

# Financial Markets Update



## Sailing with the Tides

Embarking on a financial plan is like sailing around the world. The voyage won't always go to plan, and there'll be rough seas. But the odds of reaching your destination increase greatly if you are prepared, flexible, patient, and well-advised.

A mistake many inexperienced sailors make is not having a plan at all. They embark without a clear sense of their destination. And once they do decide, they often find themselves lost at sea in the wrong boat with inadequate provisions.

Likewise, in planning an investment journey, you need to decide on your goal. A first step might be to consider whether the goal is realistic and achievable. For instance, while you may long to retire in the south of France, you may not be prepared to sacrifice your needs today to satisfy that distant desire.

Once you are set on a realistic destination, you need to ensure you have the right portfolio to get you there. Have you planned for multiple contingencies? What degree of "bad weather" can your plan withstand along the way?

The key to a successful voyage is a good navigator. A trusted advisor is like that, regularly taking coordinates and making adjustments, if necessary. If your circumstances change, the advisor may suggest you replot your course.

*(continued on next page)*

### Financial Markets Performance

1st Quarter, 2018 (Source index and total return)

| <b>Stocks &amp; Alternatives</b>                     |        |
|------------------------------------------------------|--------|
| Large U.S. Companies (S&P 500)                       | -0.76% |
| Small U.S. Companies (Russell 2000)                  | -0.08% |
| Large Non-U.S. Companies (NASDAQ Dev Mrkts)          | -1.22% |
| Small Non-U.S. Companies (FTSE Dev Sm Cap)           | -1.07% |
| Emerging Markets' Companies (RAFI Em Mrkts)          | 2.39%  |
| Commodities (Bloomberg Commodity Index)              | -0.40% |
| <b>Bonds</b>                                         |        |
| Long-Term U.S. Treasuries (Barclays U.S. Long Gov)   | -3.29% |
| Total U.S. Market (Barclays U.S. Agg Bond)           | -1.46% |
| U.S. Corporate Bond Market (S&P 500 IG Bond)         | -2.55% |
| Short-Term U.S. Treasuries (Barclays U.S. Short Gov) | 0.32%  |

### Financial Markets Valuation

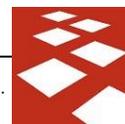
Values calculated with preliminary data available as of Apr, 2018

| <b>U.S. Stocks (S&amp;P 500)</b>                   |        |
|----------------------------------------------------|--------|
| Price to Earnings (P/E) Ratio                      | 20.84  |
| Price to Book (P/B) Ratio                          | 3.10   |
| Earnings Yield                                     | 4.80%  |
| Dividend Yield                                     | 2.03%  |
| Corporate Earnings Retention Rate                  | 57.79% |
| <b>Bond Yields</b>                                 |        |
| 2 Year U.S. Treasury Note                          | 2.27%  |
| 10 Year U.S. Treasury Note                         | 2.74%  |
| 30 Year U.S. Treasury Bond                         | 2.97%  |
| <b>Non U.S. Stocks (MSCI World ex USA All Cap)</b> |        |
| Price to Earnings (P/E) Ratio                      | 17.22  |
| Price to Book (P/B) Ratio                          | 2.13   |
| Earnings Yield                                     | 5.81%  |
| Dividend Yield                                     | 2.52%  |
| Corporate Earnings Retention Rate                  | 56.58% |

### Economic Data

Values as of Mar, 2018 (Inflation and GDP annual changes)

|                                |       |
|--------------------------------|-------|
| US Inflation Rate (All Items)  | 2.4%  |
| US GDP Real Growth Rate        | 2.9%  |
| US Unemployment Rate           | 4.1%  |
| US Industrial Utilization Rate | 77.5% |



As with the weather at sea, markets can be unpredictable. A sudden squall can whip up waves of volatility, tides can shift, and strong currents can threaten to blow you off course. Like a seasoned sailor, an experienced advisor will work with the conditions. Once the storm passes, you can pick up speed again. Just as a sturdy vessel will help you withstand most conditions at sea, a well-diversified portfolio can act as a bulwark against the sometimes tempestuous conditions in markets.

Circumnavigating the globe is not exciting every day. Patience is required with local customs and paperwork as you pull into different ports. Likewise, a lack of attention to costs and taxes is the enemy of many a long-term financial plan.

Distractions can also send investors, like sailors, off course. In the face of “hot” investment trends, it takes discipline not to veer from your chosen plan. Like the sirens of Greek mythology, media pundits can also be diverting, tempting you to change tack and act on news that is already priced in to markets.

A lack of flexibility is another impediment to a successful investment journey. If it doesn’t look as though you’ll make your destination in time, you may have to extend your voyage, take a different route to get there, or even moderate your goal.

## Summary

The important point is that you become comfortable with the idea that uncertainty is inherent to the investment journey, just as it is with any sea voyage. That is why preparation and planning are so critical. While you can’t control every outcome, you can be prepared for the range of possibilities and understand that you have clear choices if things don’t go according to plan.

If you can’t live with the volatility, you can change your plan. If the goal looks unachievable, you can lower your sights. If it doesn’t look as if you’ll arrive on time, you can extend your journey.

Of course, not everyone’s journey is the same. Neither is everyone’s destination. We take different routes to different places, and we meet a range of challenges and opportunities along the way. But for all of us, it’s critical that we are prepared for our journeys in the right vessel, keep our destinations in mind, stick with the plans, and have a trusted navigator to chart our courses and keep us on target

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Adapted from work by Jim Parker, March, 2018. Diversification does not assure a profit or prevent risk of market loss. The financial market summary above includes historical data and Callahan Financial Planning Company’s internal analysis and is designed for informational purposes only. Scenarios described do not encompass all possible or probable outcomes and are not an indication of future results. Financial probability modeling is not a guarantee of future investment returns, and investing in stocks or bonds carries risks. Past performance does not guarantee or predict future results. Investment decisions should be made with the advice of your financial planner, consistent with your financial plan and the other aspects that make up your financial situation today. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.

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