
THE OFM Wealth LETTER

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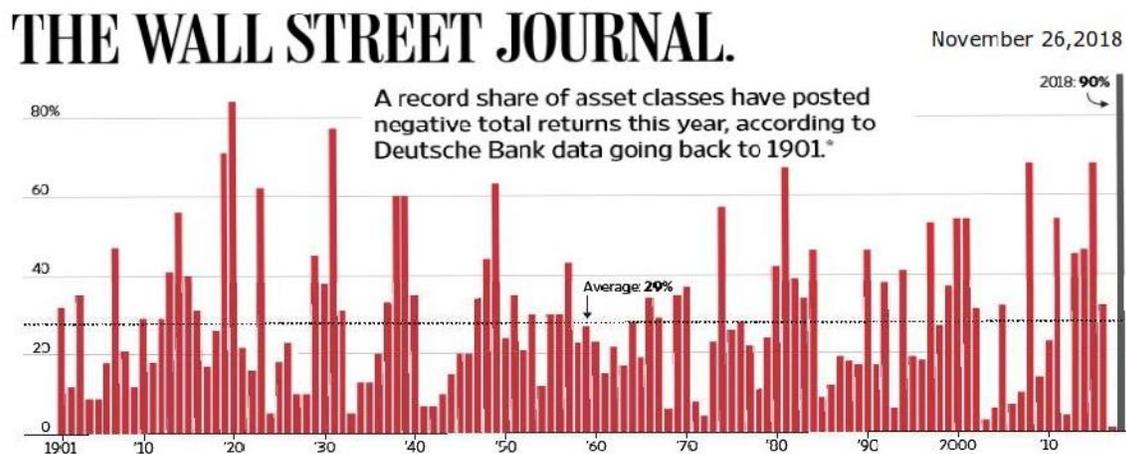
4th Quarter 2018

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Diversification in 2018: Worst Year Ever!

Diversification, or more thoughtful asset allocation, is practiced to reduce portfolio volatility and provide an efficient return stream. It accomplished those objectives during the two worst stock market declines (2000 – 2002 and 2008) since The Great Depression.

As of mid-November 2018, most investment asset classes were in the red for the year! On November 26th, the Wall Street Journal reported that 90% of the 70 asset classes tracked by Deutsche Bank had negative returns. Asset classes include stocks, (large, mid-sized, small, international, etc.), bonds (U.S. government, municipal, corporate, etc.), commodities, real estate, etc.



Asset classes don't usually move together for long or very often. One normally zigs, while another zags. For example, since 1980, stocks (the S&P 500) and bonds (the Barclays Aggregate Bond index) were never both down in the same year! On average, only 29% of all asset classes have been negative in a given year since 1901! The prior record was 84% in 1920. As the chart shows, 2017 holds the record for fewest declines. 2018 was truly unusual.

I'm ready for 2019. Let's ring in a New Year!

- Sam

Welcome Brandon!



All of us at OFM Wealth are pleased to introduce Brandon Mendez, CFP®, our new wealth manager. Brandon is originally from the Oak Lawn area and is joining us after a four-year stint in Boulder, Colorado where he worked as an associate financial planner and assistant portfolio manager.

Brandon's responsibilities as wealth manager at OFM Wealth include client service and supporting other advisors and management. He will also be responsible for intern oversight and management.

After hours, Brandon spends his time with physical activities. He likes playing basketball, running obstacle course races, and snowboarding. Brandon is also an avid comic book collector, and an overall enthusiast of the superhero culture. Brandon is currently in the process of completing his Masters of Business Administration. He expects to graduate this upcoming May.

Brandon looks forward to meeting and working with you in the coming months.

- Sam

Quick Takes Fourth Quarter 2018

Retirement Plan Contributions – The maximum contribution to a 401k and an IRA has increased. In 2019, you can contribute \$19,000 to a 401k if you are under 50 and \$25,000 if you are 50 or older. IRA contributions are now \$6,000 for those under 50 and \$7,000 for those 50 and older. (May be subject to income phaseout limits)

Education Funding – Under the new tax law, you may now withdraw up to \$10,000 per year to pay for a student's private school K-12 tuition, but beware, some states have not adjusted their rules to align with the new federal tax law. Illinois is one of those states. If you are an Illinois resident for tax purposes, and withdraw for private school K-12 tuition, you may be subject to state taxes and a 10% penalty on earnings. (Source: IRS, Illinois Department of Revenue)

Time in the Market – Since 1950, the S&P 500 index has been up 54% of 17,361 trading days, 60% of 828 months, 66% of 276 quarters and 72% of 69 years. (Source: AMG Funds)

10%+ Negative Quarters Since WWII – This chart lists every quarter since World War II that experienced a stock market decline of over 10% and then lists the investment return for the following quarter, 2 quarters and year. The results are overwhelmingly positive - the average return gaining over 5% the next quarter, over 10% the next 2 quarters, and over 15% in the next year. (Source: Bespoke)

S&P 500 10%+ Down Quarters Post WWII

Quarter	% Chg	Next Qtr %	Next 2 Qtrs		Next Year	
			%	%	%	%
9/30/1946	-18.83	2.27	1.40	1.00		
9/30/1957	-10.45	-5.73	-0.75	18.01		
6/29/1962	-21.28	2.78	15.25	26.70		
6/30/1970	-18.87	15.80	26.72	37.10		
12/31/1973	-10.03	-3.66	-11.84	-29.72		
9/30/1974	-26.12	7.90	31.19	32.00		
9/30/1975	-11.89	7.54	22.53	25.48		
9/30/1981	-11.45	5.48	-3.63	3.65		
12/31/1987	-23.23	4.78	10.69	12.40		
9/28/1990	-14.52	7.90	22.60	26.73		
9/30/1998	-10.30	20.87	26.49	26.13		
3/30/2001	-12.11	5.52	-10.29	-1.12		
9/28/2001	-14.99	10.29	10.23	-21.68		
6/28/2002	-13.73	-17.63	-11.11	-1.55		
9/30/2002	-17.63	7.92	4.04	22.16		
12/31/2008	-22.56	-11.67	1.78	23.45		
3/31/2009	-11.67	15.22	32.49	46.57		
6/30/2010	-11.86	10.72	22.02	28.13		
9/30/2011	-14.33	11.15	24.49	27.33		
12/31/2018	-15.55	?	?	?		
	Average	5.13	11.28	15.94		
	Median	7.54	10.69	23.45		
	% Positive	78.9%	73.7%	73.7%		

- Jeff

Sustainable Investing: The Performance Myth

The first questions asked during a conversation about sustainable investing are usually about performance. Despite mainstream acceptance of ESG (environmental, social, and governance) screens and impact investments based on themes such as clean water, fossil fuels, energy, etc., an underlying presumption of limited performance is often raised. Simply stated, that under-performance is a myth.

Some argue that better performance should be expected when screening out companies or industries that may struggle as consumer-driven ESG factors emerge.

At OFM Wealth, our focus remains on our clients' objectives. To the extent sustainable investing is a client priority, we add screens to a process that includes:

-) Historical risk-adjusted performance
-) Investment company culture and continuity
-) Fund cost
-) Specific fund objectives

Additional screens for sustainable investments include:

-) Expressed ESG or impact mandates
-) Ratings based on independent ESG criteria
-) Performance vs. both ESG and impact-screened as well as non-screened competitive funds

Our approved list of screened sustainable investments is quite extensive and covers most asset classes. This chart compares the performance of ESG screened funds (shaded in blue) vs. their appropriate benchmark indices.

	1 Yr Return*	3 Yr Return*	5 Yr Return*	10 Yr Return*
Calvert US Large Cap Core Rspnb Idx I	-4.07%	8.77%	8.29%	13.77%
Russell 1000 TR USD	-4.78%	9.09%	8.21%	13.28%
Brown Advisory Sustainable Growth I	4.60%	12.32%	11.24%	-
S&P 500 TR USD	-4.38%	9.26%	8.49%	-
Parnassus Mid-Cap	-6.64%	7.86%	6.71%	13.40%
S&P MidCap 400 TR	-11.08%	7.66%	6.03%	13.68%
Calvert International Opportunities	-14.58%	6.10%	3.19%	9.05%
MSCI EAFE NR USD	-13.79%	2.87%	0.53%	6.32%
Calvert Emerging Markets Equity I	-15.23%	9.43%	3.73%	-
MSCI EM NR USD	-14.58%	9.25%	1.65%	-
PIMCO Total Return ESG Institutional	-0.78%	2.19%	2.29%	4.46%
Barclay's US Agg Bond TR USD	0.01%	2.06%	2.52%	3.48%

ESG screened funds

* Annualized returns compiled from Morningstar Office as of 12/31/2018

This is a limited sample. There are many other funds that meet our rigorous tests. Comparative performance is not an issue and I don't expect this performance myth to last very long.

- Sam

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