

THAYER & Co.

TOTAL WEALTH MANAGEMENT

WINTER 2018



The only person
you're destined to
become is the person
you decide to be.
-Ralph Waldo Emerson

FAMILY SPOTLIGHT

The holidays were a whirlwind of fun! The Thayers were able to lots of time traveling and some down time at home while the girls were off of school.

Lance and Laine traveled to New York for a quick

reunion with friends. The whole family explored New Orleans for a few days after Christmas and Maddi skied the mountains of Keystone in Colorado.

Lance also celebrated his 50th birthday – he will tell you it was full of family,

laughter and many stories from his fifty years. We came into 2018 with full hearts (and bellies) and are ready for a new year!



ANNUAL FORECAST

The New Year is that special time when the media and investors anxiously await to hear predictions on how the stock market will perform over the next twelve months.

This desire is certainly understood given the events that have transpired over the last decade, and investors want to know that they are with a manager who is good at predicting annual returns because it feels safe to be invested with someone who has a “feel for the market.”

The chart below goes back to 2000 and compares the average annual forecast of Market Strategists from some of the most prestigious institutions on Wall Street to the actual return of the S&P 500 at the end of the year.

The only discernable trend is that the cohort’s forecasting track record has been completely and utterly abysmal. Take last year as an example. The average forecast was just over 5% for 2017, yet the index delivered a return four times this estimate.

These are highly-trained professionals that have access to more information than they can consume, carry PhDs from top universities, work so many hours that they no longer remember their kids’ names, and are paid millions every year.

Yet they are apparently terrible when it comes to what is arguably the most important function of their job, which is forecasting annual returns. How could this be possible, and if the professionals are this bad, then where can the average investor go to get more reliable forecasts?

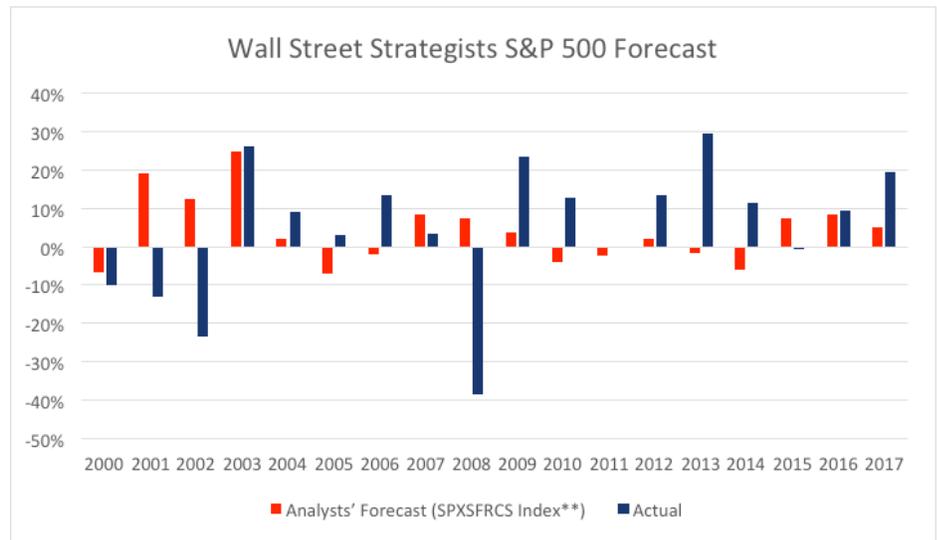
INEFFECTIVE TOOLS

I obtained undergraduate degrees in engineering and mathematics, and I remember my classes to be very structured and precise and for a reason. As long as I accurately calculated all inputs, stuck to proven mathematical formulas, and obeyed the laws of science, prediction was possible.

Unfortunately, financial markets are not run on Newtonian physics. Think back to



WHAT WILL THE MARKET DO THIS YEAR?



some of the events that rocked the equity markets in 2017. It’s implausible to assume that any investor could have accurately predicted that a single “tweet” from President Trump on North Korea back in August would have caused stock market volatility to spike over 40% in a day.

The fundamentals that grow our economy and the companies within do not move quick enough to warrant such volatility, so there must be something else driving these short-term swings. That something is the emotional component of markets, and no scientific process can forecast emotions.

Fear and greed are incredibly powerful and unpredictable forces that create

dislocations in equity prices that often take months to normalize, and this can wreak havoc on short-term estimates. These strategists may as well publish quarterly, monthly, or even daily forecasts because they are just as arbitrary as a single year.

The reality of their job is that they are being paid to do the impossible armed with a toolkit that is ineffective. Using logic and reasoning to predict the mood of investors a year from now is akin to using antibiotics to cure a viral infection.

Therefore, my prediction for 2018 is the same as it is every year. I have absolutely no idea how the stock

market will perform between now and December 31st.

IMPLICATIONS FOR INVESTORS

John C. Bogle is the founder and former CEO of Vanguard, and this visionary published the instant classic, “The Little Book of Common Sense Investing” back in 2007. In it, he wrote what could be one of the more powerful quotes in the history of financial markets:

“The stock market is a giant distraction to the business of investing.”

To any long-term investor, these words should be gospel because the way to achieve your investment goals is to manage risk rather than take too much risk.

Within this context, if emotions dominate the short-term movements in stock prices, and emotions are viruses to portfolios, then relying on annual stock market forecasts only adds unnecessary risk to the investment process. There is simply no upside because forecasters are either lucky or wrong, and luck only lasts for so long.

Fundamentals are what drive the long-term returns in financial markets, so here are five drivers that I believe will impact asset prices in 2018 and beyond (properly diversified investors need to consider all asset classes):

1. The U.S. economy will begin to accelerate
2. The Federal Reserve could look a lot different by the end of 2018
3. The U.S. will soon become the world’s largest energy producer
4. Diversification will become increasingly more important
5. The entrepreneurship and innovation has only begun to impact the global economy

This list is not much different than the one from last year because the drivers of fundamentals tend to move at a glacial pace. More importantly, markets do not operate on calendars, where the New

Year commands a new set of forecasts (unless one’s job is to provide continual market commentary).

Instead, they are event-driven, and despite a new Presidential administration and all-time highs in the S&P 500, the fundamentals continue to strengthen while the Fed continues to be accommodative to future economic growth.

Over the coming weeks, I will dive deeper into the five points above, but for now, do yourself a favor by ignoring annual forecasts and overcoming the urge to try to estimate where the stock market will end this year. If the smartest strategists with access to unlimited resources and multi-million dollar budgets can’t get it right then neither can you, me, or anyone else.

THE BOTTOM LINE is that predicting annual returns from an asset class as emotionally sensitive as equities on a consistent basis is impossible, but since a year tells a long-term investor very little about the future of investment returns, it’s best to ignore these predictions anyway.

SINCERELY,



Mike Sorrentino | CFA
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sell securities. All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses. Past performance is no indication of future performance. The Standard & Poor’s 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

**S&P 500 Forecasts From Strategists Index (SPXSFRC) reflects the average year-end forecast for the S&P 500 Index, compiled from a survey of Wall Street strategists by Bloomberg reporters.

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PROTECT YOURSELF FROM IRS IMPOSTERS

Becoming a victim of identity theft can be detrimental to your life, and protecting yourself is essential. Unfortunately, sometimes taxpayers can become deceived by individuals pretending to be IRS representatives through emails, phone calls, or house visits.

Under most instances, the IRS will reach out to you about any tax details by first mailing you an official letter. Sometimes, the IRS may have to communicate in other ways, such as a home visit. When visiting you at home, the IRS representative always shows two official forms of ID, which you have the right to request to see:

- Pocket commission
- HSPD-12 card

In addition, the IRS will never:

- Require a specific type of payment, such as debit card, and ask for your account information over the phone
- Insist you pay taxes without the ability to review or appeal the request
- Threaten to arrest you or revoke your driver's license or immigration status

Other details may apply, and you can find more information on the [IRS website](#).

- This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

¹ <https://www.irs.gov/newsroom/how-to-know-its-really-the-irs-calling-or-knocking-on-your-door>



IRS Resources to Help You Prepare for Tax Filing

With 2017 coming to an end, now's the time to start preparing the necessary paperwork to file taxes. The IRS has various resources available to help taxpayers navigate different forms, filing requirements, etc. Here are some resources to assist you as you prepare to file taxes next year.

- 1. Find tax steps to take today:** The IRS has put together [a list of to-dos](#) to get a step ahead in filing taxes next year.
- 2. Renew your ITIN:** Some taxpayers use an Individual Taxpayer Identification Number (ITIN) to file. If you use an ITIN, you can [renew your number](#) on the IRS website to prepare for next year's filing.
- 3. Download tax forms:** You can find and [download the forms you need](#) on the IRS website, as well as other documents.
- 4. Answer your questions:** The ["Interactive Tax Assistant Search"](#) tool from the IRS can help you answer a variety of tax-filing questions.

Other details may apply, and you can find more information on the [IRS website](#).

* This information is not intended to be a substitute for specific individualized tax advice. We suggest you discuss your specific tax issues with a qualified tax advisor.



GOLFER TIP:

Staying fit during the winter months can help you avoid torn rotator cuffs and other injuries once the spring golf season hits. Golfers should maintain a year-long training regimen focusing on flexibility and cardiovascular and muscle strength. To help you stay fit, here are 3 winter exercises to try:

- 1. Arm and Leg Lifts:** Lay on your stomach and extend your arms and legs. As you raise your right arm, concurrently raise your left leg. Switch sides, and repeat 3 sets of 20, 3 times each week.
- 2. Pound weights in each hand, with your arms and thumbs pointed downward at your side. Raise your arms to shoulder height with a 30-degree angle. Open your shoulders by turning your thumbs up. Repeat raising your arms with 3 sets of 10, 3 times each week.**
- 3. Single-Leg Mini Squats:** Place a phone book or other thick, stable object on the ground. With one foot on the book, hold the other foot in the air. In this position, hold your midsection tight and squat until your free foot touches the ground. Repeat on each side, 3 sets of 10, 3 times weekly.

Remember to consult a doctor before trying any new exercise routine.

**CHERRY TOMATO CASSEROLE
WITH WHITE BEANS & BASIL**

Serves 6

Ingredients:

- 2 cups cubed (1-inch pieces) hearty whole wheat bread (5 ounces)
- 2 tablespoons extra virgin olive oil
- 2 pounds cherry tomatoes, halved
- 2 cans (15 ounce each) no salt added cannellini beans, rinsed and drained
- ¼ cup packed fresh basil, chopped
- 3 cloves garlic, chopped
- ½ teaspoon crushed red pepper
- Kosher salt and black pepper
- ¼ cup grated Parmesan cheese

Directions:

1. Preheat oven to 350° F.
2. Toss the bread with oil on a large rimmed baking sheet.
3. Bake 8-10 minutes, stirring midway through, until golden brown.
4. At the same time, put tomatoes, beans, basil, garlic, red pepper, 1 teaspoon salt, and ¼ teaspoon of black pepper in a large bowl.
5. Toss with bread.
6. Put mix in a shallow 6-cup baking dish. Lightly add cheese on top.
7. Bake for about 40 minutes until golden brown.
8. Let cool for about 10 minutes.

<http://www.goodhousekeeping.com/food-recipes/a45698/cherry-tomato-casserole-white-beans-basil-recipe/>



"The cost of a thing is the amount of what I will call life which is required to be exchanged for it, immediately or in the long run."

—Henry David Thoreau



TAX DAY IS APRIL 17TH!

It's time to schedule your Tax Drop-off Meeting! The last day to drop off your documents to guarantee an on-time filing is **March 20th, 2018**

GATHER YOUR DOCUMENTS:

- W2s
- "1099-INT"s
- "1099-R"s
- "1099-MISC"s
- Charitable Donations

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