JS Replogle & Associates LLC

2018 - 2nd Quarter
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RepReports

Registered Investment Advisors

Perspectives: 3 + 1 = 2 What?

Recently I spent several weeks traveling and visiting clients. A few of those, in Florida, were the result of having registered as a "Registered Investment Advisor" in that state and shifting clients from Barkey Investment to *JS Replogle & Associates LLC*.

One of the things that became apparent in those discussions was how little new and former clients knew about our company and the myriad ongoing decisions that have been made over the last few years.

Over twenty years ago I (Jim Replogle) was asked to act as a trustee for several Charitable Remainder Unitrusts. It wasn't long before the income beneficiaries of those trusts noticed the performance of those trust investments and asked me to consider applying those investment skills to their personal portfolios. By word-of-mouth those early clients grew to a few dozen and my legal counsel suggested that I register as a Registered Investment Advisor.

After that registration process, *JS Replogle & Associates LLC*, continued to grow even though we have never engaged in sales/marketing campaigns outside of this newsletter. Today we have over 80 clients, over 125 separate accounts, and over twenty-five million dollars of Assets Under Management [AUM].

As part of the original trust arrangements, with myself as trustee, one of the large services provided by *JS Replogle & Associates LLC* was the payment of expenses, the distribution of trust funds, and the accounting for those transactions. This service grew as our client base grew and included overseeing tax preparation and a host of "concierge-like" services tailored to each client. Along the way we became a Limited Liability Corporation [LLC] and grew to include other family members. Daughter Heather acted as Administrative Assistant, before she accepted a job with the Vanguard Group; and spouse Becky became more of a mail processor and file clerk. Eventually son-in-law, Eric W. Barkey entered the fold.

With the addition of Eric and the huge increase in financial regulation that followed the 2008-2009 recession, two additional companies were formed. Barkey Financial Services LLC provided an organization to which Eric could add investment clients; and Barkey Trust Services LLC where we "parked" those clients who had additional financial needs beyond pure investments.

These three organizations comprised the backbone of our operations until this year. Again, increased financial regulations along with the growth of both investments and ancillary services pushed us to a newer structure.

First, Barkey Notary Services was formed to handle the large increase in Public Notary requests managed by Eric. Today, this service is wholly within Eric's purview and not part of the larger organization.

Secondly, we are making Barkey Trust Services a separate and distinct organization managed by Heather (Barkey) and dedicated to assisting clients with a full range of financial services, but not including investment management. This white-glove, concierge service is focused on paying client's invoices, reconciling their bank accounts, monitoring and maintaining cash flow, and researching financial opportunities to make the above-mentioned functions operate smoothly.

Thirdly, Barkey Financial Services, is being closed and all investment clients are being moved to *JS Replogle & Associates LLC*. This will satisfy several newly enforced regulations, but more importantly it will add measurable growth to the investment group. Adding clients and AUM is an important economy of scale, so that, if needed, we might be able to change custodians without greatly impacting client's fees.

The current custodian, The Vanguard Group, is a wonderful company with sound and low-cost products. However, we are told that *JS Replogle & Associates LLC* is the largest Registered Investment Advisor within their organization. Vanguard is not structured to handle the large number of clients, grouped under a Registered Investment Advisor structure—nor will they ever be.

In a March 2018 Wall Street Journal article many of the service woes of the Vanguard brokerage and retirement units were examined. Having taken in over $369 billion in 2017 their growth is exponential. While we will continue to use their fine mutual fund and Exchange Traded funds [ETF] we are having daily difficulty with their website structure and trading functions.

Returning to the growing capabilities of *JS Replogle & Associates LLC*, we are increasing our research functions, adding or improving our investment models, and exploring new areas like collateralizing large debt services for individual clients with investments. To these ends Eric is handling an increased amount of *back-office* functions and donor contact. Jim is focusing more on portfolio management and strategy, a task that he had been increasingly drawn away from as increased regulation and client inquiries have grown.

Life is about change. Not whether it will happen, but how we manage the process. At *JS Replogle & Associates LLC* we are excited to share some of our changes with you and to continue explore the future – together.

Segueing from corporate changes to the future of the market place . . .

…Four Things to Watch AS 2018 Gets Going

Most of you readers know I'm not excited about predicting the future. But I found a Wall Street Journal from January 6, 2018 that seemed to voice many of my sentiments, so I will share it along with a few of my own thoughts (in italics).

Forget Dow 25,000. Every year is full of surprises; but there are a few things every investor should expect to see happen in 2018.

With companies moving less in lockstep, professional investors will declare this a "stock pickers' market." Asset managers will proclaim that the impending rise in interest rates means you need bond funds that can hold any kind of debt. After years of smooth increases, even a 5% decline will set off cries of panic. And reported returns will shoot upward as the financial crisis of 2008 is jettisoned from 10-year track records. A look at these trends now should help keep you from overreacting, or acting at all, when they transpire.

Correlations, or the extent to which companies move up or down together, are at their lowest in more than 25 years, according to **T. Rowe Price Group Inc**.

Whenever stocks rise and fall independently like this, portfolio managers say beating the market becomes easier.

History says otherwise. Most funds run by stock pickers struggle to outperform in years of high and low correlation alike. Such active portfolios charge higher fees than market-matching index funds. And for every stock picker who buys a stock, another is selling; only one of them can be right.

With many professional investors expecting interest rates to climb this year, you should also expect a push to invest in unconstrained bond funds.

Such portfolios can, in theory, generate higher returns by ranging across the entire market—government and corporate debt, inside and outside the U.S.—to buy cheap bonds wherever they may be found.

Bear two things in mind. First, a jump in interest rates is probable, not certain. Second, even if rates do rise, unconstrained portfolios are riskier than those targeting only U.S. government or investment-grade debt.

Unconstrained funds invest in less-stable corporations or foreign governments, hoping that these borrowers will get stronger, boosting the value of their debt. That can raise returns when all goes well. Unfortunately, as analysts at **AQR Capital Management LLC** have shown, it also makes these funds behave more like stocks, weakening their usefulness as protection against a rate increase.

If you want a buffer against rising rates, then hoarding cash and minimizing your holdings of long-term debt will likely be more effective than most unconstrained bond funds. *This is true in relation to bond funds, but I subscribe to using well-researched stock or equity choices for the long-term investor.*

Meanwhile, for stock investors, the apparent lack of risk may be a risk in itself.
The S&P 500, including dividends, has gone up for 14 months in a row, the longest consecutive run since 1928, according to Bank of America Merrill Lynch. And stocks' recent movements up and down have been smoother than in most periods since 1885, according to William Schwert, a finance professor at the **University of Rochester**.

A 5% or 10% decline in an otherwise placid market is a lot more upsetting than a similar fall in a more-turbulent time. Research by David Le Bris, a finance professor at Toulouse Business School in France, suggests that the pain of a decline depends not merely on its size, but also on its steepness relative to what investors have become used to.

Consider the epic crash of Oct. 28, 1929. That day, the Dow Jones Industrial Average fell 13%, or 12.75 times its standard deviation, a measure of how much its returns had recently been varying from their typical level. Nowadays, says Prof. Le Bris, the market has been so tranquil that it would take only a 5% one-day drop in the Dow to match the same extreme measure of risk from that horrific day in 1929.

So, you should brace yourself. In this environment, even slight declines are apt to setoff talk of Armageddon, and you will need to focus harder than ever on long-term returns to keep short-term losses from rattling you. *While all of this is true, long-term investors should remember that after any correction, you still own the same number of stock shares, which have recovered their value for the entire history of the market.*

And long-term returns are likely to be distorted this year. In September and October 2008, the depths of the financial crisis, U.S. stocks fell 9.1% and 17%, respectively.
This fall, those apocalyptic months will finally be more than 10 years behind us, and, as a result, the long-term return on stocks will go up like a rocket.

In fact, the S&P 500's 10year cumulative return would leap from 82% at the end of 2017 to 198% at the end of this coming November, even if stocks go absolutely nowhere for the first 11 months of 2018, says Howard Silverblatt, senior index analyst at **S&P Dow Jones Indices**.
That would nearly double the average 10-year gain to 12% annually from 6.2%, without even counting dividends.

Stocks will then look much more attractive in the rear-view mirror, even though nothing will have changed but the calendar. Don't believe the hype.

*As we align our client's portfolios with their long-term goals and our proven models, we encourage everyone to remain calm and not to try and time the market. Analysis has proven that moving in and out of the market is the surest way to **lower** total returns.*

JS Replogle & Associates LLC

Strategic Solutions for all your Investment Decisions

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Our Mission — *To develop, maintain, and provide unique investment strategies that reflect the specific asset growth and income needs of our clients, and to foster special relationships with those clients that lead to the advancement of mutual trust and confidence.*