THE OFM LETTER

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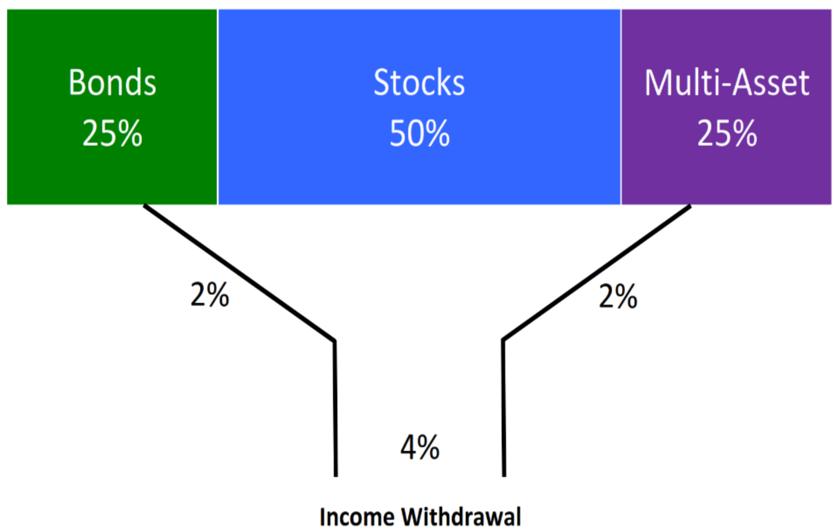
Protecting Income

It can be particularly troubling to experience a stock market decline while income is being withdrawn from an investment portfolio. Those of you who are retired (fully or partially), or contemplating a retirement, realize the potential stress of pulling money out of assets when stocks are heading south.

That income, however, should be protected. If the total portfolio is built with diversified, non-correlated assets, the non-stocks portion is designed to hold up well when stocks don't. Those assets (e.g. bonds, multi-asset strategies) provide income when stocks fall.

For example, let's look at a balanced portfolio blend of 25% bonds, 50% stocks, and 25% multi-asset, or alternative strategies. Let's further assume a 4% withdrawal rate. In a falling stock market scenario, the possible income from that half (i.e. stocks) of the portfolio could be stopped as half (i.e. 2%) the income could be withdrawn from bonds and the other half (2%) from multi-asset funds.



This withdrawal strategy could leave a stock allocation untouched during a decline for over a decade as long as the withdrawal rate (4% in this example) provides enough income. As a result, stocks need not be sold at lower prices and, in the future, could be sold upon recovery and provide income at that time.

Nice, huh? This is the strategy that we routinely use for clients who withdraw income. Challenges result when withdrawal rates are so high that the income from bonds and multi-asset funds is not sustainable.

Who knows when the next stock market decline will strike. There should be comfort, however, with the realization that a portfolio of non-correlated assets is structured to weather the storm.

\- Sam

Investor Behavior Corner – Loss Aversion

Do investment ups and downs result in similar emotional responses?

Imagine for a moment you had received news that your portfolio had performed very well this past month and was up 5%. Maybe there is a real life experience you can recall. Try and place yourself in that moment. The news most likely improved your mood, provided some excitement for the day and maybe you briefly contemplated putting more money into the market.

Now instead, imagine you received news that your portfolio was not up 5%, but down 5%. Immediate feelings of dread and panic set in. There is a great deal of pain and anxiety surrounding this sudden perceived loss. Serious consideration is made whether to get out before it gets worse. Instinctively one would think that 5% up or down would provide an equal amount of either joy or pain, but is this truly the case?

The answer is no, not even close as academics Kahneman and Tversky found out through their scientific research in the late '70s (1). As the graph to the left illustrates, it is far more painful to suffer a loss than it is joyful to experience a similar gain.

Your awareness of the lopsided emotional response to loss and regret can go a long way in protecting your portfolio. Allow yourself to remain focused on a 5 year time horizon and do not let any emotionally charged short term fluctuations distract you.

\- Will

(1) http://www.investopedia.com/university/behavioral_finance/behavioral11.asp

Welcome to OFM Wealth

I am pleased to announce that the name of our company is changing to OFM Wealth. The change is reflective of our growth and the depth of our wealth management team. That depth has been demonstrated by the experience and capabilities of Cris, Jeff, Will and David.

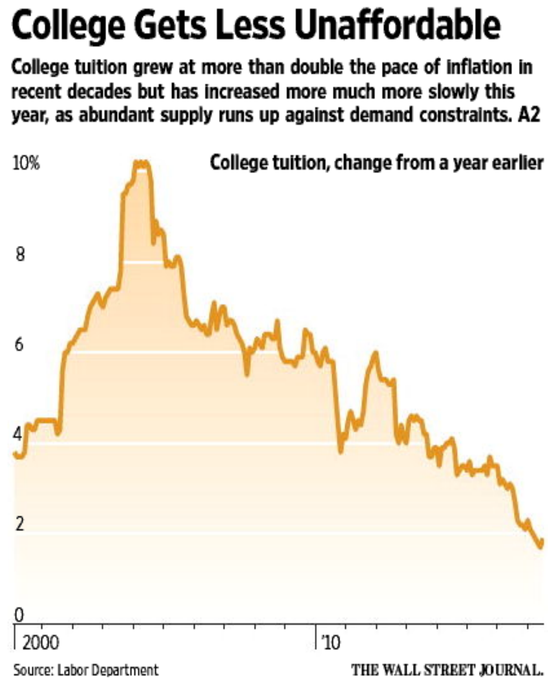
My role in the company will not change as I continue as a lead wealth manager. The contributions and commitment of our wealth management group, in addition to Lauren's service capabilities, results in a new name that reflects a deep and very capable enterprise.

Additionally, our new website is in development and will launch this fall. I look forward to sharing it with you and receiving your feedback.

Thank you again for your loyalty. Welcome to OFM WEALTH
FINANCIAL SOLUTIONS SINCE 1976

\- Sam

Quick Takes



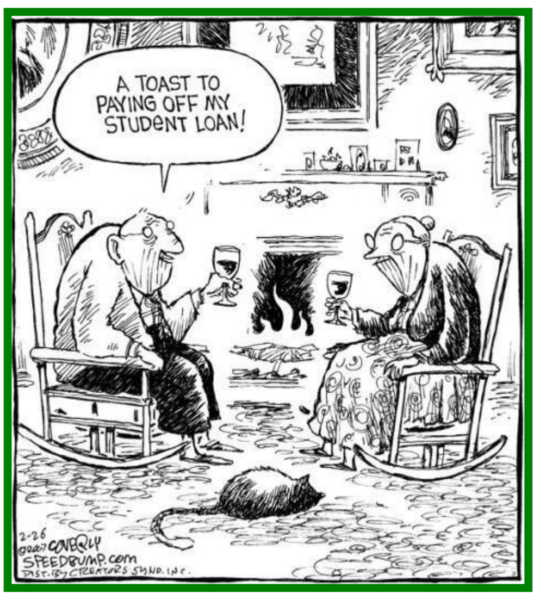
College Tuition Relief? – I know it's hard to believe but the rate of increase in college tuition has been declining since 2004. Over the last year ending in June, college tuition rose 1.9%, in-line with overall inflation. By contrast, from 1990 through last year, tuition grew at an average rate of 6% per year, more than double the rate of historical inflation. *Source: Wall Street Journal - July 24, 2017*

The Streak – The September 11, 2017 S&P 500 new market high of 2487 also made it 311 straight days since the last pullback of 3% or more. This is the second longest streak in the S&P 500's history. *Source: Bespoke Investment Group – September 12, 2017*

Social Security Report – Last year 61 million Americans received Social Security benefits totaling $922 billion, while the Social Security program realized $957 billion in total income (payroll taxes collected plus interest earnings). Social Security actuaries project that the program will only have 5 more years (2017-2021) where total income exceeds total expenditures. *Source: AMG Funds – July 24, 2017*

Aging America - There are currently 48 million Americans that are at least 65 years old, which represents 15% of our citizens. The number of 65+ seniors is projected to increase by a net +4700 per day for the next 18 years. *Source: AMG Funds – August 14, 2017*

Miss a Little, Miss a Lot - The S&P 500 return over the last 5 years ending 6/30/17 was 14.6% per year. If you missed just the top 5 days (5 days total, not 5 days each year) the 5-year return was cut by 3 percentage points to 11.6%. This is a great example of why we stress that you cannot time the market and the best approach is to stick to your customized investment blend. *Source: AMG Funds – July 24, 2017*



Social Security Raise? - The estimated range for the 2018 increase in Social Security is 1.5% to 2.9%. The actual increase will be announced in October. Any number above 1.7% would be the largest increase since 2012. *Source: Barrons - September 11, 2017*

Stock Market Corrections – During the course of the last 50 years, the S&P 500 has experienced 25 corrections of 10% or more – an average of 1 every 2 years. The last correction ended February 11, 2016. *Source: AMG Funds – August 28, 2017*

Berkshire Hathaway Fun Fact I – Berkshire Hathaway's roots go back over 175 years to the founding of textile manufacturer Valley Falls Company, which merged with Berkshire Cotton Manufacturing Company in 1929. The resulting company merged with Hathaway Manufacturing in 1955 to become Berkshire Hathaway. *Source: TTI website – a Berkshire Hathaway owned company*

\- Jeff