J. F. Williams Co.
INC.

Jim Williams

Policy Driven Financial Management.

We have always used an individually designed Investment Policy Statement (IPS) to govern the management of each client's investment portfolios. The IPS documents and formalizes a meeting of the minds between you the client, and us the investment advisor. The process of establishing the IPS causes us to work through issues of portfolio risk / volatility, and expected returns and the underlying tradeoffs. We focus on what can be managed and what can not. The fact that the IPS is arrived at in a moment of calm consideration and reflection about risks and returns creates a stable platform from which to make day-to-day investment decisions without being caught up in the torrent of emotions when the markets feel unstable. The IPS helps us remain focused on the long-term perspective versus being caught up in the short-term volatility.

We are firm about the adoption of an IPS for each client. We will not manage investment assets without an IPS in place. Other policies, while they may be similarly important, are more at the option of the client. So, for example, while we urge the adoption of a withdrawal system for each client in the withdrawal mode, the policy may be more or less formal, depending on the client's wishes. It is much the same for a saving policy for a client in the accumulation mode.

A withdrawal policy puts forth a framework for the ongoing harvesting of funds from the portfolio. It describes the percentage withdrawal guideline that combines expectations about the trade-off between current cash flow and future growth (or decline) of the portfolio. It addresses how the funds are to be harvested from the portfolio; tax considerations, maintenance of the desired risk profile, and selection between pre-tax and after-tax accounts. It may address how tax payments are to be managed.

When considering a withdrawal policy for an investment portfolio, we tend to start the conversation with the 4% guideline. The 4% guideline was originated almost 20 years ago by a California planner named Bill Bengen. His work was based on the assumption that the starting point of the calculation was a dollar value, say, 4% of the portfolio value on the arbitrary start date. Then that dollar value was adjusted for inflation every year, regardless of the performance of the portfolio in subsequent years. This is a "hell or high water" withdrawal methodology and while it may succeed over a 30 year time horizon, it may fail. It would be a bit like trying to steer a boat across a river with only one opportunity to set direction and with no opportunities to make corrections. There are other withdrawal protocols that provide mechanical calculations with increases or decreases. We prefer a system that makes reference to the ongoing value of the portfolio; that is, a percentage of the portfolio, each year. This will allow for the amount of cash removed to be adjusted based on performance of the portfolio, over time, and viewed each year with fresh eyes.

Why Investment Policy is So Important.

When markets turn down, the advertisers come out of the woodwork screaming and braying that the only way to make the pain of the downturn go away is to subscribe to their high cost solution. This taps into the normal fear reaction which carries with it the urge to "do something". Although couched in terms like "defensive" and "downside protection" the "do something" impulse is just another iteration of the notion of "beating the market". Just like in any other market conditions, achieving market-beating performance depends not just on knowing what you think an asset (usually a stock or asset class) price should be based on all of the information about the asset that you have, but moreover, it depends on knowing what everyone else in the market thinks the asset price should be, based on all of the information they have. This is doubly difficult due to the fact that no two market participants have exactly the same information to bring to bear. In fact, the probability is that the information available to various market participants varies greatly. Even if multiple people have the same "inputs", they will view those "inputs" differently based on their own biases and priors. So, the notion that you can "know everything" about an asset and what its price should be is pure folly. The idea that you can know what everybody else thinks about an asset is beyond folly and approaches delusion.

Nonetheless, there are those who harbor and promote the notion that they possess the penetrating insight and incisive intuition to be able to pick securities and/or time the market. The tactics of securities selection may run the gamut from IPOs and stocks to actively managed mutual funds that hold out the promise (however well disclaimed) that they will beat the market. Market timing can range from modest overweighting and underweighting of asset classes, to tactical shifts of the portfolio from one asset class to another, to full-out timing with the entire portfolio being switched from fully invested to fully removed from the market.

We are serious skeptics regarding those who sell or promote market-beating strategies. Most of the strategies are no more than kabuki; designed to make you believe your advisor is really working hard for you. In reality, most of the kabuki works against you.

A big part of the reason we operate from policy is that in times like this, when the markets seem threatening, it gives us a level of immunity from the fear that provokes others into poor investment decisions.

20th Anniversary Open House

We will be celebrating our 20th anniversary with an open house on November 6th (a Friday) from 1:00PM to 7:00PM. You can have a look at our new location. Stop by if you can. Call or email if you need directions.

The table below shows the returns through September 30, 2015 for selected investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

Asset Class	**Data Series**	**YTD**	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Ultrashort Bonds	BofA Merrill Lynch Three-Month US Treasury Bill Index	0.02	0.02	0.06	0.08
Short Term Municipal Bonds	Barclays Capital Municipal Bond Index 3 Years	1.19	1.07	1.24	1.66
Short Term Government Bonds	Barclays Treasury Bond Index 1-5 Years	1.60	2.06	0.89	1.23
Short Term Corporate Bonds	BofA Merrill Lynch 1-5 Year US Corporate and Government Index	1.60	2.01	1.22	1.68
Short Term Global Bonds	Citigroup World Government Bond Index 1-3 Years (hedged)	0.76	0.98	0.92	1.03
Intermediate Term Municipal Bonds	Barclays Capital Municipal Bond Index 7 Years	1.97	2.80	2.46	3.72
Intermediate Government Bonds	Barclays Capital US Government Bond Index Intermediate	2.03	3.00	1.10	1.88
Intermediate Corporate Bonds	Barclays Capital Credit Bond Index Intermediate	1.36	2.17	2.09	3.47
Intermediate Global Bonds	Citigroup World Government Bond Index 1-5 Years (hedged)	1.09	1.57	1.34	1.50
US Marketwide Core 1 & 2	Russell 3000 Index	-5.45	-0.49	12.53	13.28
US Marketwide Vector	Russell 2500 Index	-5.98	0.38	12.39	12.69
US Large Cap Market	S&P 500 Index	-5.29	-0.61	12.40	13.34
US Large Cap Value	Russell 1000 Value Index	-8.96	-4.42	11.59	12.29
US Small Cap Market	S&P Small Cap 600 Index	-5.49	3.81	13.02	14.04
US Small Cap Value	Russell 2000 Value Index	-10.06	-1.60	9.18	10.17
Real Estate Investment Trusts	Dow Jones US Select REIT Index	-2.84	11.82	9.92	12.31
International Marketwide Core & Vector	MSCI World ex USA Index (net div.)	-6.69	-10.14	4.60	3.42
International Large Cap Market					
International Large Cap Value	MSCI World ex USA Value Index (net div.)	-9.65	-14.32	3.56	2.61
International Small Cap Market	MSCI World ex USA Small Cap Index (net div.)	-0.34	-3.71	7.48	5.74
International Small Cap Value					
Emerging Markets	MSCI Emerging Markets Index (net div.)	-15.48	-19.28	-5.27	-3.58

October 16, 2015

1120 Lincoln St., Suite 1603
Denver, CO 80203

www.jfwco.com

ph – 303-753-4506
fax – 303-736-4009