

• Firm Update by Jim Steffen, CFP®, President



Our Winter Newsletter always gives me an opportunity to reflect on the year that was and look forward to the new one. 2017 was an impressive year for stocks, with the S&P 500 Index gaining 21.8% for the year (including reinvested dividends). Fueled by robust global economic growth and strong corporate earnings, most major market indexes posted returns in excess of 20%. The strong returns were delivered

with minimal volatility, as the S&P had only eight days of up or down moves of 1% or more. Meantime, the taxable bond market, as measured by the Bloomberg Barclays US Aggregate Bond index, was up 3.5%. Also, predictions of higher interest rates never materialized as the yield on the 10-year Treasury note ended the year nearly where it started at 2.41%.

At Trott Brook, significant time was invested last year in an evaluation of our industry, our business model and where we see the evolution of financial services. The Department of Labor (DOL) has weighed in on this topic as well. The DOL has proposed a new regulation commonly referred to as the “Fiduciary Rule.” In the simplest terms, the rule requires advisors to serve clients with the highest legal duty of care, that is, putting the client’s interests ahead of their own. You may think this rule is simply stating the obvious, however for years the “suitability standard” has only required advisors to recommend investments that are “suitable” for their client’s needs. Full implementation of the Fiduciary Rule was recently pushed back to July 1, 2019.

Regulatory changes and politics aside, Trott Brook believes the spirit of the new rule is correct. Of-course advisors should act in the best interest of their clients. It has been the way we have always operated. We’ve always counseled our clients as if we were advising our sister, our father or our grandmother. That being said, our research has concluded that the best business model to comply with the Fiduciary Rule and provide complete transparency and independence was to become a Registered Investment Advisor (RIA). Therefore, after careful consideration, we have decided to move-on from our 15-year relationship with LPL Financial to operate as our own independent RIA. As an RIA, we will actually be ahead of the Fiduciary Rule, as operating in this capacity already legally requires it.

We are excited to complete this business transition in the first quarter of 2018. I am confident that this is the model to best serve our clients now and well into the future. We are hosting three events this month where we will discuss the change and allow you to authorize the conversion. I hope you can join us on either February 15th, 21st or 22nd. The advice and experience that we deliver to you, our client, will always be our highest priority. Thank you for your continued trust and confidence and I look forward to connecting with you soon.

Upcoming Events...

State of the Markets
February 15th Breakfast
or February 21st Lunch
Fountains of Ramsey

“Signing” Happy Hour
February 22nd
3pm to 6pm
Trott Brook Offices

• Commentary by Ted Erhart, CFP®, Financial Consultant

From a financial markets perspective, 2017 was just an incredible year. Asset prices around the globe hit new highs on what seemed like a daily basis. It wasn’t just stocks, real estate prices also surged to new heights. It truly was a remarkable run.

There are many good lessons to be drawn from the market surge that has occurred over the last roughly two years. One lesson is that expensive assets can get even more expensive.

For the last two or three years, I’ve been warning clients that US stock prices in particular have appeared expensive by many fundamental measures of value. There has been extensive research done in the area of forward returns when prices are high. It really shouldn’t come as a surprise that the conclusion of most of this research is returns are generally weaker for a period after prices reach lofty levels. Anyone who bought a house around the year 2006 learned that you can sit on losses for a long time if you over-pay.

But, as I previously mentioned, expensive assets can get even more expensive. That is precisely what we’ve witnessed over the last two calendar years as stocks have surged ahead. The point is, even if you know that asset prices are generally high, you have to be very careful about how you use that information to influence your investment decisions.

For example, two years ago a very good case could have been made that US stock prices looked fundamentally expensive. Had you taken that information, concluded that high asset prices generally lead to weaker returns eventually, and liquidated your portfolio, you’d have missed out on a market that has surged by approximately 36% as measured by the Russell 3000.

There’s an old saying that goes something like, “Markets can stay irrational longer than you can stay solvent.” This is more in reference to shorting stocks (betting against), but the important takeaway is markets regularly trend in ways that seem unsustainable for longer than anyone would have thought. This is precisely why we don’t play the market timing game and adamantly counsel clients against it.

However, with financial markets resting at all-time highs as of this writing, I’ve been hearing increasing chatter from clients around what basically amounts to market timing. “Maybe it’s time to sell.”

I cannot emphasize enough that trying to play the timing game is simply a losing strategy. There are zero legendary investors (that I’m aware of at least) who made their fortune successfully predicting the general direction of the over-all market.

It’s often said that the best strategy is the one you can stick with. I couldn’t agree more. If you own great assets, the beauty is, you don’t need to do anything except sit back and let compounding work its magic. If you still need proof, look no further than the Forbes 400 list of richest Americans. The most important point is people on this list got rich, in almost every case, by owning shares of a great business and holding them for decades.

Wishing you all a successful and healthy 2018!



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Jim & Lisa Steffen

It's hard to believe we already blew through our "first" and "last" first semester of high school with our Freshman Tommy and Lauren our Senior. Lauren's soccer team had a challenging season as she finished out her playing career last fall. Tommy is enjoying playing on both the C and JV basketball teams at Legacy. Lauren is team captain and starting on the girls Varsity basketball team. We enjoyed a short trip to the Big Sky State for a college tour, but Montana State didn't make the cut. Stay tuned for Lauren's college decision...she is still weighing her options. Lisa and Jim enjoyed some quiet time in Arizona, we just love that desert sunshine! We had a wonderful but short Christmas break. Holiday Basketball tournaments brought us to Mountain Lake and Howard Lake... both lakes were frozen, and neither is recommended as a December travel destination! We are looking forward to a Spring Break trip to Cabo with the family. Could it be our last as a family? With growing kids, it is sad to think that is possible. Tommy's golf season and planning Lauren's graduation party will be enough to keep us busy until Summer!



Nikki Cellette

Happy 2018! After the whirlwind of 2017 celebrating milestone anniversaries, birthdays and graduations it finally came time for relaxation. The four of us finished the year vacationing in Cave Creek, Arizona in November. Even with Brooklyn's five night a week hockey schedule and the differing school schedules we were able to thankfully squeeze in a family trip. I highly recommend all the new adventures we discovered while touring AZ such as: the Apache Trail with breathtaking views of the Superstition Mountains, Tortilla Flats the town with a population of six and a Segway Tour of Scottsdale and Old Town Scottsdale. George thoroughly of course enjoyed Top Golf and is excited for the Brooklyn Center location to open. One of my personal highlights was attending the Alabama concert in Scottsdale...a check off my bucket list! The memories made with the four of us are so priceless. There are no second chances when it comes to our children so I've learned to enjoy every moment possible! It makes me quiver when I imagine the day when Zach no longer wants to make the family trips and outings a priority. He is so busy in his adult life now as a freshmen in college, working at Coborn's and, of course, spending time with his girlfriend. Hug your babies they grow up way too fast!!



Krisandra French

I hope everyone had a wonderful Christmas and New Year. Hard to believe we are already into 2018! This year marks a big year for John and I. Our youngest graduates from Anoka High School. Hard to believe we are all done with the school years. We are enjoying our two grandchildren, Jaxton 3-1/2 and Ella 10 months. Crazy to believe she will be 1 already in March. Alyssah, our daughter, will graduate in May from college and be officially an elementary school teacher. Her husband Connor was sworn in as a Brooklyn Center Police Officer in August. They are finally moving into their careers and done with school. John continues to be very busy with his business and will have the biggest year since he started his company back in 2012. I have one wedding this summer that I will be making the cake for. I continue to do my baking and love it. John bought me the 6 quart KitchenAid for Christmas so my baking will be much better as I can double up the recipes and not be spilling out over the bowl. Jaxton is going to be our little baker as he loves to help grandma in the kitchen as much as possible. It's so much fun teaching him how to bake. I hope everyone has a good rest of the winter and I look forward to talking with you soon.



Ted Erhart

The second half of 2017 flew by. Life was busy on the home-front with projects. This fall I started the process of digging a pond in the backyard. I got some practice running a 15,000 pound excavator which included getting it stuck. One great aspect of our business is meeting people from many different lines of work. Fortunately, one of our client's is a professional operator and he was able to get me un-stuck without the need for heavy equipment. Thank you Shawn! My wife Kelly was able to get to a handful of horse shows this summer after missing basically all of 2016 during her pregnancy. This fall we celebrated our daughter's first birthday. It's amazing how fast that time goes. She is now walking, talking and getting better every day. Having a child is a big responsibility but it gives you a different perspective on many things which I think has been helpful. This fall I also spent as many days as I could hunting with my dog Sadie. By my reckoning, she retrieved upwards of 60 birds throughout the season. This included a mix of pheasants, ducks and geese. It's been very rewarding watching Sadie get increasingly better with experience. She's only two so I hope we have many good hunting seasons to come!



Robin Harrison

The second half of 2017 ended up much different than we could have anticipated. My husband and I always thought it would be great to move to a nice golf course because we love the game, and wanted to give our youngest son the opportunity to play more... but we never thought it would become a reality. There were multiple criteria regarding location, etc. for it to actually work...well...it happened! So, we are extremely excited to have found our new home—albeit in need of some work/updates—on Edinburgh USA golf course. It is so beautiful and fun to look out the backyard to the 12th and 17th fairways with water all around...what a blessing. In addition to everything going on personally with buying and selling a home, moving, etc., I can't believe it's already been a year for me here at Trott Brook Financial! As the saying goes—time flies when you're having fun! I am really enjoying being part of the 'Trott Brook Team.' Helping plan for and advise clients so they are able to reach their financial goals is very gratifying as I am able to experience their progress and celebrate their successes. With all this being said, I am looking forward to what 2018 has in store. It's going to be a fun and rewarding adventure!

A more balanced approach