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BOYD FINANCIAL STRATEGIES, INC.

Financial & Investment Planning
Independent Advice ~ Fiduciary Management

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Note that all performance numbers are based upon model portfolios without deposits or withdrawals (Time Weighted Returns).

Actual client account performance will vary with the timing of deposits or withdrawals, cash balances held for payment of fees, and short-term trading charges within 90 days of plan startup.

The results provided are historical and can not be used to predict future investment results. This document is intended for the use of current clients only.

Schwab Conference in Washington

At the end of October, Peter Boyd and Ed Perry drove down to Washington to attend Schwab's invitation-only IMPACT conference. This annual event offers independent financial advisors with cutting-edge insights and unique perspectives on current market and industry trends. Smaller sessions focusing on specialized financial products were held to provide an in-depth look at how these investment programs are managed. The key-note presenter at the conference was former Fed chair Dr. Janet Yellen, who delivered comments on the overall strength of the U.S. economy and the Fed's current strategy to normalize interest rates.

While Peter and Ed attended some of the same presentations, there were times when they split up to focus on their areas of expertise. Peter, for instance, went to financial-planning talks focused on tax planning and the best strategies to establish charitable trusts. Meanwhile, Ed heard presentations on stock, bond, real estate, and commodity trends, as well as several talks on portfolio construction in the "end stage" of a bull market.

Besides providing financial insights, the conference also gave Peter and Ed a chance to meet with several technology providers. First, they spoke with the firm's current vendors to see if any upgrades were planned for the near future. Then, they investigated competing firms. As it turned out, none provided a superior product, but one was put on their "radar screen." Lastly, they looked for new computer software that could enhance the firm's investment planning capabilities. After watching several demonstrations and discussing each product's merits, two software programs were added to our practice.

First, we contracted with the firm Riskalyze, and here's how their product works. After a client takes a brief survey, the program assigns a personal risk score. Then his/her portfolio is downloaded into the database, and it too is given a score. The two scores are then compared to see how they match up. The resulting discussion and investment adjustments will enable us to systematically align a client's risk

tolerance with his/her investment portfolio.

The second software program, which we'll be bringing onboard in the first quarter of 2019, sources and provides key metrics on individual corporate and muni bonds. Not only will this portal give us access to a supplemental inventory of fixed income securities, but it will also provide additional research and pricing metrics for our extensive bond practice.

Social Security Break-even Ages

Last quarter's article, *The Best Age to Begin Receiving Social Security*, was well received by our clients. However, many readers asked the next logical question: What are the break-even ages? In other words, if a retiree is deferring his/her benefits for several years, s/he is forgoing income payments. At what age will the higher level of income make up for the lost benefits? The chart below provides the answers.

	Break-even Age
The age at which the cumulative benefit of collecting at age 66 would surpass the cumulative benefit of collecting at age 62	76
The age at which the cumulative benefit of collecting at age 70 would surpass the cumulative benefit of collecting at age 62	79
The age at which the cumulative benefit of collecting at age 70 would surpass the cumulative benefit of collecting at age 66	82

Source: SSA.gov. Hypothetical benefits assume the retiree was age 62 in 2010, age 66 in 2014 and age 70 in 2018, and began collecting benefits in January of each year. Benefits are increased by 2.5% annually to account for inflation.

New S&P 500 Sector Weightings

In a world in which consumer goods, communication devises, and technological innovations are converging to form revolutionary new products, Wall Street analysts have been struggling to properly classify the companies spearheading these innovations. Apple, for instance, has been assigned to the tech space. Yet, since most of its products are consumer goods, shouldn't it be classified as a consumer discretionary stock? Is Tesla a tech firm, pioneering battery technologies, or a car manufacturing company? Similarly, since Netflix is web-based, it has been considered a tech stock. Yet, since it provides streaming services, isn't it more of a consumer stock?

After a good deal of analysis and debate, the Global Industry Classification Standard (GICS), which sets sector classifications for publicly traded companies and is overseen by Standard and Poor's (S&P) and Morgan Stanley Capital

International (MSCI), announced a reclassification of several companies and a significant change in the composition of three S&P sectors.
The former Telecommunications Services sector will be transformed into the new Communication Services sector, blending together the telecom, media, and internet industries. Companies such as Facebook, Google, Walt Disney, and Comcast will now be lumped in with telecom firms already in the sector such as Verizon, CenturyLink, and AT&T. This change will lift the Communication Services sector weighting to almost 10% of the S&P 500 (the old Telecommunications Services sector's weighting was just under 2%).

Removing tech giants Facebook, Google, and Netflix (shifted to consumer discretionary) will drop technology's sector weighting a little over 5%, cutting its overall index weight down to just under 21%. The third affected sector, consumer discretionary, will see its weighting cut by approximately 2.7%. When the reclassification is completed, approximately 10% of the S&P 500 will be affected.

How will these changes affect your investments? For the most part, the reclassification will have little impact. Since companies are simply being re-classified within the index, those clients invested in Schwab's Total Stock Market Index (SWTSX) will see no effect. Individuals holding sector-specific mutual funds and ETFs, which invest in the three sectors being revised, will potentially be affected. However, very few of our clients hold these investment vehicles. Finally, once the changes go into effect, Boyd's Investment Committee will review the newly reconstituted sectors for potential investment opportunities.

Fundamentals versus Investor Sentiment

As the financial markets were entering Q4, the buzz word on Wall Street was "late stage," since investors feared that one of our nation's longest periods of economic expansion was potentially nearing an end. Granted, this belief was based primarily on the idea that no expansion lasts forever. While there were signs that the U.S. economy was slowing, the chances of a recession were quite remote. Nevertheless, since financial markets start their downturn several months before economic weakness shows up in the numbers, and with a backdrop of gradually rising rates, trade tensions, and political in-fighting in Washington, traders were on edge and hoped to beat others to the exit.

Recognizing the market's mood, we did some profit taking in the Summer by moving 10% into the Cion Ares fund, which is a relatively stable fixed income fund yielding about 5%. We also reduced exposure to tech and small caps and increased our model weighting in healthcare and value funds. We debated whether we should be even more defensive, but the market's fundamentals of solid growth, low inflation, and raising by still attractive interest rates convinced us to strike a balance between optimism and defensiveness. We also wanted to avoid being whipsawed in this incredibly volatile environment.

As we enter 2019, we recognize the headwinds we face. Yet, slower growth and rising rates do not demand a "risk-off" posture. For if one couples steady earnings growth with the attractive valuations we have now, we expect modest returns

across asset classes in 2019.

Rosemarie, John, Peter, and Ed