

INVESTMENT UPDATE

Saltmarsh

Financial Advisors, LLC

AN AFFILIATE OF SALTMARSH, CLEVELAND & GUND

4th Quarter 2018

Happy Holidays from Our Saltmarsh Family!

*Happy
Holidays*

Wishing you and your family a joyful holiday season and a prosperous new year from your friends at Saltmarsh Financial Advisors.

Saltmarsh Financial Advisors Partners With Dimensional To Host Events in Pensacola And Tampa

We look forward to kicking off the new year with events in Pensacola and Tampa with Weston Wellington and Apollo Lupescu, Ph.D. of Dimensional Fund Advisors (DFA). DFA offers an alternative to the old-school approach of attempting to selectively pick high performing individual companies or time the market.

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Be Prepared For These Five Holiday Expenses



Weston Wellington

Pensacola

Redefining Investment Advice

Wednesday, January 23
11:30 a.m. - 1:00 p.m.
Pensacola Yacht Club

Lunch will be provided

Too often, traditional investment approaches try predict the future and prove costly and futile. Weston Wellington will explain the science behind DFA's Nobel Prize winning research and how it has inspired a more sophisticated approach to investing.



Apollo Lupescu, Ph.D.

Tampa

The Evolution of Investing

Wednesday, February 20
12:00 - 1:30 p.m.
University Club of Tampa

Lunch will be provided

Rapid changes are taking place in the economy, and financial markets are no exception to this. Apollo Lupescu, Ph.D. will share the differences between traditional, predictive investment approaches and alternate principles based on academic research.

Please RSVP By Email or Call Us At:

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A Question of Equilibrium

By: Jim Parker, Vice President of DFA Australia Limited

"Sellers were out in force on the market today after negative news on the economy." It's a common line in TV finance reports. But have you ever wondered who is buying if so many people are selling?

The notion that sellers can outnumber buyers on down days doesn't make sense. What the newscasters should say, of course, is that prices adjusted lower because would-be buyers weren't prepared to pay the former price.

What happens in such a case is either the would-be sellers sit on their shares or prices quickly adjust to the point where supply and demand come into balance and transactions occur at a price that both buyers and sellers find mutually beneficial. Economists refer to this as equilibrium.

But the price at which equilibrium is reached can change. That's because new information is coming into the marketplace continually, forcing would-be sellers and would-be buyers to constantly adjust their expectations.

That new information might be company-specific news on earnings. It might be news that has implications for specific industries—like a spike in oil prices. Or it might be an economic development that affects the entire market, like a change in the unemployment rate. Given this constant flux in the flow of news and information and the changing expectations of participants, it can be reassuring to remember that for everyone selling shares there must also be buyers of those shares—or the trade will never take place. And whenever information changes, prices may change and quickly reach a new level of equilibrium.

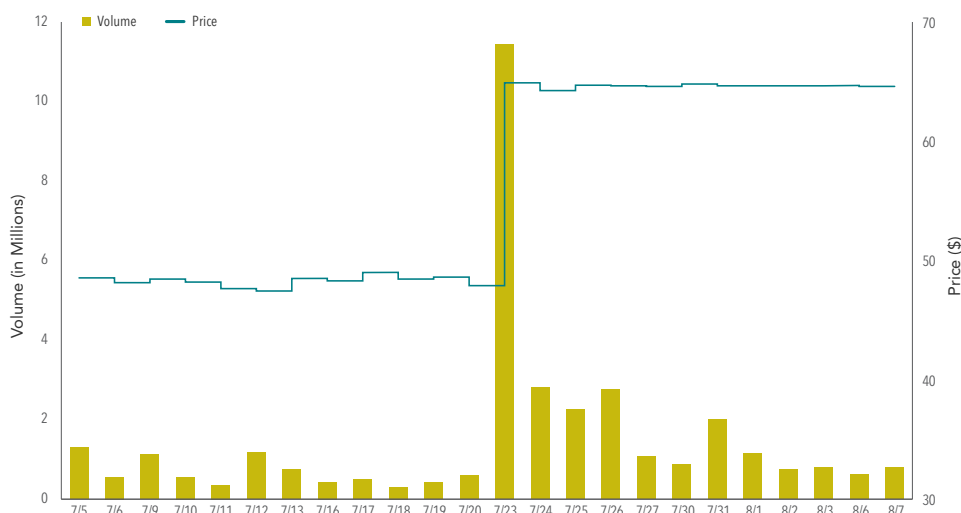
Recent trading activity by market participants in shares of

a US-based health care provider offers a clear example of how quickly prices adjust to new information. It was reported in late July 2018 that a large private equity firm was in talks to purchase the health care firm at a price valuing the company at \$65 per share. Prior to the announcement, shares of the firm were trading around \$48. As we see in **Exhibit 1**, when the announcement broke, the market price for the stock adjusted overnight to just below \$65. In other words, after news of the impending sale hit the market, the supply and demand for the stock met at a new equilibrium price.

Given that security prices rise and fall based on a multiplicity of influences, how should investors interpret and act on these signals? We believe that trying to untangle all these influences and profit from perceived mispricing is not possible in a systematic and scalable manner. An alternative approach is to start by accepting that prices are fair and reflect the collective expectations of market participants. While information frequently changes, this is quickly built into prices. Competition among buyers and sellers is such that it's not possible to consistently outguess the market.

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Exhibit 1: Price Movement and Daily Volume for Shares of US-Based Health Care Provider
July 5–August 7, 2018



In USD. For illustrative purposes only. Stock price data as shown are official NASDAQ closing prices. Data provided by Bloomberg L.P. See end disclosures for additional important information.

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission. Investing involves risk and the possible loss of principal, and there is no guarantee strategies will be successful. Diversification and rebalancing do not eliminate the risk of market loss. The US health care provider example noted is provided for illustrative purposes only, intended only to demonstrate prices incorporating information quickly, and is not to be considered a recommendation to buy or sell any security. It is also not intended to represent a security purchased, sold, or recommended for advisory clients, and it should not be assumed that the investment in the security identified was or will be profitable. All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Investors should talk to their financial advisor prior to making any investment decision.

A Question of Equilibrium (Cont.)

The second step is to see that fairly priced securities can have different expected returns. And we can use market prices and security characteristics to identify those securities that offer higher expected returns.

The third step is to build highly diversified portfolios around these broad drivers of return, while implementing efficiently and managing the cost of buying and selling securities.

The final step is to apply discipline and rebalance your portfolio to either stay within your chosen risk parameters or to adjust for changes in circumstances.

Ultimately, the market is like a giant information processing machine. All the influences mentioned above are constantly being assessed by millions of participants, and prices adjust based on those collective expectations. The returns we expect from investing do not necessarily show up every day, every week, every month, or even every year. But the longer we stay invested, the more likely we are to capture them. So, rest assured that even when prices are falling, people are still buying. The market is doing its job, and we believe the rewards will be there if you remain disciplined.

Be Prepared for These Five Holiday Expenses

By: Chris Stennett, CFP®, Saltmarsh Financial Advisors

The Holiday Season is a time of year that many of us look forward to. Unfortunately, it's also the time of year when budgets get stretched the furthest. Planning ahead for these 5 holiday expenses will help ensure you can stay on track for your long-term goals while still giving you the peace of mind to enjoy the season.

1. TRAVELING

Whether you're traveling to see family or traveling to get away from them, this expense can have a big impact on your finances. Flying might get you there quicker, but you'll likely pay a premium for the convenience. Booking a flight has a known upfront cost, but there are secondary costs like baggage check fees, rental car fees, and rigid cancellation/reschedule fees. If the trip is a manageable distance, consider driving. Planning ahead on this expense could save hundreds (if not thousands) of dollars.

2. ENTERTAINING FRIENDS AND FAMILY

Because Florida has one of the best winter climates, you're likely going to have people asking to come visit you. The good news is there are plenty of budget friendly ways to show them a good time. Are they coming from a cold climate? Show them our wonderful beaches or take a trip to one of our state parks. Do they have children? Check out a local zoo or even a children's museum. If you have more room in your budget, you could even visit one of our famous theme parks. Last year, my wife and I didn't have a big budget as we welcomed our first child in June. When family came to town, we took the visiting

kids to some local community parks and pools, to keep them entertained.

3. GIVING GIFTS TO LOVED ONES

To this day, my parents still get me Christmas presents, and I'm in my mid-30s. Ever since I was born, my mom has set aside money, every month, into a separate savings account. She calls it her "Santa Fund." For her, it's easier to save a little bit every month rather than trying to do it all in one month. She's able to experience the joy that comes with giving gifts, without sacrificing her household expenses. It's a lesson I've adopted with my family as well.

For those interested in giving large gifts this year, keep in mind the IRS limits the amount of money a person can gift without having to pay gift taxes. For 2018, that amount is \$15,000 per recipient. If you're married, you and your spouse can both give \$15,000 to 1 person (\$30,000 total) without owing gift taxes. There isn't a limit to the number of people you can gift money to, but there is a limit to how much you can gift over your lifetime.

4. DONATING TO CHARITY

The Tax Cuts and Jobs Act (TCJA) of 2017 has impacted charitable giving in a big way. It's important to understand that the giving you may have done in the past might not benefit your taxes under the new laws. Many people who gave to charity were able to itemize those donations, along with other items, on their taxes. Under the TCJA,

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Be Prepared for These Five Holiday Expenses (Cont.)

it's estimated that 90% of people will be taking the standard deduction in lieu of itemizing. In order to itemize, individuals need their total deductions to exceed \$12,000 (married couples exceeding \$24,000). If you are going to give to charity, plan ahead with your CPA and financial advisor. There are several strategies that can be used to get your itemized deductions above the threshold, so you can get the tax benefit from the gift.

5. NEWYEAR'S RESOLUTION

A new year, a new you! The end of the year brings about a lot of reflection. Hopefully, you'll get an opportunity to spend some time thinking about how to make next year even better. While you're thinking

ahead, start planning out what potential new costs could be involved. If you're thinking that you'd like to see improvements in your health or weight, consider budgeting for a gym and personal trainer. Maybe your resolution is going to be increasing your net worth or tackling a specific financial goal. Whatever your goals are for next year, plan to have someone help hold you accountable to increase the probability of reaching your goal.

QUESTIONS?

Email me at chris.stennett@saltmarshfa.com if you have any questions, or contact a member of the Saltmarsh Financial Advisors team by visiting saltmarshfa.com.

About the Author | Chris Stennett, CFP®

Chris serves individuals and organizations as a comprehensive financial planner and coordinator of investment activities. Chris has over a decade of experience as a wealth manager working with state, federal and private employees including his time as a dedicated financial planner with multiple Fortune 100 financial services firms.