FINANCIAL PLAN Inc.

THE PLAN

Winter 2019

Welcome Drew!

Drew Zender joins the FP Inc. Operations Team

We are pleased to announce that Drew Zender joined Financial Plan as an Operations Director in December. A graduate of Gonzaga University, Drew is a Bellingham native who holds a degree in Business Administration with two concentrations in Finance and Operations & Supply Chain Management. His diverse work history includes wildland firefighting, construction work, and commercial fishing in Alaska. With his analytical mindset, work ethic and strong values, we look forward to Drew quickly becoming a valuable team member for the clients he serves. In his free time Drew and his fiancé, Johnna, enjoy snow sports, rock climbing and cheering on the Seattle Mariners.

Reminder: Please No Texting

Due to compliance regulations, we are unable to respond to financial matters via text message. Please refrain from texting your advisor about anything relating to your plan. Instead, please call or email the office to quickly address any financial needs. Similarly, trade requests must be made over the phone or in person as we are unable to accept trade requests via text or email. NOTICE of material change: David Dick has replaced James Twining as our Chief Compliance Officer effective 1/1/2019. Jamie will continue to serve as Chief Executive Officer. Our updated ADV forms are available on our website or you can request a copy at any time by contacting David at david.dick@financialplaninc.com.

Let the Dogs Bark

By James Twining, CFP®

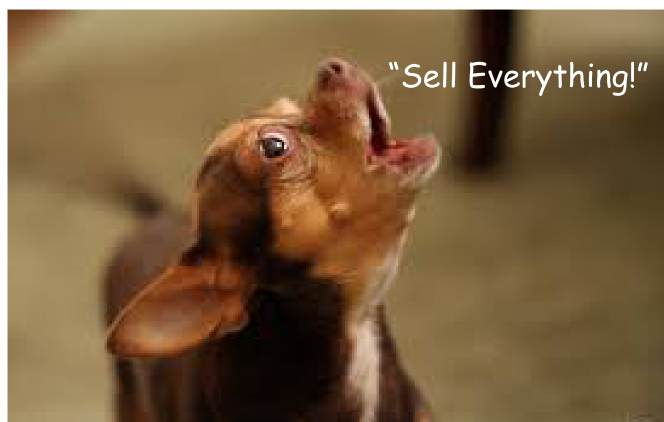
The term "expected return" is in wide use among financial planners. To the layman it carries misleading connotations: most assume that it carries with it a high degree of confidence. After all, we are "expecting" a certain rate of return, aren't we? Actually…no. Let's explain:

The expected return is a measure of the center of the distribution of random outcomes. An easy example of random outcomes is the flip of a coin. There are only two possible outcomes: heads or tails. Each of these outcomes is equally likely to occur, and over many coin flips, we expect you to flip heads about 50% of the time.

Like the flipping of a coin, the total return on equities over any one year is random. However, as the data set of one-year timeframes increase, the historical average annually compounded rate of return approaches a center, or "expected", return. That historical return in US equities during the 92 year timeframe over which we have accurate data is just a touch under 10% per year.*

Just as with the coin toss, we must have a large enough data set to expect anything close to the average. It is altogether possible, although unlikely, to flip tails ten times in a row, and it is likewise possible, although unlikely, to have negative stock market returns for ten years. Examples of ten-year periods that varied widely from the averages include the 1990s, which sported an 18% average annually compounded return, and the "aughts" (the decade beginning year 2000), which resulted in a slightly negative annually compounded return.*

We can see that returns over these ten-year timeframes are affected so greatly by event-driven "noise", that it often completely overcomes the underlying and permanent reality of equity ownership; that earnings accrue to the stockholder each year, regardless of stock price. For this reason, we view the ten-year time frame as the short term. This comes as a shock to many investors, who have been trained to listen and respond to the barking of dogs (the financial media) to think in terms of days, weeks, or months.



It is fortunate that unless you are terminally ill or have a habit of crossing the road without looking both ways, your meaningful timeframe is not ten years; it is likely closer to 30 years or more. The expected return on equities over the 30- year timeframe has never been below 8.2% or higher than 13.7%. When we say that it is likely that you will obtain excellent long- term returns, realize that *we view the thirty-year timeframe as the long term.*

Essentially what I am saying is that your odds of obtaining something close to the expected return go up the longer you are invested. Short, ten-year timeframes are out of our control. Proper investing takes an incredible amount of patience and historical perspective. Winston Churchill famously quipped, "You will never reach your destination if you stop and throw stones at every dog that barks."
Have faith. Be wise. Let the dogs bark.
*CRSP 1-10 Index