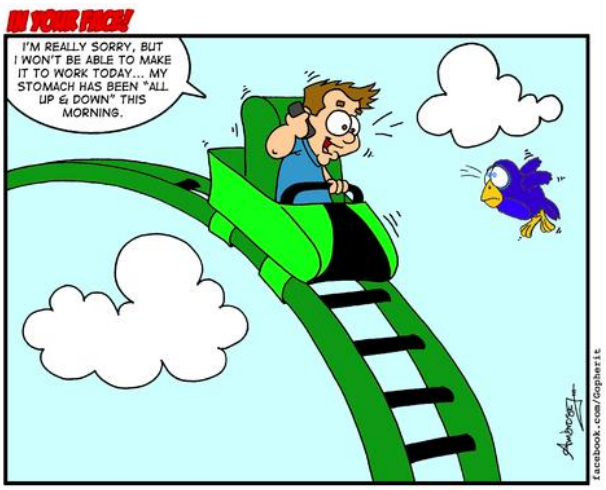
SETTING SAIL
SECOND QUARTER 2015

READY FOR ANOTHER ROLLER COASTER RIDE?

There's one common attribute of all investments (except maybe cash): they go up and down in value. Bonds, stocks, real estate, commodities and everything else go up and down for the same basic reason:



investor's expectations of future returns (whether by profits, interest, or growth) create the short-term volatility of investment markets. The more uncertainty in investors' minds, the higher the volatility.

Does the current volatility mean we're heading for another crash? It's unlikely, although a market correction (over a 10% decline in the market) or even a bear market (over a 20% decline in the market) might occur. On average, corrections occur annually, and bear markets occur about every three years. We haven't had a bear market since 2007-2009, and haven't had a correction since 2011.

Does it mean it is time to get out? Absolutely not!

SETTING SAIL is written by Joe Call, CPA/.PFS, CFP® and Alan Campbell, MBA, CFP® and is published quarterly by **SPINNAKER FINANCIAL ADVISORS, LLC,** a Registered Investment Adviser. The firm provides ***fee-only*** wealth management services, including investment advisory and management services and comprehensive financial planning and consulting.

As fiduciary advisors, we are deeply committed to helping families and individuals reach their lifestyle and financial goals by:

- ***Thorough and creative planning,***
- ***Disciplined investing, and***
- ***Reduction of execution, tax, and management costs.***

For more information about our firm, including articles about financial planning and wealth management, visit our website**.** To learn how we can help you reach your goals, please contact us for a free consultation. Our phone number is 208-542-0742 or you can contact Danielle Dursteler at dani@spinnakerfinancial.com.

Guessing market changes requires an investor to get out at the right time (just before the market goes down) and get back in at the right time (before the market goes back up) to make it work. Studies show that an investor would have to be correct 80% of the time in order to break even!

So, what to do in the case of a correction or bear market? Remember just a few things:

- The consumer financial media (that is, CNBC, Fox News, Jim Cramer, etc.) will scare you. It's their job. The more afraid they can get you, the more you'll pay attention to their material. If what you're hearing, seeing, or reading, scares you, turn it off or put it down!
- Your portfolio doesn't follow the "market". The market statistics usually used to determine market values (whether the S&P 500 Index or the Dow Jones Industrial Index (DJIA) represent only US large company stocks. With broad diversification, investors are protected from the "worst-of-the-worst". For example, the S&P 500 Index dropped 50% during the most recent bear market; the Morningstar Moderate Target Index dropped just over 30%. (A moderate allocation recovered faster as well.) During the 2011 correction, The S&P 500 Index dropped just over 17%, while the Morningstar Moderate Target Index dropped just under 11%.
- MOST IMPORTANT: Your financial plan likely takes into account that short-term declines won't hurt your long-term goals. The fluctuations we see are just an ordinary part of investing. Maybe not the most enjoyable part, but part of it all the same! If you're uncomfortable with the possible short-term volatility your portfolio is likely to expose you to, give us a call and we'll review it with you. *--JRC*

BEWARE THE NONTRADED REIT!

Never did I suspect that I would be writing an article about non-publically-traded REITs (which I'll call nontraded REITs for this article). Recent experience has opened my eyes: these frequently inappropriate investments are alive and well and are sold "right here in River City, my friends"!

REIT stands for Real Estate Investment Trust (which isn't necessarily a trust; but can be a corporation or another organization.) REITs typically own real estate properties (a few or many) or, in some cases, loan funds to real estate operations. REITs that meet IRS regulations can deduct distributions that they make to investors from corporate taxable income, thereby avoiding double taxations.

There is nothing wrong with REITs. Many legitimate and successful REITs are available on stock exchanges and shares of ownership can be bought and sold just as you would any other

On a personal note . . .

One of the (many) problems of getting older, is when you visit an area frequently, you keep returning to your favorite restaurants and you don't have time to try new ones. In Las Vegas, for example, constant favorites are Lotus of Siam and the Buffet at the Mirage. In San Diego, our constant favorites include El Indio, Saffron, and Kansas City Barbecue. But in the quest to make sure there's something to write about in this space, we search diligently for at least one "newsletter-worthy" restaurant each quarter. It's a tough job, but somebody has to do it.

Our San Diego pick this quarter is The Vessel Restaurant, located in the Kona Kai resort at the very end of Shelter Island, far from other tourist spots. Casual tone, great band, wonderful view of the marina, and good food. We were dining with a group and got lost finding the place, so we missed all the appetizers (although we had nibbles of a spicy tuna taco and mushroom flatbread) that others enjoyed. I had incredible grilled scallops, served over a kind of a corn and pepper and potato hash and other goodies. Nola had the skirt steak, (tender, juicy, and great flavor) served with potatoes and leeks with a peppercorn/marsala finish. Desserts were chocolate lava cake (just as it sounds, with raspberries) and crème brulee (one of Nola's favorites, wherever we go.) We hope to go back.

While I Nola and I were at the Vessel, Alan was at Eddie V's Prime Seafood near Seaport Village. He writes: "Seafood is always better near the sea and Eddie V's was no exception. Although a chain restaurant (there are 13 around the country) it didn't have that mass-produced feel. I'm not a big seafood-fanatic, but the halibut (presented with sweet corn, mushrooms, and edamane) was excellent. The side dishes of crab cake, truffled macaroni and cheese and crab fried rice really stole the show."

company. Even better, several mutual funds and ETFs (exchange-traded funds) allow investors to invest in a professionally managed, broadly diversified portfolio of REITs. They are a great way to get exposure to real estate in an investment portfolio.

When used appropriately, those are the good kind.

Then there's the other kind, the nontraded REIT.

As the name suggests, nontraded REITS aren't traded on stock exchanges, but are sold directly by stockbrokers. There are typically restrictions redeeming the investment, and there is usually no or little secondary market if you want to sell. The front-end fees (which may include selling compensation and expenses and offering and organizational costs) on nontraded REITs can be as much as 15% of the initial share price.

Here are just a few of the problems:

- Complexity: Nontraded REITs disclosure statements provide humungous data that the average investor (or many brokers) can't possibly understand. Often there are many entities (with conflicts of interest) involved in the acquisition, development and/or management of the properties, each of which take a piece of the profits and confuse the investor as to actual costs.
- Distributions: Most represent to provide "guaranteed" distributions in the range of 6 to 10%. However, these aren't distributions of operating profits (as is typical with traded REITs), but often include distributions from investor funds (similar to a Ponzi scheme), loan proceeds, or other non-operational cash flows. These distributions typically reduce the long-term value of the client's investment and, as you might suspect, aren't guaranteed either.
- Leverage: Some nontraded REITs can borrow up 100% of the property's value. The cash from these loans may be distributed to investors or used for operating and promotion expenses. When property is leveraged, it only takes a small decline in property values, (we've certainly seen that lately), to wipe out the value of the investment.
- Liquidity: Typically, the only "market" for an investor's shares will be the nontraded REIT itself, which usually will have strict limitations on how many shares or units it will redeem, when they can be redeemed, and the price paid, based on their own valuations. Investors can receive significantly less than they originally paid.
- Holdings: Nontraded REITs are frequently "blind pool" investments; that is, there are no specific properties identified (and therefore no known operating history) for the entity to own. Often, there will be limited diversification, as the nontraded REIT may specialize only in a certain industry, geographical region, or type of property.

FINRA, which "regulates" brokerage firms, had enough concerns about the inappropriate sales of these products that they issued an Investment Alert[1]. In our opinion, it doesn't provide near enough warning or educate potential investors. My advice? Don't buy them. Most of the significant benefits available through nontraded REITs are available through traded REITs and REIT funds. The difference? Commissions! Stock commissions are around 2-3%, fund commissions are around 4-6% (if load funds), and nontraded REIT commissions are around 7-10%.

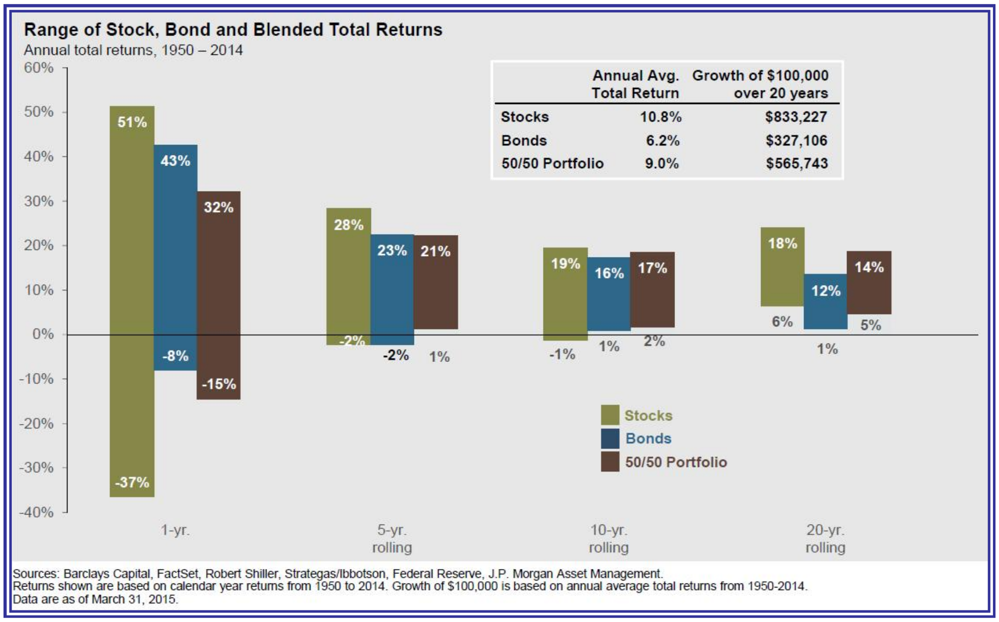
Hmmmmm. *--JRC*

---

[1] http://www.finra.org/investors/alerts/public-non-traded-reits%E2%80%94perform-careful-review-investing

TIME (IN THE MARKET) HEALS ALL WOUNDS

This chart gives some great insights into long-term investing. The two numbers listed on each bar are the highest and lowest returns for stocks, bonds, and a 50/50 blend of stocks and bonds over rolling time periods between 1950 and 2014. Rather than focusing on average returns, this chart shows the extremes. The largest 1-year gain in stocks was 51% while the largest 1-year loss was 37%. Five, ten, and twenty-year periods are also shown.



Across all periods, stocks have higher volatility than bonds but also have better long-term returns. The average returns for stocks was 10.8% compared to 6.2% for bonds. Over a 20-year time period, the growth of $100,000 was $833,227 for stocks compared to $327,106 for bonds. Clearly, long-term investors need a healthy dose of stocks to grow their portfolios and keep up with inflation.

The blended portfolio offers a perspective into diversification. For the five and ten year periods, the blended portfolio had the best downside results, while keeping the upside potential in range with both stocks and bonds. The average 20-year return for the blended portfolio was 9.0%, which is higher than the average (8.5%) of the average stock return (10.8%) and the average bond returns (6.2%). This is likely due, in part, to annual rebalancing, which forces investors to sell high and buy low.

Of course the greatest takeaway from the chart is *that the fluctuations of the markets even out over time*. The downside risk is lowered and then taken away as the time period increases. In fact, although stocks are the most volatile, they provide the most favorable worst-case scenario over the 20-year period. I hope that we can keep the long-term view when the short term isn't enjoyable.--*ASC*

> In short, the way to wealth, if you desire it, is plain as the way to market. It depends chiefly on two words, industry and frugality; that is, waste neither time nor money, but make the best use of both. Without industry and frugality nothing will do, and with them everything. He that gets all he can honestly, and saves all he gets (necessary expense expected), will certainly become rich, if that Being who governs the world, to whom all should look for a blessing on their honest endeavors, doth not, in His wise providence, otherwise determine.
>
> Benjamin Franklin, American Statesman, Inventor, Author, Printer, Political Theorist, Politician, Scientist, and Diplomat (1706-1790)

All investment returns and other information presented in this newsletter are based on historical information from sources believed to be reliable. Funds or other investments mentioned are for illustrative purposes only and do not represent recommendations to purchase or sell such investments. Returns reported are historical and do not represent future results. All investments have risk and may result in a loss of principal. This newsletter is prepared for informational purposes only; professional advice should be obtained before applying ideas to your individual situation.