

Around the Office: Food Drive Results

We have concluded our 2017 Pathways Food Drive and would like to share the final results:

With your help, we were able to fill the two containers located in our lobby area, which resulted in over 242 lbs. of food. We also received the equivalent of 10,815 additional meals in financial donations.

Your generosity helped us make a substantial contribution to the 280,000 residents they serve each month. We are excited about making a difference and helping the community.

Thank you so much for helping us make the 2017 Pathways Food Drive a success!

-Pathways Team



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Pathways Announcement:

We are very proud to announce that our very own Jessica Young (previously Client Services) has been promoted to the role of Operations! She is excited to learn her new role and to continue to get to know each and every one of you. Congrats Jessica!

Staff Adventure: Welcome Darci!

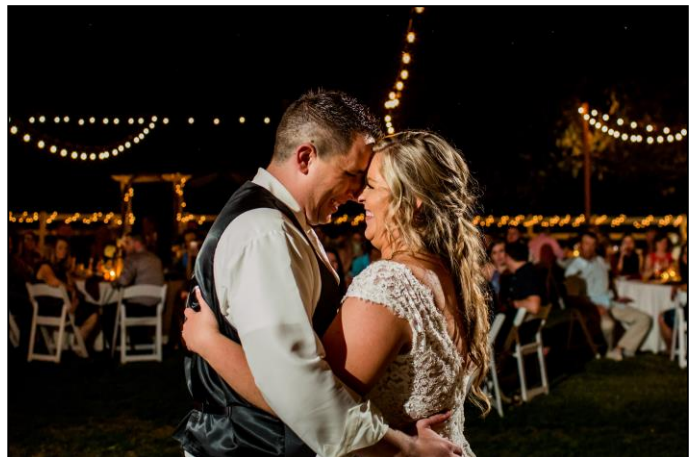
Hello Everyone! My name is Darci Roach I am the newest addition to the Pathways team and I'm taking on the role of Client Services. I grew up in the Central Valley, and graduated from the Craig School of Business at Fresno State with a Bachelor's Degree in Real Estate and Urban Land Economics. I love to spend time with friends and family, and travel with my husband any chance we get. I am very excited to be a part of the Pathways family and look forward to getting to know you all!

Staff Adventure: Whitney's Wedding!

After 8 long years, I FINALLY married my best friend. Connor and I were married on September 16, 2017 at Moravia Wines. Our wedding was a truly special day for us and we are so happy to be Mr. and Mrs. Kelley.



We lucked out with beautiful weather and surrounded ourselves with friends and family as we said "I Do". The best part, besides marrying my best friend, was having my grandfather officiate our wedding.



After the ceremony we celebrated with our closest friends and family at the winery. We had gourmet pizza, a donut bar and danced the night away under the stars! Connor and I wouldn't have had it any other way.

Shortly after our wedding we escaped on our honeymoon to Cancun. We spent the week enjoying the beautiful views, yummy food, and warm weather. It was a very relaxing trip and we can't wait to go back!

-Whitney Kelley

Planner Article: A Better Investment Experience

Dustin J. Smith, CFP®

January 2018

A shift in investment focus, to the things we can control, leads to a better investment experience.

However, with the expansive list of investment *things* we can't control (inflation, returns, etc.) and human nature working against us, it's a difficult shift to make. It takes time, effort and lots of questions. Occasionally, it also requires a refresher of the data. Whether investing for decades or just getting started, we hope the following questions help.

1. What competition do I face as an investor?

The market is an effective information-processing machine. Millions of market participants buy and sell securities every day and the real-time information they bring helps set prices. This means competition is stiff and trying to outguess market prices is difficult for anyone, even professional money managers (see question 2 for more on this). However, contrary to our competitive instincts, this is actually good news for investors.

World Equity Trading in 2016
(daily average)

Number of Trades

82.7

MILLION

Dollar Volume

\$346.4

BILLION

Rather than trying to find securities that are priced "incorrectly," investors can instead rely on the information in market prices to help build their portfolios (see question 5 for more on this).

Source: World Federation of Exchanges members, affiliates, correspondents, and non-members. Trade data from the global electronic order book. Daily averages were computed using year-to-date totals as of December 31, 2016, divided by 250 as an approximate number of annual trading days.

2. What are my chances of picking an investment manager that outperforms?

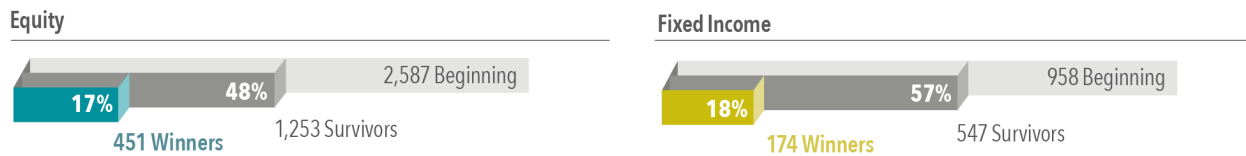
Flip a coin and your odds of getting heads or tails are 50/50. Historically, the odds of selecting an investment fund that was still around 15 years later are about the same. Regarding actual outperformance, the odds are even worse.

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The market’s pricing power (see question 1) works against fund managers who try to outperform. One needn’t look further than real-world results to see this. Based on research*, only 17% of US equity mutual funds and 18% of fixed income funds have survived *and* outperformed their benchmarks over the past 15 years.

US-Based Mutual Fund Performance, 2002–2016

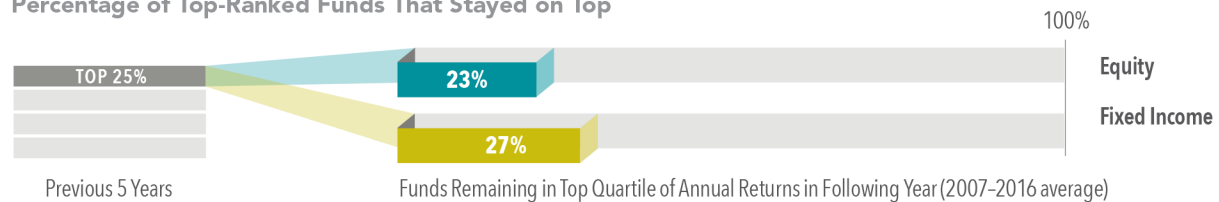


Source: *Mutual Fund Landscape 2017, Dimensional Fund Advisors. See Appendix for important details on the study. Past performance is no guarantee of future results.

3. What about just the funds with strong past performance?

Research shows that most funds in the top quartile (25%) of previous five-year returns did not maintain a top-quartile ranking in the following year. In other words, past performance offers little insight into a fund’s future returns.

Percentage of Top-Ranked Funds That Stayed on Top

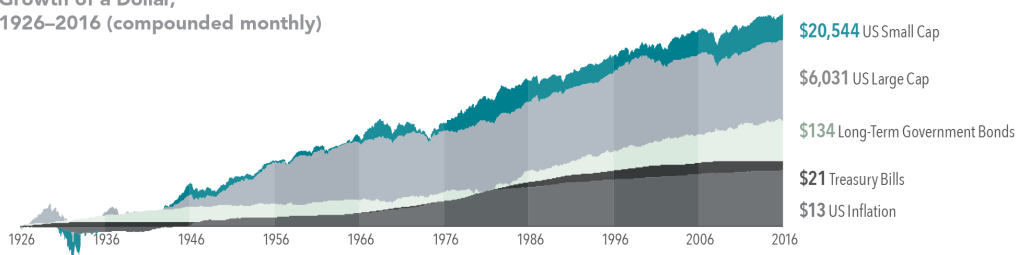


Source: *Mutual Fund Landscape 2017, Dimensional Fund Advisors. See Appendix for important details on the study. Past performance is no guarantee of future results.

4. Don’t you have to outsmart markets to be successful?

No, you don’t. Financial markets reward patient investors. People expect a positive return on the capital they invest, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation. Instead of fighting markets, let them work for you.

Growth of a Dollar, 1926–2016 (compounded monthly)



US Small Cap is the CRSP 6-10 Index. US Large Cap is the S&P 500 Index. Long-Term Government Bonds is the IA SBB1 US LT Govt TR USD, provided

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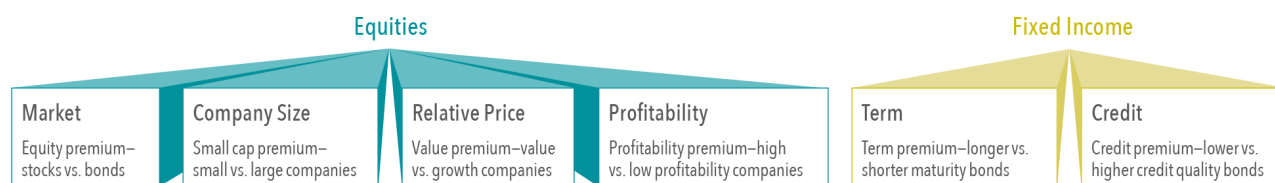
by Ibbotson Associates via Morningstar Direct. Treasury Bills is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. US Inflation is measured as changes in the US Consumer Price Index. US Consumer Price Index data is provided by the US Department of Labor Bureau of Labor Statistics. CRSP data is provided by the Center for Research in Security Prices, University of Chicago. The S&P data is provided by Standard & Poor's Index Services Group. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

5. Isn't there a better way?

Actually, there is. Academic research has identified some equity and fixed income dimensions, which point to differences in expected returns among securities. Instead of attempting to outguess market prices, investors can instead pursue higher expected returns by structuring their portfolio around the following dimensions.

Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is a measure of current profitability based on information from individual companies' income statements.

Dimensions of Expected Returns



6. Does international investing help?

You bet. Diversification helps reduce the kinds of risks that have no expected return, but diversifying only within your home market isn't enough. Instead, global diversification broadens your investment opportunity set allowing investors to seek the dimensions of expected returns (see question 5) wherever they occur.

Home Market Index Portfolio



S&P 500 Index
1 Country, 500 stocks

Global Market Index Portfolio



MSCI ACWI
Investable Market Index (IMI)
46 countries, 8,628 stocks

Number of holdings and countries for the S&P 500 Index and MSCI ACWI (All Country World Index) Investable Market Index (IMI) as of December 31, 2016. The S&P data is provided by Standard & Poor's Index Services Group. MSCI data ©MSCI 2017, all rights reserved. International investing involves special risks such as currency fluctuation and political stability. Investing in emerging markets may accentuate those risks. Diversification does not eliminate the risk of market loss. Indices are not available for direct investment

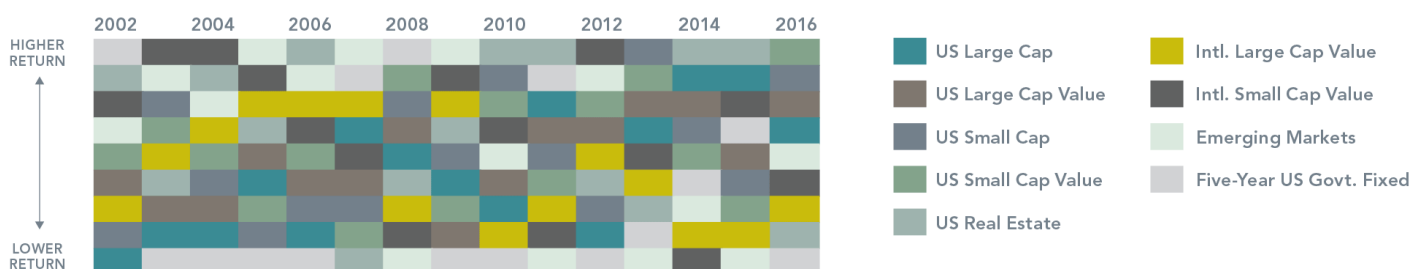
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7. What about frequent changes to my portfolio?

It's tough, if not impossible, to know which market segments will outperform from period to period. Resist the temptation to act on emotions or opinions about short-term market conditions. It can irreversibly impact long-term results. It's better to avoid market timing calls and costly changes. Trust your rebalancing discipline instead.

Annual Returns by Market Index



US Large Cap is the S&P 500 Index. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Index. US Small Cap Value is the Russell 2000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large Cap Value is the MSCI World ex USA Value Index (net dividends). International Small Cap Value is the MSCI World ex USA Small Cap Value Index (net dividends). Emerging Markets is the MSCI Emerging Markets Index (net dividends). Five-Year US Government Fixed is the Bloomberg Barclays US TIPS Index 1-5 Years. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones data provided by Dow Jones Indices. MSCI data ©MSCI 2017, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

8. What about what I'm hearing in the news?

Daily market news and commentary will challenge your investment discipline. Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad. If headlines are unsettling, consider the source, maintain a long-term perspective and re-visit the *things* you can control.



9. So, what do I do with all of this?

That's where implementation, grounded in the following principles, comes into play.

- Create an investment plan to fit individual needs, withdrawal expectations and risk tolerances.

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- Trust competitive pricing (question 1) and underperformance data (questions 2 and 3).
- Trust the power of markets over time (question 4).
- Structure a portfolio along the dimensions of expected returns (question 5).
- Diversify globally (question 6).
- Trust each market segment and rebalance with discipline (question 7).
- Manage expenses, turnover, and taxes and look past the crisis du jour (question 8).

It can be a difficult shift in thinking (focusing on the investment *things* we can control) but there is a better investment experience waiting for those who make the shift.

Appendix

Question 2: The sample includes US-based funds at the beginning of the 15-year period ending December 31, 2016. Each fund is evaluated relative to the Morningstar benchmark assigned to the fund's category at the start of the evaluation period. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective Morningstar category benchmark.

Question 3: At the end of each year, funds are sorted within their category based on their five-year total return. Funds in the top quartile (25%) of returns are evaluated again in the following year based on one-year performance in order to determine the percentage of funds that maintained a top-quartile ranking. The analysis is repeated each year from 2007-2016. The chart shows average persistence of top-quartile funds during the 10-year period.

Questions 2 and 3: US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. Index funds and fund-of-funds are excluded from the sample. Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Value, Miscellaneous Region, Pacific ex-Japan Stock, Small Blend, Small Growth, Small Value, and World Stock. Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Muni California Intermediate, Muni National Intermediate, Muni National Short, Muni New York Intermediate, Muni Single State Short, Short Government, Short-Term Bond, Ultrashort Bond, and World Bond. For additional information regarding the Morningstar historical categories, please see "The Morningstar Category Classifications" at morningstardirect.morningstar.com/clientcomm/Morningstar_Categories_US_April_2016.pdf. See Dimensional's "Mutual Fund Landscape 2017" for more detail. Benchmark data provided by Bloomberg Barclays, MSCI, Russell, Citigroup, and S&P. Bloomberg Barclays data provided by Bloomberg. MSCI data © MSCI 2017, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Citi fixed income indices © 2017 by Citigroup. The S&P data is provided by Standard & Poor's Index Services Group.

Year-In-Review

The Year-In-Review published by DFA (Dimensional Fund Advisors) each year (typically included in this newsletter) will be posted to our blog www.pathwaysadvisorygroup.blogspot.com instead, as soon as it becomes available.

Important Notice Regarding Schwab 1099s

IMPORTANT NOTICE: Tax time is upon us. In addition to traditional dividend and interest reporting, all cost basis and (potentially) deductible management fee information will be reported on your Schwab 1099 for 2017. All Schwab 1099s will be mailed by February 28, 2018. As always, corrected 1099s can occur, if the information reported requires an adjustment. Hopefully, these corrected 1099s will be limited.

Please share this information with your accountant and feel free to call with questions.

If you would like to participate in our Client Adventure, please let us know.
We love to share stories of travels, experiences, and hobbies.

