THE ADVISOR

conquer the complex

in this issue:

THE PERSONAL REFI: ART OF THE PERSONAL FINANCE

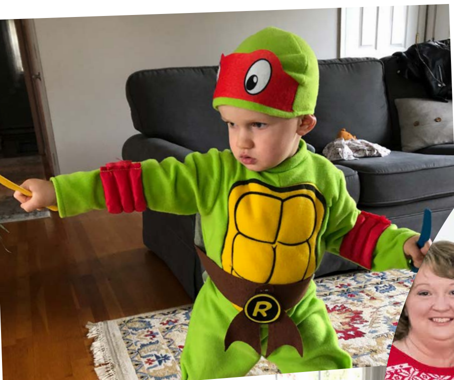
IS THIS THE "MELT UP"

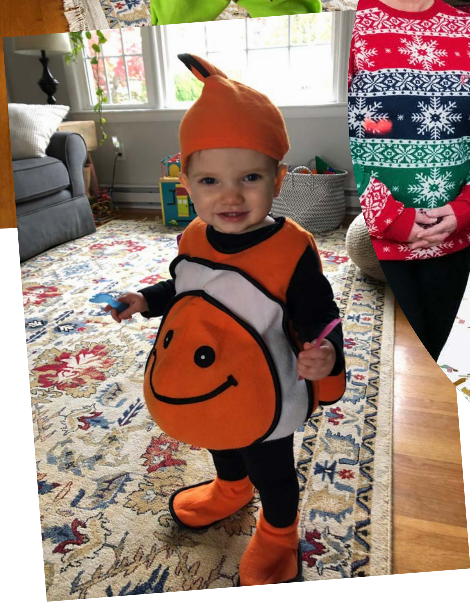
THE NEW YEAR IS A PERFECT TIME TO "RE-BALANCE"

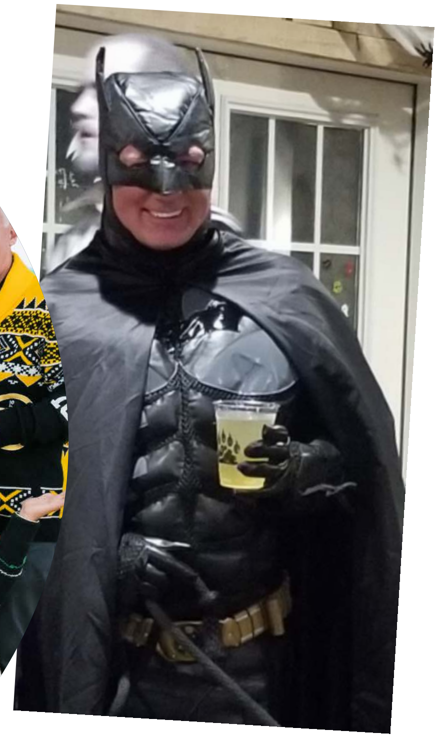
YHB Wealth Advisors

1Q2020

2020 is off to a boom already! From all of your friends at YHB Wealth Advisors we hope this new year is filled with joy and prosperity. We thought we would share a few pictures of our growing family here at YHB from this past Fall.





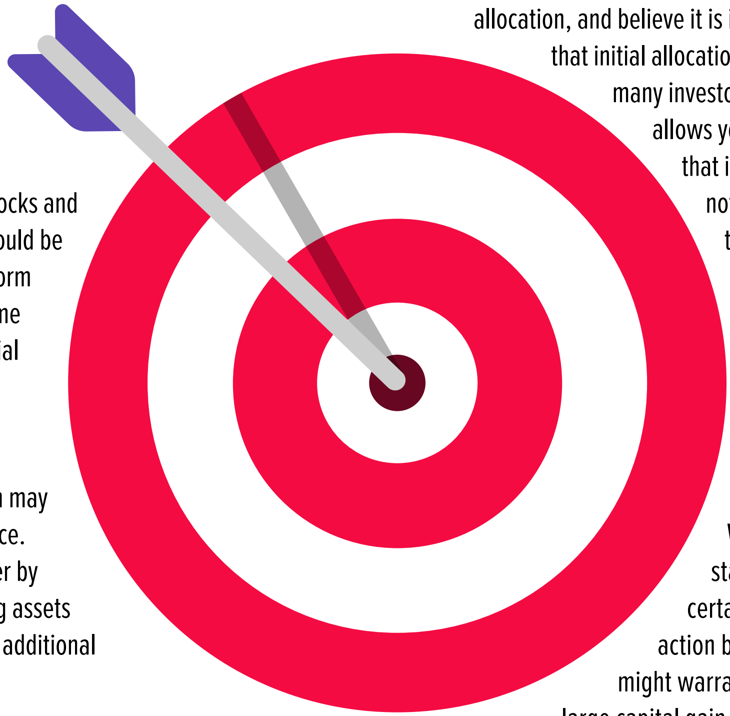


Thank you to everyone who attended our seminar on Social Security this past September! Between 2 in person presentations and a webinar, we were able to connect with over 70 participants! Still have questions about Social Security? Let's talk!

The New Year is a perfect time to "Re-Balance"

What is portfolio rebalancing? Put simply, the act of rebalancing ensures that your portfolio stays within your desired allocation over time. This is necessary because the assets in your portfolio will naturally change in value over time and the percentage relationship with one another will change as a result.

A "middle of the road" investor who starts off with a 50/50 mix of stocks and bonds may experience substantial appreciation over time with the stocks moving higher.



If all our assets appreciated by the same amount, there would be no need to rebalance. A 50/50 mix of stocks and bonds would still stay a 50/50 mix of stocks and bonds over time. The only difference would be the overall value. Since assets will perform at different rates, it's likely that over time our mixture will change beyond the initial allocation we preferred. The investor is most likely happy to have experienced the increase in value of one asset class, however the current portfolio allocation may not be a good fit for his/her risk tolerance. Rebalancing can get things back in order by trimming a bit of the highest performing assets (the stocks in this case) and purchasing additional bonds.

Of course, properly implementing a portfolio re-balancing strategy assumes the investor has an overall asset allocation strategy for their portfolio in the first place. Too many individual investors evaluate individual investments one by one, selecting those they are attracted to, but not considering how the investments work together with one another. They can end up with a portfolio that is arbitrary, made up of many individual holdings that do not necessarily combine to create a proper allocation.

There is no specific reason why an investment has a place in the portfolio and just as importantly, why the specific position size was chosen. This can make it very difficult to reach specific financial objectives and difficult to manage risk. An effectively designed portfolio is not simply about choosing individual investments that you favor. Each investment most likely has merits that led you to consider it, but there may be no reason for all the investments to be owned together as a portfolio.

To properly allocate your portfolio you'll want to do a financial plan that addresses what your needs and goals are for the future and then select investments that best match those needs. You will select an initial asset allocation that you will periodically rebalance to – unless a change in your future goals indicates a different allocation is more appropriate.

A key point to understand is that you are doing all of this while attempting to take the least amount of risk necessary to meet your goals.

Make sure your initial allocation meets your needs for withdrawal or liquidation in the future, as well as any current needs such as a desire for income, as well as any tax implications relevant to your situation.

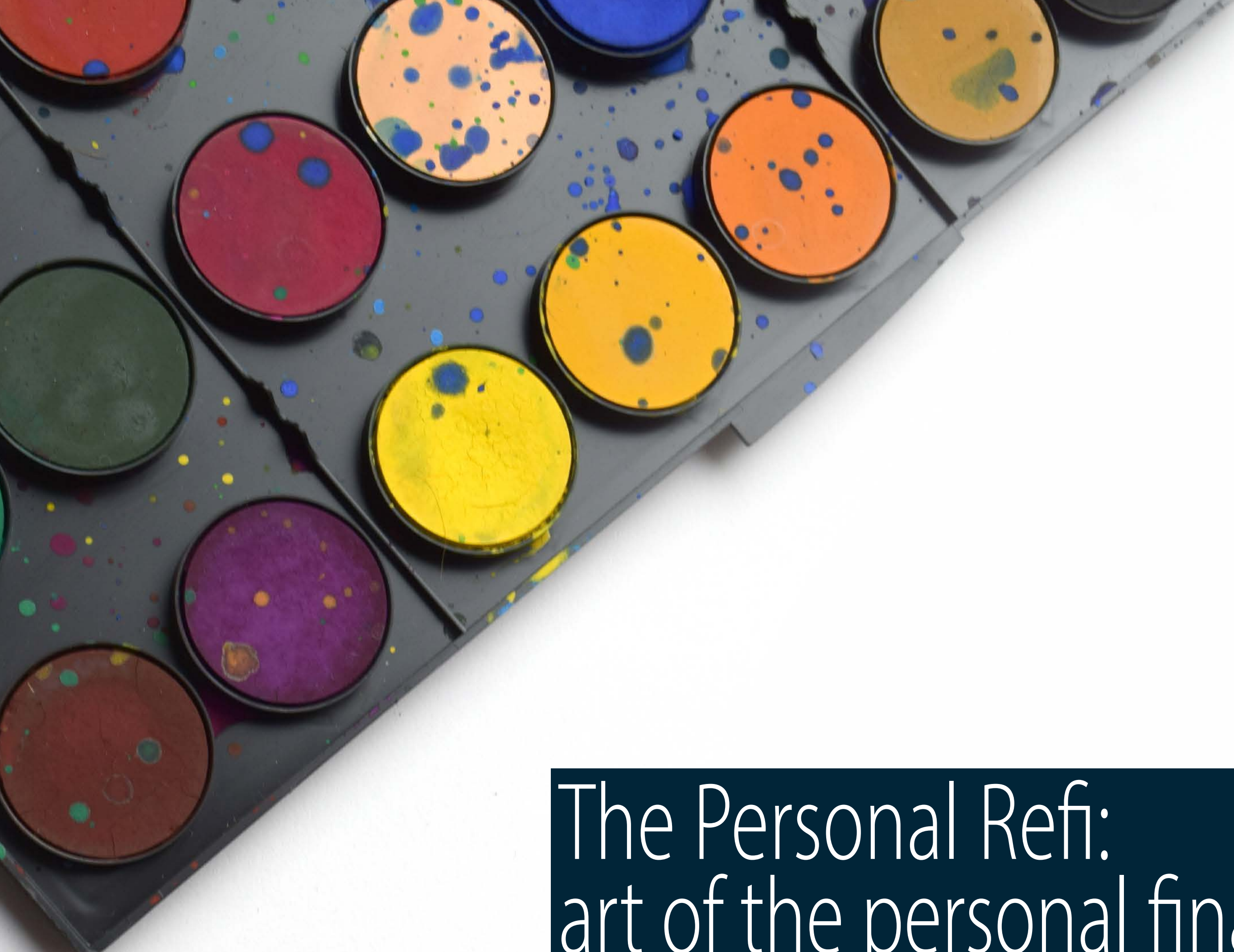
Now that understand the importance of having a solid initial portfolio allocation, and believe it is important to regularly re-balance back to that initial allocation, how do you decide when to rebalance? For many investors, an annual rebalance is a good choice. This allows your portfolio to be altered frequently enough that it still meets your investment objectives while not so frequently that it creates unnecessary transaction costs or tax implications. Each year, you can look at your portfolio and sell enough of the assets that have appreciated disproportionately to the overall portfolio, purchasing additional assets that have not experienced as much appreciation since the last year.

While an annual rebalance might be a good starting point, it is possible that during the year certain assets might move enough to warrant action before. There are also certain situations that might warrant changing your plans. Sometimes taking a large capital gain in the current year from the sale of a specific asset when there are not adequate losses to offset the profit can be minimized or deferred until the following year if a lesser tax burden is expected.

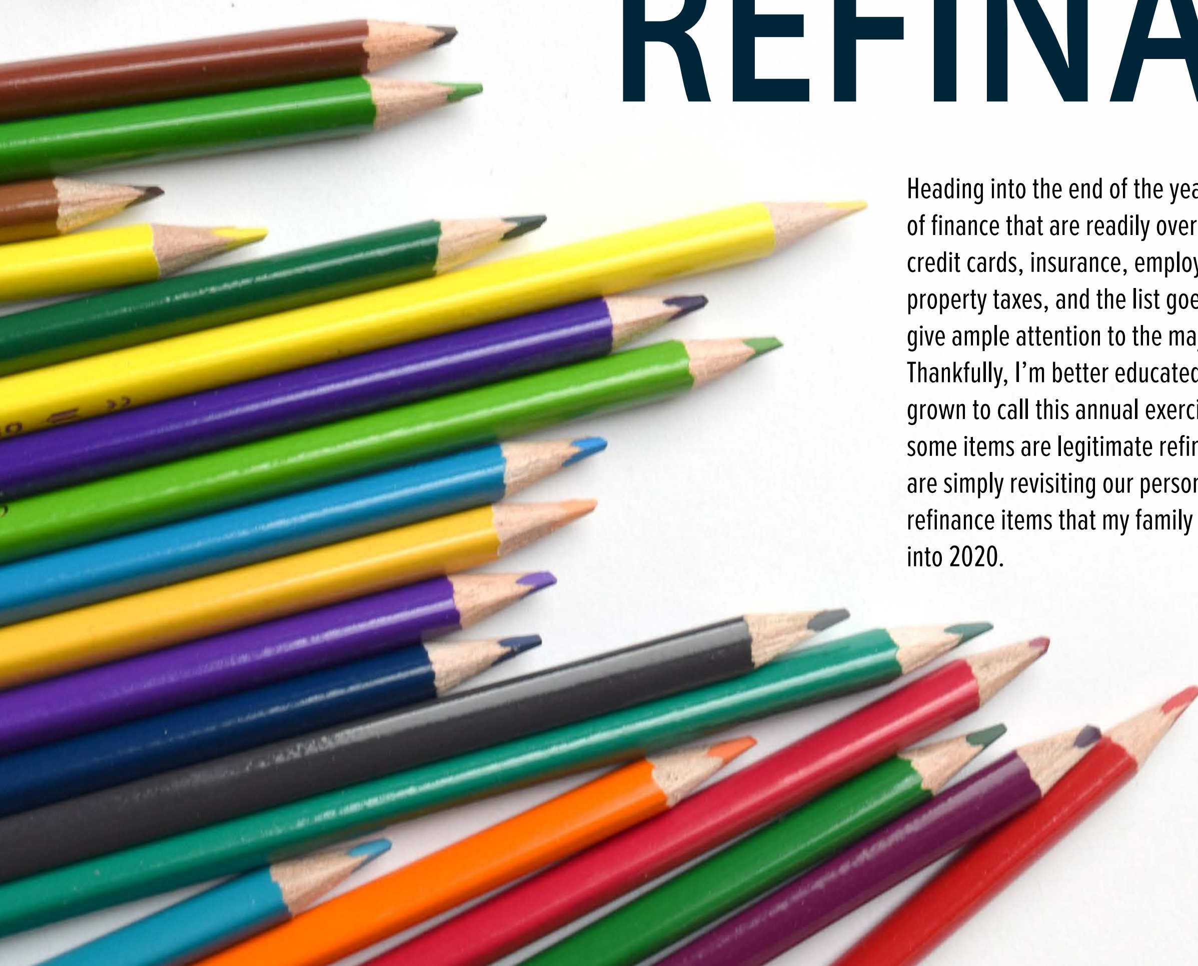
The process of portfolio rebalancing can be complex. You'll need to consider when and under what conditions to rebalance. Depending on your accounts, you may be doing all of this while either adding to or withdrawing from the portfolio. This can be a challenging process that some investors have the time for and enjoy performing themselves. However, others find they might need professional guidance with designing their portfolio allocation and rebalancing it over time. They may also need assistance identifying their future needs within the context of an overall financial plan that also addresses taxes and other relevant issues that can be affected by these and other portfolio decisions.

If you'd like to discuss how to effectively rebalance your portfolio as well as how this decision may fit into several other aspects of your financial life, please reach out to the team at YHB Wealth and they will be happy to assist you.

RANDY BEEMAN



The Personal Refi: art of the personal finance, REFINANCE



Heading into the end of the year I often hear, and read, about aspects of finance that are readily overlooked. Budgets, charitable giving, credit cards, insurance, employee benefits, retirement contributions, property taxes, and the list goes on. Admittedly I used to not give ample attention to the majority of my personal financial life. Thankfully, I'm better educated on the topic than I used to be. I've grown to call this annual exercise the Personal Refi; partly because some items are legitimate refinance items, but also because we are simply revisiting our personal finances. Allow me to share some refinance items that my family is practicing as we head out of 2019 and into 2020.

1 – Refi the Budget: My wife and I never use to be budgeters prior to marriage. Boy were we silly not to be. We admit budgeting is not a fun exercise, particularly the first go around. When we began budgeting we were cutting out the fun things we enjoyed in order to pay our necessary items. It seemed so discouraging. Now that we are in the habit of making the budget our decision making has never been less burdensome. We create a budget for everything. Monthly expenses, annual expenses, birthdays, vacations, Christmas, you name it! Now I realize that coming from the financial planner, this is likely going to be met with a serious eye roll. I'm even doing one as I type this out. But let's be honest: all we are doing is making a plan. As I have been so often reminded throughout my life "Failing to plan is planning to fail." Even when I was a teacher and coach I would remind my students and players of this, only to later realize my own hypocrisy when I did not practice this is my personal life. We are certainly guilty of breaking the budget, multiple times over in fact. Maybe we make more money than we did last year. Perhaps our family is growing (Trimble #5 due April 2020!!!). Maybe we want to be more generous this year than last year. We definitely need a vacation heading into the end of this next year. Whatever the case may be, creating a framework allows our decisions to be based in the reality of our financial discipline which carries over into every other aspect of our life. Simply categorizing expenses does us no good. We want to control and command our money, before it controls and commands us.

2 – Refi the Home Mortgage: The last half of 2019 saw interest rates drop significantly, which prompted my wife and I to look at our home loan. Sitting at 4.875% we could surely do better. We DID! Ending up at 3.75% we are saving a significant amount of money each month and over the life of the loan. However, this is where the "Results not typical" disclaimer should be inserted. My wife and I purchased during a time of rising interest rates, so for us it made sense. Furthermore, we had equity built up in our house from the hot real estate market directly around us. Not only were we able to refinance into a lower rate, but we also are soon to be done with our Private Mortgage Insurance (PMI) payments due to our equity percentage. WIN-WIN. Maybe you don't have PMI, perhaps your rate is EVEN BETTER than 3.75%, and perhaps your equity is far better than 20% ownership in your home. Refinancing or a Home Equity Line is an option to consider when it comes to home repairs and renovations, or other big ticket items. Keeping in mind our budget, we want to make sure this fits into our overall financial plan and monthly expense items. Don't refinance for the sake of refinancing, especially if you have intentions on moving in a short period of time. Yet taking the time to evaluate if there is opportunity to either save money, cash out, or decrease the term of our loan could provide flexibility down the road.

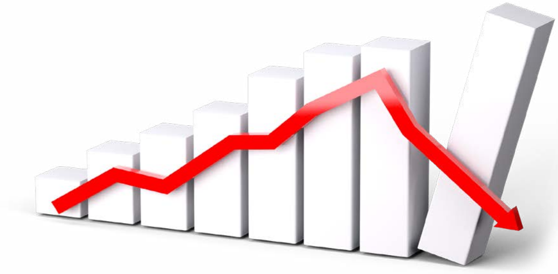
3 – Refi the Credit Cards: The Trimble's loathe paying interest. I mean seriously LOATHE it. Particularly after paying off $60,000 worth of my student loan debt. We NEVER want that burden again. See the last line from item #1: "We want to control and command our money, before it controls and commands us." How easy is it to simply put an expense on the credit card? FAR TOO EASY! Sure, charging an expense only to pay it off before the month's end is no issue at all. After all that is how we get those invaluable airline points right?! Yet once that interest charge hits, those minimum payments leave us almost in a state of payment perpetuity. Especially around the holiday shopping craze (or Super Bowl for those crazy TV deals) we are so tempted to buy, buy, buy; even if we end up giving much of it away! This is where the budget helps my family know what we can afford and the line that keeps us out of financial trouble. Credit cards often get lumped into the "Bad Debt" category. This may be true, but only for the undisciplined credit card holder. We want to utilize all of the tools in our tool belt, but we need to recognize when those tools become a danger to the user. Things we evaluate: Do we have too many cards? Can we afford to close a credit card? Can we afford to pay off our credit card? There are certainly aspects to consider for each of these questions, all personal to your circumstances.

4 – Refi the Home/Auto/Liability Insurance: How often do you assess whether or not you're either amply covered or paying too much for your insurance coverage? In my opinion this should be an annual occurrence. When my wife and I became home owners, our combined insurance literacy left much to be desired. However, having been homeowners for a few years we have discovered that loyalty in the insurance industry often leaves much to be desired. We now want to make sure we are getting the best deal for the necessary amount of coverage we need. Sure, we are going to combine these items because there are substantial discounts to be had. However, we are certainly not going to stay at one insurance company simply because it is easier. Perhaps you have an incredible agent who provides wonderful customer service! We had that before too, but when we ran into an issue with underwriting our agent had very little sway in what the underwriters' perspective was or what they were asking of us as homeowners. Thankfully, it was a minor issue. Also thankfully, I learned that it's not personal, it's insurance. So we found a great guy that we trust to shop around our policies to the carrier who will give us the best deal. He will also tell us when filing a claim may be more of a headache than it's worth. This is something that should not be done more than annually as insurance carriers aren't like phone carriers. When we recently refinanced our insurance we ended up with a better rate and increased coverage on our home and autos. WIN-WIN

5 – Refi the Employee Benefits: For the Trimble's this means our medical insurance, life insurance, short/long term disability, 401k contributions, HSA contributions, FSA contributions, and ANY other benefits our employers offer. Do we need the high deductible plan or can we afford higher premium plan? What does our budget say? Can we afford to contribute more to our employer retirement plans? What does our budget say? Do we need more or can we get by with less short/long/life insurance coverage? What does our budget say? Are you sensing a theme here? Really this is one area I believe can be far too easily overlooked. Look back at the previous year and see what you needed, where you can adjust, and then look forward to what you'll need in the future. Like I mentioned previously, baby Trimble is coming April 2020 and our health insurance is in the forefront of our employer benefit decision making. Our mantra: What does our budget say?

JT TRIMBLE

Is this the "MELT UP?"



According to Investopedia, a Melt Up is a "dramatic and unexpected improvement in the investment performance of an asset class or broad market index, driven in part by a stampede of investors who don't want to miss out on its rise, rather than by fundamental improvements in the economy." The current record setting run in the equity markets seems likely destined to end the year in strong fashion, and in my opinion, fits this definition. The full year returns that will show up on December 2019 brokerage statements will be enhanced by the sharp sell-off the equity market experienced in the 4th quarter of 2018. But, even considering that fact, there is no question 2019 has been a good year for the broad markets, and some stocks have had spectacular runs.

So, that leads many investors to ask the question, "When will it end?"

Of course, no one really knows the answer to that question. But, if I had to guess, I would say it will probably end with a bang – a sharp upward move to extreme valuations. But it very likely won't be a straight line higher, and instead we will probably witness some gut wrenching volatility.

During the last great Melt Up in stocks – the dot-com boom – the Nasdaq Composite Index actually saw five roughly 10% declines during 1999 and early 2000 during its final push higher. When it finally peaked, the subsequent decline was sharp and painful. If you're going to be invested in equities during a Melt Up phase, you've got to be able to stomach volatility.

So, how do you know when another increase in volatility and a potential sharp sell-off might happen? As Warren Buffett so famously said, "They don't ring a bell at the top or bottom of investment markets." But, there are short-term indicators and reports you can watch for clues. Let's look at some of them, and what they are telling us now.

One is the CBOE 10 day put/call ratio.

This indicator compares how many put options investors are buying with how many call options they're buying. And like other sentiment indicators, it's contrarian in nature. When folks are piling into call options relative to put options, the CBOE's put/call ratio drops lower. This tends to be a bearish sign. It suggests the crowd has gone "all in"... and at least a short-term pullback is potentially likely. The Put/Call ratio fell to a reading of 0.65 in the month of November. This is the ratio's lowest extreme since January 23, 2018... again, less than two weeks before the S&P 500 plunged more than 10% in February.

Another indicator of short-term sentiment is the Investor Intelligence survey of newsletter writers. The latest reading (https://www.investorsintelligence.com) shows 57% of those surveyed expect the market to move higher in the near term. According to the firm, a reading above 55% has historically suggested a short-term peak could be forming. Like the put/call ratio, similar readings preceded each recent market correction.

Similarly, individual investors seem to finally becoming more bullish after maintaining a cautious stance for months. The American Association of Individual Investors survey (https://www.aaii.com/) shows they are as positive as they have been in more than a year. The group has more than 2 million users, so the survey is a good sampling of what the "herd" is thinking. The poll asks investors where they think the stock market is headed over the next six months. The recent readings mark the first time since the weeks of August 29 and September 5, 2018, that bullish sentiment was above 40% for back-to-back weeks and it's the fourth consecutive week of bearish sentiment remaining below the historical average. These are contrarian indicators. When surveys show that most people are scared you should be optimistic and when they indicate an excess of optimism you should be cautious.

Given this combination of sentiment signals, it's little surprise that news network CNN's so-called "Fear & Greed Index" has suddenly surged higher. This index uses the put/call ratio, market volatility, and a handful of other measures to compute a score between 0 and 100. Levels below 50 indicate some degree of fear, while levels above 50 indicate greed. As of recent readings, the index had risen to 87, well into "extreme greed" territory. This is up from 50 – or "neutral" – just one month ago. And it's nearly a mirror image of this time last year, when the equity market was in the throes of a 20% decline, and the index sat at just 10, deep in "extreme fear" territory.

As a reminder, the long-term indicators of equity market strength, and the Fed once again increasing their balance sheet, likely mean the bull market could continue well into 2020 – absent some external shock. So, if you're portfolio allocation is properly diversified in quality names and your position sizing is appropriate – and you are already holding some extra cash and own some gold, you can probably sit tight. There's no need to do anything right now.

However, if you're portfolio allocation is overly weighted in equities, or you're holding a large percentage of your portfolio in speculative stocks today, and particularly if you're among those who were stressing during last fall's sharp decline, you might consider doing some re-allocation by taking some profits and raising a little cash today.

RANDY BEEMAN

2020 MARKET OUTLOOK

Opportunities & Risks in Today's Market

YHB Wealth Advisors

January 22, 2020 | 6:30pm

Museum of the Shenandoah Valley
901 Amherst St,
Winchester, VA 22601

January 25, 2020 | 9:00am

Top Golf Loudoun
20356 Commonwealth Center Dr,
Ashburn, VA 20147

This seminar aims to provide an in-depth look at the historical and current market situation both domestically as well as globally, and help attendees position their portfolio to minimize risk and profit from specific areas of opportunity. More than just sharing charts, trends and macro-economic data, the speaker will discuss the drivers behind market movements, point out specific risks to understand and highlight interesting value opportunities in both income and equities.

With investment market volatility increasing, whether you manage your own portfolio, or have a professional money manager, you will want to attend this informative seminar to increase your investment knowledge and ensure your portfolio is properly positioned to take advantage of future market opportunities, while also minimizing risk.

register at YHBwealth.com/RSVP

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