwab automated investing offers an efficient solution: 12 questions to start, a diversified ETF portfolio of up to 20 asset classes, automatic rebalancing to stay on target, set up automatic withdrawals and adjust as needed (no advisory fees, account service fees or commissions charged).

- Most consumers will demand both digital and human advice. Digital advice: Broad access, scale and efficiency, consistency. Human advice: Sophisticated planning, support, greater personalization.

- Schwab Man vs. Machine 2015 survey: 75% of millennials are interested in talking with a professional advisor when their situation gets more complicated.

- All firms will eventually offer a form of online or virtual advice.

The digital advice landscape

Tom's Takeaways: Robo-advice is a disruptive force, but I think clients will always need the human touch. Seriously, is a computer going to keep you in the stock market in 2008? No. It's the financial advisor who will talk a client off a cliff. This is one the most valuable things an advisor can do in my book. I believe financial coaching will become increasingly more important for advisors down the road. Although, it's worth noting that incorporating digital advice into a advisory practice has its own benefits, too.

Have a good week,

Tom