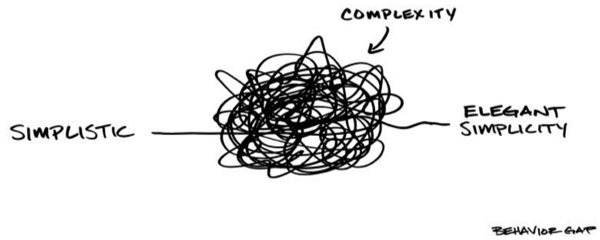
GREENE WEALTH MANAGEMENT LLC

"I wouldn't give a fig for the simplicity on this side of complexity; I would give my right arm for the simplicity on the far side of complexity" ***– Oliver Wendell Holmes —***



October 12, 2015

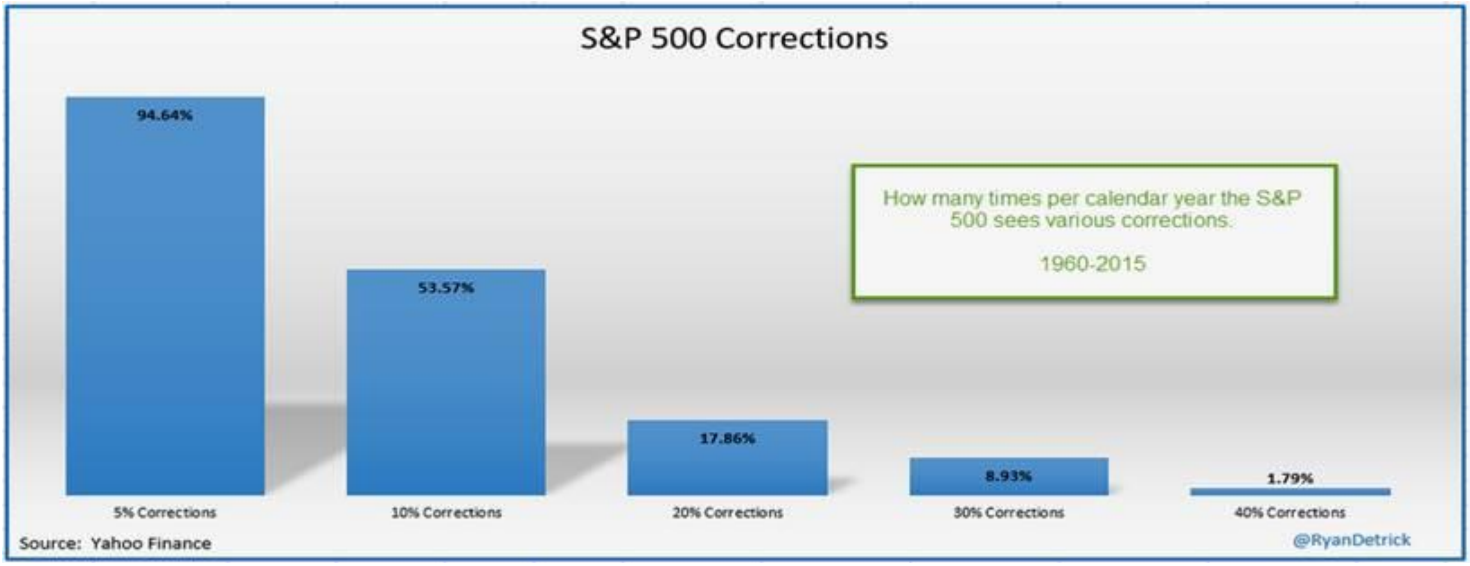
It seems most folks yearn for simple answers to life's many complex problems. And there appear to be more than enough people willing to offer simple "solutions" to everything from keeping us young, losing weight, making a quick buck, fixing economic or political problems, or meeting financial security goals. Too bad most don't actually work.

The human body is an incredibly complex system—and scientists have dedicated their entire lives to solving the many puzzles to keeping us healthy. So too have economists, social scientists, politicians, and investment professionals sought to create systems designed to promote security and success for mankind. Both ventures are never-ending works in process—with few simple answers. Our hope is that a few remarkably talented, dedicated, and visionary souls can once in a while turn complexity into elegant simplicity.

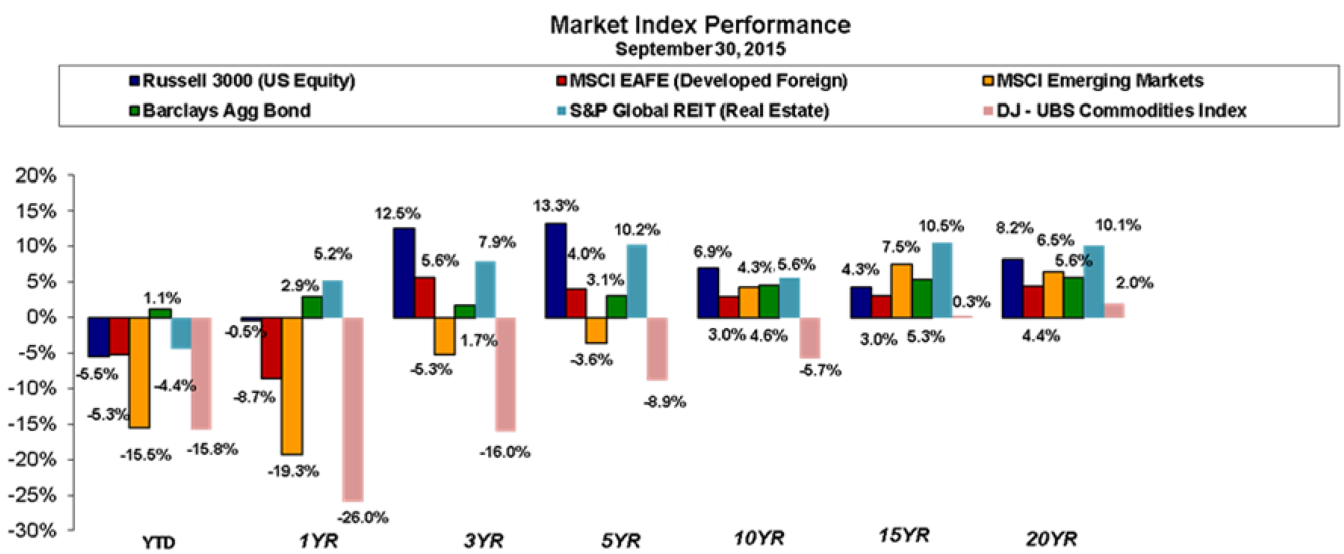
We believe a disciplined approach to wealth management offers the opportunity to create elegant simplicity out of the incredible complexity of financial life. It starts with clearly defining ("crystallizing") goals—what you want. This initial process is perhaps the most difficult, yet important—for as Yogi Berra said "if you don't know where you're going, any road will get you there". Wanting "to retire" just isn't enough—we need to set a realistic spending target and date. Wanting "good returns" just isn't enough—we need to think about how much risk should/can be taken in seeking returns. Once we clearly understand goals, we can diligently gather facts about current and likely future resources—and compare them with future goals/needs. We can compare alternative investment strategies to see what kind of approach is most likely to work. We can identify hidden risks (natural disaster, theft, sickness or injury, or even death) to determine where protection may be needed. We can decide what, if any, changes need to be made to reach goals—cutting spending, saving more, modifying investment strategies, seeking to reduce taxes, getting insurance/estate plans updated, etc. Elegant simplicity comes in having clearly defined action-items focused on meeting a wide range of goals with different time horizons and importance. Not simplistic—but rather an elegantly simple planning RoadMap.

We also believe in the elegant simplicity of creating well-diversified portfolios that are prudently aligned with plans/goals—and sticking with them. But this doesn't make for good TV or headlines. Fear and greed both sell—but fear is a far more powerful emotion and more widely used to attract attention. Folks are much more likely to watch a weather report about a strong potential storm than an expected streak of good weather. (If you don't believe me, just think about forecasts of a possible snow storm in Seattle). And while I don't have ratings data, I'm pretty sure CNBC viewership is higher when markets experience big declines than when they are rising. The problem is that the very process of watching scary news makes us even more fearful. Who can forget FDR's famous saying "all we have to fear is fear itself"—as they are words to live by.

For quite some time, we suggested that a correction was overdue—not knowing when it would occur but being confident that history was due to repeat itself. The downturn during Q3 may have been the correction—or just the start of more to come. No one knows for sure—and we've seen a nice little rebound since quarter-end as I write this letter. Here is an interesting chart showing stock market corrections over the past 55 years:



So, yes, financial markets had a tough time in Q3—with the worst quarterly results since 2011. Stocks are down around the world amid a variety of worries including if/when the Fed will raise interest rates, a strong US dollar, potential impacts of an economic slowdown in China, political unrest in traditional hotspots, and more. Yet, in spite of predictions of rising interest rates by 98% of forecasters last year (according to WSJ columnist Jason Zweig), interest rates have actually fallen causing bond prices to go up. The impact of rising bond prices has, as anticipated, helped mitigate the impact of falling stocks for well-diversified investors. While this doesn't mean most investors haven't seen account values fall, it does mean declines aren't nearly as bad as headline news might suggest. Here is a look at how various markets have performed—highlighting the volatility over shorter time periods and the more predictable rewards over longer time horizons.



While the recent correction has left most diversified/balanced portfolios with moderately negative returns over the past year, they still show positive longer 3, 5, and 10+ year returns. And keep in mind, with most of our client portfolios holding 30-60% in bonds, cash needs can be met without being forced to liquidate stocks while they're down. I find it interesting that the diversified/balanced Vanguard Star Fund (VGSTX) was down only 66% as much as the S&P 500 YTD—yet enjoyed 87% of the S&P 500's returns over the past decade…and actually outperformed the stock index over 15 years. This is consistent with other studies we've shared with clients over the years that show how diversified/balanced portfolios tend to capture the bulk of stock market returns over long time periods—but this quite a bit less risk. But who the heck would watch a TV show or read a long article about all of this? It's way more exciting to feature headlines like "***market plunges***" and to have some "talking head" give their best guess (simplistic prediction) about where markets are headed—or their outlook for some particular investment. Frankly, we prefer the elegant simplicity of holding a well-diversified portfolio that matches your risk tolerance and goals—knowing markets rise and fall with little actual predictability but a long history of rewarding patient investors.

This seems like a good time to think about risk—how much you should/need to take in seeking returns necessary to meet long term goals along with evaluating how much risk you can likely tolerate (and still stick with your plan). This is an important part of our work—and we truly can help. It seems wise to update financial plans to make sure we are clear about financial goals and what you need to do to reach them. We can then “stress-test” plans using Monte Carlo simulations that help us look at the potential impact of good and bad markets in reaching your most important financial goals. If making an investment change is warranted—or you just can’t take what could well be more uncertainty—we can make portfolio adjustments for you. This process can be an elegant way to help you deal with markets that can be both scary and euphoric—while hopefully helping you avoid making the kind of drastic strategy changes that history suggests are so harmful to long-term success. Please understand that tough markets worry us too, as we’re subject to the same kinds of human emotions you experience. And we worry about how economic/market challenges will impact you and all of our clients—probably more than you do. But we remain convinced by thoughtful research and our own experience that “staying the course”, while often painful to do, is usually the best course. Remember, deciding to do nothing is still doing something.

As always, we’re here to talk through things anytime you want. The end of summer and heading into the final quarter of the year might make this a good time for us to meet—so just let us know when you want to get together. Thank you for your continued trust and confidence.

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