

THE NORTHWEST QUADRANT

Now Is Not the Time to Give Up on International Investing

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Investors tend to overweight their portfolios in the stocks of their home country, a phenomena called “home country bias.” This bias is especially evident among US investors, who typically allocate 80% or more of their holdings to companies within US domestic borders.

Furthermore, the recent UK decision to exit the EU was just the latest in a series of political, economic and financial shocks coming from outside the United States that have disrupted capital markets. Which begs the question: Should investors permanently retreat from global diversification to the perceived safety of a US-only portfolio?

Jeffrey Kleintop at Schwab recently asked that question and concluded that the case for global diversification remains intact. He cited three main reasons why US investors should not abandon their international holdings.

- 1) Returns on global stocks have never been negative over the ten years that followed valuations similar to where they are today. The current price-to-earnings (P/E) ratio for global stocks stands at a relatively low 16.7, while US stocks alone are much more expensive, with an average P/E over 22.0. While there is no meaningful relationship between stock market valuations and short-term performance, over a longer time span the current P/E of 16.7 for the MSCI World suggests a 4%-14% annual future ten-year total return for global stocks.
- 2) International exposure offers increased diversification to help buffer your portfolio against market downturns (see chart below). Lower losses for global stocks can be seen in the worst 10-year period for both indexes since 1969, which was from February 1999 to February 2009. During that period, the US Stock

Index fell by over 40% (-4.2% annually), while the developed-market international stocks measured by the MSCI EAFE Index lost just 10% (-1% annually).

Source: Schwab.com



International = MSCI EAFE Index, World = MSCI World Index, United States = MSCI USA Index.

- 3) The US middle class may be shrinking, but outside the US, it's growing exponentially. By 2030, 93% of the global middle class will be from emerging markets, according to World Bank estimates. Consumption by the global middle class is forecast to hit \$55.7 trillion by 2030 and adoption of middle class consumption patterns will have huge implications for providers of goods and services of all types. Omitting international exposure will mean missing out on this megatrend.

Over the past 45 years, there have always been periods of time when US stocks outperformed international ones and vice versa. By abandoning international exposure now, you may miss out on the attractive returns, downside protection, and growth opportunities from the emerging global middle class that they provide. ■

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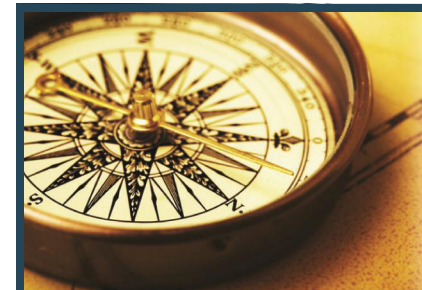
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A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction. If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Wes Burnett: wes@optifour.com.

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THE COMPASS ROSE

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ESTATE AND FINANCIAL PLANNING UPDATE



FOUNDING PARTNER

I. Mark Cohen, J.D., LL.M., CFP®

We had a great summer. Our family appears to have caught the travel bug. Rachel and Saul were in Venice, Prague, and Budapest. Michael was in Morocco, Iberian Spain, Prague (meeting Rachel and Saul) and in Crete. Both are back in school and will graduate at the end of the school year. Holly travelled to North Carolina for a couple of long weekends but mostly worked on her Master's Thesis. She will graduate at the end of this year. Dana and Joe stayed around town given that Dana is expecting soon.

Leigh and I had a wonderful trip to Ireland and Scotland. We walked/hiked much of the southwest coast of the Emerald Isle, but the highlight was Skellig Michael, a sixth century monastic site and a UNESCO World Heritage Site. It also happens to be where the final scene of the film Star Wars: The Force Awakens was filmed, as well as part of the next film in the series. Yes, we climbed the 800 stone steps to the shelf 600 feet above the water where Ray found Luke Skywalker. (We did not see Luke nor did we see “Nessie” at Loch Ness in Scotland, although we looked hard.) We also liked our stay in the town of Dingle, which is really an artist and musician community of about 3000 people

Don't Try This At Home

by Rasheda Nipu, J.D.

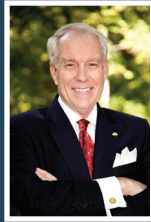
For many, updating their estate planning documents can present a burden for which they just cannot seem to find time. In an attempt to save some time, and possibly money, rather than making appointments to formally amend their trusts with qualified attorneys, they attempt to amend the document themselves.

The risk assumed when doing so bears emphasis: if the formal requirements of executing a trust document are not met, the “amended” document may later be deemed invalid. In such an instance, if the Trustor becomes incapacitated or dies, it will be too late to execute a proper amendment and the previous version of the Trust will be the last validly executed document. Consequently, in order to give effect to the improperly executed, amended trust, executing a “trust reformation,” or some other type of settlement agreement, creates an even greater burden (and likely a more costly one) than simply taking the time to do it properly. ■

and 150 pubs. We only managed to visit about five of them but the beer and music were great.

In Scotland we liked Dunnottar Castle, in part because it was a rare sunny and warm day and we could hike on the nearby cliffs and take great pictures. The photo here was taken on one of those cliffs with the castle behind us. ■





MANAGING PARTNER

Weston D. Burnett, J.D., LL.M., CFP®

We did two law firm workshops in September and another two in October to help clients with various issues involving their estate planning documents. We plan some more workshops in early 2017 for OptiFour clients.

On the personnel side, our summer intern, Lauren Fernandez, moved on to Spain for her year-long assignment teaching English in a Spanish school. Ryan Berges was out of the office for an extended time for health reasons and is due back sometime in October. Joe Hill, our Tax Director, got an offer in August that he could not refuse and is leaving us at the end of October to become a partner in an accounting firm close to his home in Annapolis, MD.

As a George Washington University Trustee, my Co-Trustees and I are busy looking for a new President as the current highly successful one, Dr. Steven Knapp, is retiring next summer after ten years. Leadership of such large educational institutions is really challenging in today's environment. I am also active in the \$1B Making History Campaign and am the lead trustee helping plan the 200th Year Commemoration of GWU's founding in 1821 by Congressional Charter and George Washington's Will.

After school let out in late June, Barb and I traveled to Switzerland to cruise the Rhine River to Amsterdam. There we visited several museums, including the math-related Escher Museum in The Hague. Next, we flew to Barcelona where we cruised around to Lisbon stopping in beautiful warm ports and visiting many UNESCO sites like Alhambra and Alcazar which Barb loved for their geometry and art. In August, we took our oldest granddaughter, Sitara, (which means morning star), with us to our NH Lake cottage for two weeks of sun, fun, family and visiting friends. Barb's 91-year-old mother is moving from Pensacola to McLean to be closer to family and join in the fun herself.

On the fitness side, my son David and I did a 100-mile Seagull Century bike race (sixth time) on the Eastern Shore in early October. My next goal is to climb some more 14,000 footers in Colorado in 2017. ■

IRS Scams

Jo Young

The phone rings. You answer it. On the other end of the line is a man or woman who tells you they are from the IRS and they need to talk to you about a delinquent amount owed them or a pending audit. In order to begin discussing this important issue with you, they will need you to verify your identity by providing them with your social security number. Stop. Right. There.

The sad fact is that IRS scams are on the rise. There has been an approximate 400% surge in email phishing and malware incidents alone in 2016. Nearly everyone knows someone or has heard of someone who has received calls from people purporting to be from the IRS or a Taxpayer Advocacy Panel. Usually the targets are elderly people who are more vulnerable to these sorts of scams. Some people are aware of this and hang up the phone, but others, fearing the worst, panic and provide whatever information or money the caller requests.

In order to protect yourself, know these facts (which come from the IRS.gov website) and share them with others:

- The IRS will never call you to demand immediate payment, nor will the agency call you about taxes being owed without first having mailed you a bill
- They will never ask for payment of taxes without giving you an opportunity to question or appeal the amount they say you owe
- They will never threaten to bring in local police or other law-enforcement groups to have you arrested for non-payment.
- The IRS will never call or email you to ask for your social security number, your bank account number nor any other personal information. If you are contacted by an IRS scam artist, please report the incident.

If you receive an email claiming to be from the IRS that asks for personal information, the IRS advises you do the following:

1. Don't reply
2. Don't open any attachments
3. Don't click on any links
4. Forward the email as-is to the IRS at phising@irs.gov
5. Delete the email after forwarding it.

Remember, if you have any questions, the IRS is there to be of service. ■

New Virginia Supreme Court Ruling: Missing Wills

Rasheda Nipu, J.D.

In Virginia, a long standing rule of probate is that a party seeking to probate a will (the "proponent" of the will) must present the original will for probate; a photocopy of the will does not suffice. In some instances, though, when the original will is lost, Virginia law allows the proponent to petition the court to order the copy to be admitted into probate. In order to succeed in this endeavor, the proponent must overcome the legal presumption that, if the will was last in the possession of the testator (the decedent), then it is lost because the testator destroyed it with the intent to revoke it.

In the relatively new Virginia Supreme Court ruling in *Edmonds v. Edmonds*, the court expanded on this rule by clarifying that the proponent of the copy of the will need not prove why the original will was missing or lost in order to overcome the presumption. In that case, the surviving wife filed a petition to probate a copy of the decedent's will because the original could not be found. The decedent's son, from the decedent's previous marriage, who had been intentionally omitted in the lost will, contested the petition. If the decedent was deemed to have died without a will ("intestate") the statutory intestacy laws would dictate the distribution scheme and result in the son taking part of the estate. The son claimed that part of overcoming the presumption that the will being lost was an indication that the decedent intended to revoke it, the proponent must prove the cause of the disappearance of the will.

The court ruled in favor of the wife concluding that the proponent could present evidence of what happened to the lost will, but that it was not a requirement. The court did not present a new standard for the presumption, but rather clarified that requiring the proponent to prove exactly what happened to the lost will was asking her to prove a negative, because the very reason something is lost is primarily because no one knows what actually happened to it. ■

Cybersecurity Threats Continue to Evolve Part 2

Ryan R. Berges

Last quarter I began a short series on cybersecurity threats and wire fraud. We continue that series this quarter focusing on wire fraud and the human errors in judgement that play into the criminal's game plan.

Most fraudsters that perpetrate wire fraud require the assistance of an unwitting accomplice. Often, this accomplice is a lonely adult, of advanced age, looking for friendship, love or companionship. The fraudsters need these accomplices to move stolen funds from one bank to another, in essence being a mule to physically carry the cash from place to place. This breaks the chain of evidence and lessens the ability of a fraudulent wire being recovered by police, all without the fraudsters face or fingerprints coming into the picture.

Sometimes lonely adults are not the accomplice, but the actual targeted victims of the theft. Love cons are becoming more frequent as people look for love online. A frequent con is to target a lonely adult on an online dating or chat site, befriend them, and convince the target that the con artist will move to America to be with them if they could be wired substantial funds via international wire so that they can travel to America. Once the lonely victim sends the funds via wire, the money is gone and all contact stops suddenly.

In other cases, older adults are targeted outright with threats that their children or grandchildren will be harmed or incarcerated if they do not make an immediate wire transfer of funds to save them.

If you have loved ones that are older, lonely, and somewhat gullible, I would encourage you to be proactively engaged with them so that you are aware of odd or erratic behaviors, especially involving finances and are available to help protect them from such cyber wolves. ■