NEWSLETTER SECOND QUARTER

spectrum FINANCIAL PARTNERS

2019 IT'S MORE THAN THE MATH. IT'S THE PATH.

krista@spectrumfp.net
eric@spectrumfp.net
matt@spectrumfp.net

11911 NE 1st St
Suite 103A
Bellevue, WA 98005

Phone: 425-598-2919
Fax: 425-526-5867
Twitter: @ SpecFinPart

www.spectrumfp.net

This 2nd Quarter Newsletter Covers:

- Annual review of model portfolios
- Socially Responsible Investing – a primer
- Accounts for the disabled: ABLE accounts

THE 2019 ANNUAL REVIEW OF MODEL PORTFOLIOS

As we often tell our clients, we take the view that investments are just one part of a household's financial plan and seldom the most critical or determinative for plan success. Naturally the annual returns of our investments are important to all of us. Yet above average investment performance is almost never enough to fix a poor financial plan. On the other hand, above average investment performance can make a good plan better. Furthermore, we don't have control over how the financial markets perform, so counting on them to deliver our financial goals is to put the power to reach our goals in the hands of others. Thus, our first focus with client investment accounts is to make sure the level of risk fits the client and their goals for their accounts, and that the entire portfolio is managed holistically: two investment actions well within our control.

With this role of investments in mind, our portfolios are built around a few basic principles: keep it simple, keep costs low, be tax aware and diversify. The core part of our portfolios uses (mostly) passively managed index funds to capture the performance of the market (known as "beta"). To this core, we add "satellite" investments in an attempt to add outperformance (known as "alpha") to the portfolio. Satellite investments are determined through research of economic and financial trends and will use passive and active funds depending on the nature of the opportunity.

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Portfolios designed for short-term goals (one to five years) and for income generation tweak this core approach to provide things like tax-free income and capital preservation.

We like to say that our portfolios don't use anything sharper than a butter knife. We mean that we steer clear of "exotic" strategies such as leverage (borrowing money to invest) to juice returns or extremely focused investments (for example, a recent ETF entrant invests solely in pet-related companies). We also rarely recommend individual securities. (We can and do hold clients' legacy securities and trade them at their instruction.) In our portfolios we almost exclusively use mutual funds and Exchange-Traded Funds (ETFs) that fill out the asset classes we seek for a given portfolio.

At the end of every calendar year we conduct a comprehensive review of our model portfolios. This year we benefited from additional resources at both Commonwealth and Fidelity. The investment research team at Commonwealth conducted, at our request, a top to bottom review of every portfolio and every holding. We also requested and received a review of our model portfolios by an institutional investment analyst at Fidelity Investments. These reviews helped us to lower costs, hone the diversification of the portfolios, reduce overlap of holdings, and identified thematic areas for investment. We combined the insights of these investment professionals with our own independent research to update the portfolios for 2019.

Updates this year included satellite investment opportunities in India, Latin America and biotech. We tweaked our bond holdings in response to the current interest rate outlook. Changes still under consideration include a tweak to core U.S. equity holdings to take advantage of consolidation trends in the U.S. economy and the impact this has had on traditional equity indexes. We are also further reviewing fixed income strategies in the current interest rate environment.

Ongoing, we will engage the Commonwealth research team and Fidelity to review the portfolios at least twice per year. We also have access to the regular research of Commonwealth's investment team, which includes a mutual fund and ETF buy list and market analysis. Internally, we constantly track market developments and political developments that may affect markets.

Your annual review is your regular (and required) chance to discuss any changes in your portfolio. However, we encourage you to call us any time you have a question or concern.

SOCIALLY RESPONSIBLE INVESTING – A PRIMER

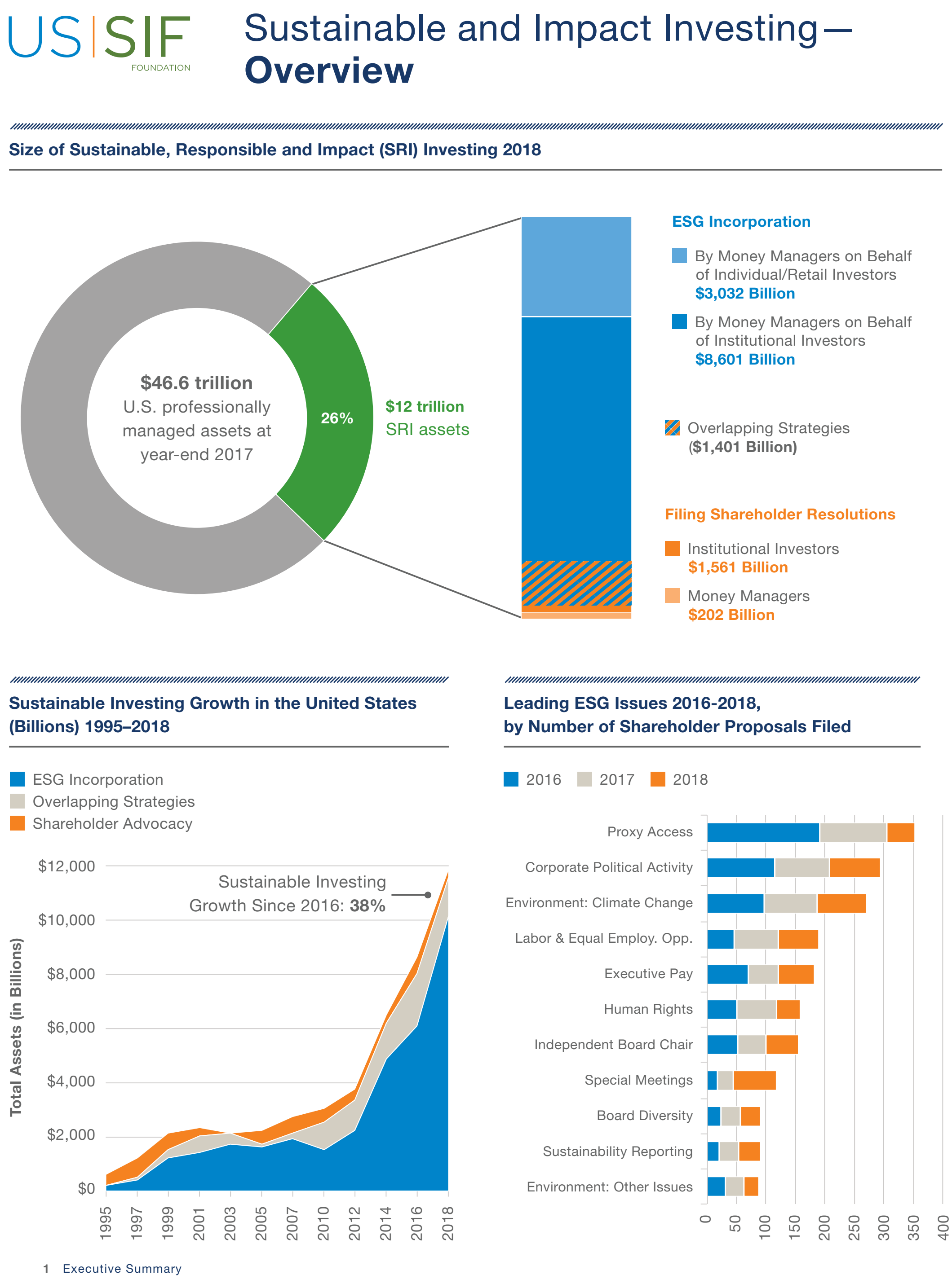
According to the US Social Investment Forum $12 Trillion, or one in four dollars, of professionally managed assets in the U.S. was invested in a socially responsible manner at the end of 2017. Total Socially Responsible Investments (SRI) assets grew 38% since 2016. We can conclude that not only is SRI investing not a fringe approach it is rapidly increasing in popularity. But what exactly does "socially responsible" mean when it comes to the investment world?

Socially responsible investing adds a layer of analysis on top of the usual use of financial metrics to evaluate the attractiveness of investments. A socially responsible analysis will often gauge investments according to Environmental, Social and Corporate Governance (ESG) standards. An analysis that incorporates ESG factors will consider how companies interact with the environment, their suppliers, customers, and employees. It may also consider corporate structure and compensation.

Once an ESG metric has been established, a socially responsible investor can take an exclusionary, inclusionary, or advocacy approach. An exclusionary approach removes companies that don't meet the ESG standard – known as a negative screen. Examples of excluded securities might include, oil companies, weapons manufacturers and gambling operations. An inclusionary approach, or positive screen, invests more money in companies that rate well according to the ESG standard. Mutual funds following this approach might emphasize companies with positive environmental records and inclusiveness on their corporate boards. A third approach to SRI investing is to purchase ownership shares in companies (e.g., by purchasing stock) with the purpose of pressuring the company to improve its ESG performance via Board membership, filing shareholder resolutions, and other methods of engagement.

While SRI investing has been around for 200 years, the first appearance in modern times in the U.S. was in the 1970's around the environmental movement and apartheid in South Africa. Many individual and institutional investors began screening their investments against these "social" measures. Mutual fund companies like Calvert and Parnassus began adding social screening to their mutual fund lineup in the early 1980's, and the first index of SRI companies was launched in 1990 (The Domini SRI Index).

In the past many investors felt they had to make a choice between investment returns and investing in a socially responsible manner. The cost to add an ESG screen made SRI investing more expensive. However, SRI options have expanded as more money is invested in the approach and today the choice investors face isn't so stark. For example, the SPDR S&P 500 Index ETF (ticker: SPY) has an internal expense ratio of 0.09 percent. The fossil fuel-free option (ticker: SPYX) has an expense ratio of .20 percent. On a relative basis the SRI version is more than twice as expensive but the absolute difference is just 0.11 percent, which is $110 on a $100,000 investment. (The average expense ratio of index equity ETFs in 2018 was 0.20 percent.) Compared to the average ETF and mutual fund, the largest SRI mutual fund and ETF options available today are price competitive.



Now the challenge is a different one: how to navigate the increasingly crowded market for SRI dollars. Some firms call themselves "SRI" but may not have the rigorous screening process clients expect. There may be some asset classes that an investor needs that aren't available or viable in the SRI space.

If you want to learn more about SRI, we're happy to discuss it with you. Spectrum Financial Partners offers SRI models for clients that would like to invest a small or large portion of their investable assets in an SRI manner.

Sources
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ABLE ACCOUNTS

Is someone in your family or someone you know living with a disability and receiving government benefits? They may be able to save money in an ABLE account without jeopardizing their eligibility for benefits.

ABLE accounts are similar to 529 College Savings Plans. They were established by Congress in 2014 with the enactment of the Stephen Beck Jr., Achieving a Better Life Experience Act and are codified under IRS Code Section 529A.

ABLE account facts

- Allow persons with disabilities to have some financial assets without disqualifying them for Social Security and Medicaid benefits
- To be eligible, onset of disability must have occurred prior to age 26 and the disabled person receives benefits under SSI and/or SSDI. Disabled persons not receiving SSI or SSDI may still be eligible under certain conditions. Call the Washington State Able Savings Plan at 844-600-2253
- Contributions are made with taxed money (there is no tax-deduction for making a contribution to an ABLE account)
- $15,000 per year maximum contribution - anyone can contribute
- Amounts over $100,000 may negatively impact SSI cash benefit
- Growth in the account is tax-free if used for "qualified disability expense"
- "Qualified disability expense" means any expense related to the designated beneficiary as a result of living a life with disabilities
- At death remaining balance may need to be paid to the state to reimburse Medicaid expenses
- Washington state ABLE accounts offer the option of loading cash onto a prepaid card

For more information go to ablenrc.org, washingtonstateable.com or call Washington State ABLE Savings Plan at 844-600-2253.

COMMONWEALTH financial network

GOOD TO KNOW

a. Certificates of Deposit - We have access to tradable CDs with flexible terms and competitive rates. We usually do not charge clients for this service.

b. Checks and debit cards are available with non-qualified accounts.

c. Investor360 - See all your accounts online, including accounts held elsewhere

d. At Commonwealth most of the cash held in your accounts is FDIC insured and currently pays a higher rate of interest than most money market accounts.

Call us for more information.

Certificates of deposits (CDs) typically offer a fixed rate of return if held to maturity, are generally insured by the FDIC or another government agency. Brokered CDs are subject to market risk if sold on the secondary market.

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If you know someone who would like this report, call Krista at 425-598-2919.

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