February 2018 | Volume 9 | Issue 1

SUMMIT WEALTH PARTNERS, LLC

THE Rational Optimist™

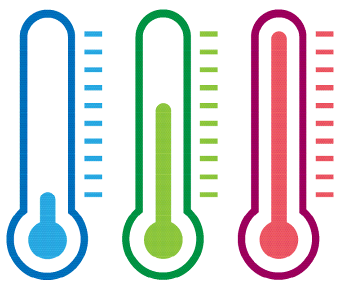
Not Too Hot, Not Too Cold

BY CHAD WARRICK, CO-PRESIDENT & CEO

Overall, last year was a very rewarding year for the Investment Markets. With growth stocks reaping the majority of the reward, many investors are looking towards growth stocks with optimism.

Growth stocks are those companies measured on their earnings, traded on higher multiples, with revenue growing at a faster rate than their value-oriented counterparts.

Growth stocks require a higher tolerance for risk, essentially calling investors to have more confidence and optimism towards the future of the company than where they stand today.



This is typically where the line is drawn for the growth-oriented versus the value-oriented investor. Value investors tend to have a more conservative temperament, increased caution, and drawn to the stocks with higher dividends at the expense of slower growth.

We want to ensure that optimism about past performance does not cloud your overarching risk tolerance.

Undoubtedly, we understand that there is a fair degree of risk on either side of the table.

Growth shareholders put their trust in the company's success to generate a return on their investment.

This success, quantified as the growth in stock price, is typically a volatile and unpredictable ride that poses a level of uncertainty and the possibility of a market downturn – not to mention the lack of liquidity during those volatile periods.

On the contrary, investing in a value stock reduces risk of market downturn but is likely to be low-yielding. The risk of a value-oriented portfolio is the possibility that the return on your assets would not live up to your expectations. In addition to the feeling of regret one may feel when the risk-taker next door shares his record high rate of return.

How do we proceed when growth stocks feel too hot and value stocks seem too cold?

Over the last 22 years, an investment of $100 into each of the corresponding indices would have produced a total earning of $377 with Large Cap Growth Stock, that is a 12.04% annualized rate of return and $369.11 for Large Cap Value Stock, which ended up to be a 11.7% annualized rate of return.

From a long term stand point, the cumulative return is comparable between value investing and growth investing. It is important to note, however, that in down economies growth stocks tend to experience sharper declines than value stocks.

That being said, short term and long term goals should be heavily considered when discussing growth and value stocks within portfolio design. Empirical evidence shows us that taking a blended allocation approach takes away the guess work.

Looking at 2018, we are off to a good start - picking up where 2017 left off. However, the overall investor sentiment

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Buyer Beware When It Comes to Discounted Investment Advice

BY JASON PRINT, CFP®, CO-PRESIDENT & CEO

Summit Wealth Partners has business relationships with Charles Schwab, TD Ameritrade, and Fidelity. In our opinion, operating as three of the largest discount brokerage firms in the country, they provide high-quality custodial services for our clients.

They originally made a name for themselves by providing a lower-cost service than companies such as Merrill Lynch, Morgan Stanley, and some of the other more traditional brokerage services.

As new technology developed, all three were early developers of online trading and robust web-based services. Now, these three brokerages (Fidelity, TD Ameritrade, and Schwab) together hold nearly one-sixth of U.S. wealth management industry client assets.

Several decades ago, the independent advisor channel began to grow in the investment world, as some advisors did not want to be constrained by the practices of larger brokerage houses; they wanted to be free to provide recommendations to clients independent of the big brokerage companies that had certain products or services they wanted pushed from time to time.

Many of these independent advisors also disliked the commission model and its inherent conflicts of interest—they wanted to be able to provide objective advice, without conflicts of interest.

Discount brokerage firms began expanding their offerings and started providing independent advisors a custodial platform, which was much needed by both parties.

Under this arrangement, the advisors were able to have a platform where clients can hold their own assets while the advisors provide custodial services at a low cost. (The advisor can provide advice and direct investments, but he or she does not actually hold the funds.)

This arrangement also affords a layer of protection for the client, as the custodian provides a separate statement and reporting of the assets while the client can still hire an advisor to provide and implement the financial recommendations.

Over time, however, these discounted brokerage firms have also attempted to get into the financial advice arena. As those firms attempt to distance themselves further from the big brokerage houses and their reputations, their employees don't work on commissions. They do, however, work on "incentives."

From a Wall Street Journal article dated January 11, 2018, reporters interviewed former Fidelity representatives who were compensated for putting clients into certain funds; those reps received more compensation by putting clients into Fidelity's managed accounts, which typically generated higher annual fees for Fidelity.

Many individuals hear "commission-free" and they think "conflict-free," but that's not necessarily the case. "At Fidelity, sales incentives not only enhance pay directly, but also help representatives win 'Achiever' bonuses that can be tens of thousands of dollars a year," one employee was quoted as saying in the Wall Street Journal article. Other custodians allow employees to win trips or awards.

Steering clients into one investment strategy or another is not necessarily illegal, as long as it's disclosed to the client and the client is aware of all the fees he or she is paying along with what alternative strategies are available.

Still, some former employees interviewed by the Wall Street Journal questioned whether they could be a true fiduciary given the different sales incentives.

We also wonder whether their clients thought the advice they were being given was "pure" and whether the clients realized that the investment advice needed to be viewed with a healthy dose of skepticism.

At Summit Wealth Partners, our employees do not have sales incentives and no compensation is directed toward investment strategies; the revenue our firm captures and the compensation all our employees receive are not based on investment selections, strategies, or products. We want all of our team members to provide the best possible recommendations to our clients, period.

We certainly have—and plan to continue to have—good working relationships with all the major discounted brokerage firms, and we believe they do provide a high-quality service to clients.

We also believe in transparency and that all compensation methods should be disclosed to the client. We firmly believe in this business model and are passionate about maintaining this approach.

Regards,

Jason

Financial Ambitions of a Millennial Parent

BY ALYSSA FERRARO, CLIENT SERVICE SPECIALIST

Being a parent is hands down one of the most rewarding, joyful, and *expensive* experiences of my life.

The anxiety of establishing financial security for my family, likely has a lot to do with the fact that I entered the workforce right before the Great Recession.

Living through this experience has shaped the way many millennials swallow the hefty price tag associated with parenthood, especially since they hold more student debt than any previous generation.

Another obstacle for this generation is that wages have struggled to keep up with the cost of raising children. According to Forbes, millennials earn some 20% less than boomers did at the same stage of life.

Conversely, the millennial generation is planning and putting aside more money than any other previous generation. This saving mindset is crucial, considering the U.S. Department of Agriculture estimates that the basic no-frills cost of raising a child to age 18 is over $245,000.

This figure covers the essentials: food, housing, clothing, transportation, health care, and health insurance. Adding on perks like life-insurance for parents, early childhood care, education costs, college savings, extra curricular activities, and vacations more than triples this cost to over $745,000.

How are new parents affording this astronomical price?

According to a TD Ameritrade survey, this generation relies heavily on assistance from their own parents, both monetary and non-monetary.

The study finds that on average, each millennial parent with a living parent receives approximately $11,011 per year in combined financial support and unpaid "labor" from their parents. This figure totals to $253 billion each year.

Clearly, millennials are not too proud to accept help when it comes to raising their families.

While this assistance facilitates a higher likelihood for millennials to stay on track with their own long-term financial goals, including saving for their children's college educations, it cannot go without wondering- at whose expense.

Millennials earn some 20% less than boomers did at the same stage of life.

In a study conducted by Fidelity, nearly half of parents in their early thirties intend to pay for their kids' entire college education. This is interesting considering those same parents are still paying off their own college education.

While most parents agree that they want to be able to provide what they did not have for their own children, it's important that the millennial generation and the boomers set realistic goals and boundaries for themselves.

It's important that both generations prioritize their retirement.

Your child will likely have more than one way to pay for college, including scholarships and "dreadful" student loans - but you can't make up for lost retirement savings.

For the boomers, if you can afford to offer help to your adult children, it undoubtedly is much appreciated.

For the millennials, saving for your children's future is important, but not if it means that you will be a financial burden to them later on in life.

Here at Summit, we recognize that planning is important at all stages of life, and we enjoy working with multigenerational families. If we have yet to meet members of your family, please feel welcome to include them in any of our meetings together.

Best Regards,

Alyssa

A Mini Muni Primer

BY ANDREW DICKENS, DIRECTOR OF PENSION SERVICES & WEALTH ADVISOR

I've been answering a few questions recently about municipal bonds so I thought I would share a few factoids that clients should consider if they are looking at owning municipal bonds (munis) as part of their portfolio.

Municipal bonds are touted because they provide "tax exempt" interest income. While the phrase "tax exempt income" is generally associated with munis – it is also the source of much confusion about the taxation of munis that you should understand.

Most munis provide income that is exempt from federal income tax, but some munis provide income that is taxable at the state level.

Because they already have preferential tax treatment, federally tax exempt munis generally should not be held in tax deferred accounts like IRAs and Roth IRAs.

As far as state income tax is concerned, in-state munis will generally not be subject to income tax if you file taxes in that state, but out-of-state munis may count against you to determine state income taxes due.

Munis that realize a gain when sold or held to maturity may be subject to capital gain taxes.

In addition, a municipal bond bought at a discount to its par value could be subject to the "deminimis" tax which can result in gains being taxed at ordinary income tax rates – this could be very painful for people in higher income tax brackets. Muni income is also factored to determine if alternative minimum taxes are due.

Muni income is counted back into your income for the purposes of determining Medicare B and prescription premiums and can also count against you to determine that taxability of social security benefits.

If you see the term "Modified Adjusted Gross Income," it means someone is including any income excluded from federal taxation, usually for the determination of benefits (this would include income from munis).

Because of the tax preferential treatment, if you compare two new bond issues: one muni bond and one corporate bond with similar characteristics, the corporate bond will pay a higher coupon than the muni.

Thus, it is important to compare the tax adjusted return of any bond. People in higher income tax brackets will usually see more of a tax benefit from owning munis than people in middle or lower income tax brackets.

The Tax Cuts and Jobs Act (TCJA) passed by Congress and signed into law at the end of last year will not have any effect on taxes for 2017, but it will for 2018. Many people were concerned that the Act would change the tax status of munis.

It did not; however, it does eliminate advanced refunding of these issues. This will make it more difficult for borrowers to refinance notes into lower interest rates and could influence the risk characteristics of some issuers.

We hope that we have answered some of the questions you may have about municipal bonds. Please reach out to your team at Summit to discuss any investment questions.

Best Regards,

Our offices will be closed on Monday, February 19th in observance of President's Day

As a value-added service to you, please feel free to tell your family, friends and colleagues that they may use us as a sounding board for their financial concerns free of charge and without obligation.

Goal-Based Investing

BY CHAD LEATHERWOOD, CFP®, WEALTH ADVISOR

What is the greatest investment risk you face? Is it a substantial market decline? Is it low rates of return? Is it the potential for rising interest rates?

I believe your greatest investment risk is failing to reach your life goals.

We all have a variety of goals for which we depend on our assets to provide. Our goals might include a comfortable retirement, a vacation home, a once in a lifetime trip, funding children's or grandchildren's education or endowing a charity.

The traditional approach to investing generally views your assets as a single portfolio from which your life goals are funded.

With this approach, your risk tolerance is assessed to determine whether you have a more conservative, moderate or aggressive orientation to investment risk.

I believe your greatest investment risk is failing to reach your life goals.

The objective then is to generate the highest level of return within your risk profile, and results are measured by comparing your results to a benchmark.

A newer approach to wealth management called goal-based investing emphasizes the objective of attaining specific life goals. With goal-based investing, individual strategies are established that are tailored to each of your specific goals.

Goal-based investing is focused on the progress towards your goals versus comparison to market indexes.

While the traditional approach is sound, the goal-based approach might have the advantage of addressing our cognitive biases. With a clear process for identifying goals and choosing investment strategies linked to those goals, emotionally driven decisions may be more easily avoided.

Consider your portfolio losing value during a market decline. It can be tough to stay the course when the entire portfolio is down in a meaningful way. Your gut reaction might be to sell out to avoid more pain.

On the other hand, you may be more willing to ride out a downturn when independent strategies are clearly linked to individual goals.

For instance, a more conservative portfolio could fund current living expenses, and a more aggressive portfolio could be established for a legacy goal with a long-term time horizon.

With this structure of having your immediate needs funded by the more conservative portfolio, a large drop in the legacy portfolio might be better tolerated knowing you have time on your side for recovery.

Here at Summit, we take our time to fully understand the details of your unique situation and goals. This is the foundation from which we craft your wealth management plan.

If you would like to learn more about how a goal-based approach might better help you reach your objectives, please reach out to us.

Regards,

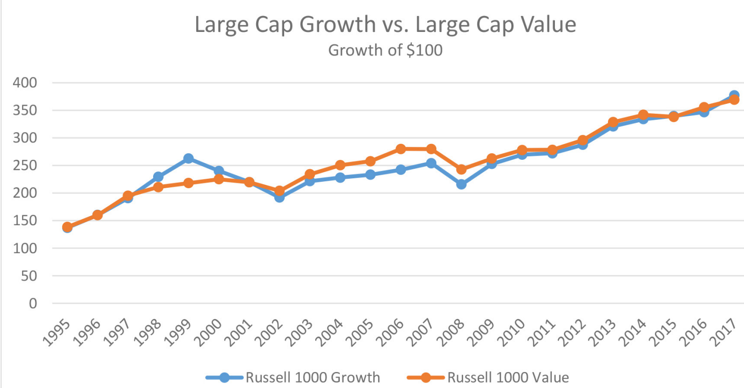
Let us know how we can help.

***Thank you for your* TRUST *and* CONFIDENCE.**

Continued from page 1, Not Too Hot, Not Too Cold-

seems to be cautiously optimistic.

Even now as some companies are doing well, fund flows show investors are shifting from domestic US equity into fixed income securities.



Watching your portfolio grow does not have to be a gut wrenching, risk induced experience. Perhaps the economy will maintain its steady trajectory, and maybe the growth stocks that powered returns last year will continue to do well for some time to come. But, no one really knows.

Therefore, we have a blended investment strategy in place capturing both growth and value strategies to the degree of risk you feel comfortable with. Our team is committed to providing you with solid growth that is safely managed.

Essentially, we want to ensure that optimism about past performance does not cloud your overarching risk tolerance. Please reach out to the Summit team if you would like to review where your risk tolerance is currently sitting. We are available to evaluate it with you and make the necessary adjustments as you look towards your future goals and the years ahead.

Thank you for your continued trust and confidence as we work together to manage the many components of your financial picture.

Be Well,

Join us for our first Summit Workshop of 2018

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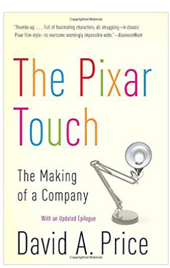
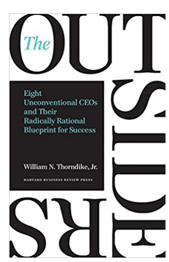
Look out for your Formal Invitation with more details.

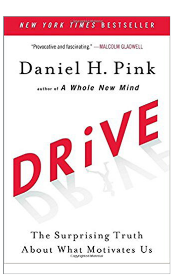
BOOKS WE'RE READING



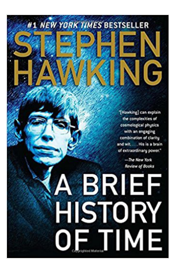
The Pixar Touch: The Making of a Company
by David A. Price
A lively chronicle of Pixar Animation Studios' history and evolution, and the "fraternity of geeks" who shaped it. With the help of animating genius John Lasseter and Steve Jobs, Pixar has become the gold standard of animated filmmaking, beginning with a short special effects shot made at Lucasfilm in 1982 all the way up through the landmark films Toy Story, Finding Nemo, Wall-E, and others.



The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success
by William N. Thorndike
In this refreshing, counterintuitive book, author Will Thorndike brings to bear the analytical wisdom of a successful career in investing, closely evaluating the performance of companies and their leaders. You will meet eight individualistic CEOs whose firms' average returns outperformed the S&P 500 by a factor of twenty—in other words, an investment of $10,000 with each of these CEOs, on average, would have been worth over $1.5 million twenty-five years later.



Drive: The Surprising Truth About What Motivates Us *by Daniel H. Pink*
Drawing on four decades of scientific research on human motivation, Pink exposes the mismatch between what science knows and what business does—and how that affects every aspect of life. He examines the three elements of true motivation—autonomy, mastery, and purpose-and offers smart and surprising techniques for putting these into action in a unique book that will change how we think and transform how we live.



A Brief History of Time
by Stephen Hawking
A landmark volume in science writing by one of the great minds of our time, Stephen Hawking's book explores such profound questions as: How did the universe begin—and what made its start possible? Does time always flow forward? Is the universe unending—or are there boundaries? Are there other dimensions in space? What will happen when it all ends?

Cover Images & Summaries: Amazon.com

SUMMIT SPOTLIGHT

A LOOK INTO THE LIVES OF THE SUMMIT TEAM

Chad's Israel Experience

People travel to many different places, for many different reasons. Sometimes we travel to see family and friends. On other occasions, we may travel to remote destinations just to unplug and relax.

Perhaps we sometimes travel to be adventure-seekers looking to connect with new cultures or cross items off our bucket list. Regardless of where I go or what I'm doing, there are two things which are a "must" for me... Being outdoors and seeing something new.

I recently had the humbling privilege to join an inspirational journey to Israel. The pilgrimage tour was a first for me on several different levels. It was the first time I traveled overseas, and the first time I traveled with a tour group. It was also the first time I traveled under the guidance and direction of an organization who crafted the agenda in a way which brought a big component of religious history to life.

It truly was an inspirational journey – and even that sentence does not do the experience justice.

One of our stops included a sunset boat ride on the Sea of Galilee, the largest freshwater lake in Israel. The experience slowly gliding across the glass-like, peaceful surface was breathtaking. The Sea has become a pilgrimage site for many Christians as it is believed to be where Jesus walked on water. Today, it is Israel's largest source of fresh water, supplying about one-third of the nation's annual water requirement. The Sea is also a significant source of commercial fishing and the land surrounding the sea grows cotton, alfalfa, bananas and dates.

My second favorite stop was the Dead Sea. Known for the salty water and rejuvenating mud, the lowest place on earth is also unique in that you cannot actually swim in it. The high level of salt means you just float – and that is exactly what we did. We also scooped up a handful of mud and cleansed our arms and faces with it. This mud is bottled and sold around the world as a beauty product, and I now I fully understand why.

Israel is a country dense with history and amazing people. These two experiences were only two of the highlights, but the most impacting parts of the trip were the people I met, the conversations exchanged, the historical perspective of religion coming to life and the breathtaking experiences. I could have gone without my "runaway baggage," which showed up three days later – but even that aggravation was extremely minimal in light of the captivating experience I had.

Thank you for taking the time to read about my experience. I look forward to hearing about your recent and upcoming travels!

All the Best,
Chad

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Naples, FL 34109
(239) 254-1875

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Ponte Vedra Beach, FL 32082
(904) 273-4550

FORT MYERS
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Fort Myers, FL 33907
(239) 362-9077