

• Firm Update by Jim Steffen, CFP®, President



I read a good book recently. It was touted by a friend on Facebook and a New York Times Best Seller so I thought I'd read it while on Spring Break: *Younger Next Year: Live Strong, Fit and Sexy – Until You're 80 and Beyond*. Now who wouldn't agree that would be a good goal?! Here's an excerpt from the back cover, ...("How to put off 70 percent of the normal problems of aging – weakness, sore joints, bad balance – and eliminate 50 percent of serious injury. How, in fact, to

become functionally younger every year for the next five to ten years, and continue to live with newfound vitality and pleasure.") I won't summarize the book for you, but one chapter resonated with me, "The kedging trick." Not being a sailor, I wasn't familiar with kedging. A kedge is an anchor that is used when a ship is aground or fighting a current. The sailors will send the kedge with a few of the crew forward in a row boat in the direction they want to go. Next the crew on the larger ship will pull the ship along the rope until they get to the kedge. The steps are repeated until the ship is out of the current or afloat. Certainly a lot of work, but worth it to get the ship out of danger. The authors suggest that kedging is necessary when your fitness, or your life in general, has reached a plateau. You need something to keep you motivated. Something on your calendar to look forward to, to work (pull) towards, or to train for. Ideas: A hiking trip, a half marathon, a charity walk, a ski weekend, a bike ride, an adventure trip of any kind. You get the idea. I recently completed a kedge (I committed to it before I knew about kedging). I hiked to Machu Piccho...42 miles through the mountains and jungle of Peru. Definitely out of my comfort zone and definitely a kedge. The trip was in April, but it kept me motivated and focused all winter long. Do you have a kedge on your calendar? I'm looking for a new one...let me know if you have any ideas!

There are some fun summer events on the Trott Brook calendar. **Our Annual Canoe Trip/BBQ is on August 23rd.** We start at the Rum River Scout Camp and paddle a couple hours down to the Anoka County fairgrounds, followed by a BBQ at the Steffen house. All are welcome and Trott Brook takes care of the canoe rental, drinks and food (this actually could be a kedge for some of you!). **The Trott Brook Golf Invitational is September 29th** at Rum River Hills. A nine hole, two person, "Chapman format." This is always a fun event for you and a partner. **Our "New Client Event" is on October 27th** at the Steffen home. All our clients who have joined the firm within the last twelve months are invited, as well as the clients and friends that referred them. We'll pour some wine, chill some beer, and enjoy some good food and company. If you have not yet referred a friend to Trott Brook, there is still time to do so (and receive an invite to the party!). Lastly, **the 11th Annual Trott Brook Benefit Bash is September 19th.** We're lucky to have GB Leighton back to help us raise money for the Ann Talle Anoka Area Chamber of Commerce Scholarship Fund. Invitations are forthcoming for all four events, or send me an email right now to RSVP. A big summer and fall is upcoming. Put that kedge on your calendar...and look forward to it!

• Commentary by Ted Erhart, CFP®, Financial Consultant



I want to circle back to a memo I wrote within the past year titled "The Perils of Performance Analysis." The gist of the memo was that measuring investment performance is necessary, but measuring short periods of time such as months, quarters or even individual years, more often than not causes investors to make terrible decisions. Everything I wrote in that memo still holds true. But I might add a few things especially for the benefit of new clients.

A huge misconception people have about investing is that returns come in the form of steady incremental gains. Wouldn't it be nice if you could just get, say, 2-3% every quarter without fail (especially in a zero interest rate environment)? There was a guy in New York who built a massive investment firm by basically promising steady 10-12% annual returns every year for decades. Unfortunately he's not in the investment management business anymore because he's sitting in prison. His name was Bernard Madoff.

Most Ponzi schemes promise very high, too-good-to-be-true type returns. If there's one thing virtually every investor wants, its big returns. But ranking a very close second (in my experience) is the desire for moderate returns *with little to no volatility* (emphasis added). The latter is primarily what Mr. Madoff sold his victims on. In my view, this little twist differentiated him from the more traditional scammers and is largely what made it possible for the scheme to go on for as long as it did.

The critical point I want to emphasize is investors need to realize that returns from marketable securities (such as stock and bonds), historically have been anything but smooth and there is no reason to expect this to change. And to make matters worse, in a world where interest rates are effectively zero, investors have few alternatives to "risk" assets to generate even conservative returns.

One thing I've learned is people tend to be fooled by long-term mountain charts and statistical averages. Consider this, the *average* annual return for the S&P500 since 1970 has been nearly 12%, including dividends. But simultaneously, if you look at every 12 month rolling period over the same time frame, you'll find the range of *actual* returns was *extremely* wide.

Mellon Analytical Solutions recently looked at every 12 month rolling period since 1970 (there were 532). They found that the 12 month rolling range for the S&P500 over this time-frame was as high as 61.18% and as low as *negative* 43.32%. That is a **HUGE** amount of volatility and again, there is no reason to expect it to change in the future.

Remember, averages are just that. Investing in marketable securities is always going to be a bumpy ride. If you're aiming for 6% average returns for example, it's much more likely to come in the form of up 14% one year, and down 2% the next. This is not necessarily good or bad (it's just the way it is). But in an effort to make prudent decisions, it's absolutely essential for investors to remember these realities as they review their holdings over time.



Trott Brook's 11th Annual
Benefit Bash
 Saturday, September 19th
 Rum River Central Regional Park

Disclosure: Past performance does not predict future returns.



Jim & Lisa Steffen

All is well with the Steffen family. We've been crazy busy and adventurous as always. We were able to escape the cold in February with a trip to visit family in Phoenix. We enjoyed unseasonably warm weather and had fun hiking, swimming and golfing. Spring break took us to beautiful Punta Cana in the Dominican Republic. A special thanks to our clients, Merry and Raphael, for sharing their beautiful home with us! The kids have been up to their usual activities this year, with plenty of sports and homework. Most recently they're enjoying their summer vacation. Our daughter Lauren had a successful basketball and track season at Legacy and is participating in a strength and conditioning program all summer. We can't believe we now have a driver in training! Lauren is well on her way to fifty hours of driving time necessary to get her license in six short months. Our little girl has grown up so fast...three more years until high school graduation?! Like his sister, Tommy also played basketball and ran track this past spring. But his biggest accomplishment was performing in the school play, *Beauty and the Beast*. Despite the long hours and grueling practice schedule he loved it! He's already thinking about auditioning for *The Sound of Music* next spring. Tommy traded in the bat for golf clubs this year. He has joined three leagues and plays weekly at Rum River, Bunker Hills and the TPC. He's improved his game tremendously...it's just a matter of time before he'll be beating his dad! We do our best juggling the kids' schedule, Trott Brook, and whatever life throws at us! It has been a great first half of 2015...we hope yours has been as well. Here's to an even better second half!



Nikki Cellette

Summer is time to welcome the beautiful Minnesota weather. The enjoyable moments of simply floating on a raft, jumping on a boat or watching the sunset over the lake. The Fourth of July has already come and gone and I'm trying to figure out how the time goes so quickly. I think the answer may be KIDS, because they sure keep you going! We traveled to Rochester for the Bantam State Hockey Tournament in March. My son, Zach had a hockey season he will never forget taking 2nd place in State! What a remarkable and memorable year for a wonderful group of determined boys and families. There were so many tears of joy and sadness by teammates, coaches and parents. He is now preparing for next season by participating in two hockey camps over the summer. Over spring break we celebrated Easter in Disney World. I'm definitely a believer in Disney being the most Magical Place on Earth! Our adventure included meeting "Winter", the dolphin from the movie *Dolphin Tale*. We also spent time at the beautiful beach of Clearwater, Universal Studios, Downtown Disney and of course, in the pool. It was a great vacation for our family and so fun to include my sister Jodi and Kevin a good friend of Zach's. Two teenage boys are very entertaining to say the least! My daughter Brooklyn's first month of summer vacation has been anything but relaxing. She has been very busy already completing Ramsey Safety Camp, volleyball camp, hockey camp, swimming lessons and soccer. Her U8 soccer team ended the year at Soccer Fest in late June and remained undefeated. She will also be attending the Little MN Wild hockey camp to gear up for her first true season of hockey this fall.



Ted Erhart

The first half of 2015 has come and gone. I just shake my head thinking about it. The time sure flies. This past winter was somewhat quiet. My wife Kelly and I escaped the cold for several days as we joined some friends in Florida for a nice little get away. I got the chance to do some salt-water fishing for the first time which was an adventure. We were targeting king fish. But, there were sharks in the area too and sometimes they would get your fish before you could reel it in. One shark came right up to the boat that had to be 10-12 feet long (a little different than fishing in MN!). Kelly and I returned home from Florida to find one of our horses with a huge gash across her head requiring over two dozen stitches. It looked really bad. We never figured out exactly what happened, other than she hit her head hard on the hay feeder (fortunately she's all healed up). Later in the winter I read a few books that had been sitting on my shelf for several years, *Lone Survivor* and *Seal Team 6*. Both were memoirs by retired Navy Seals and it didn't take long to read them. I could hardly put either one down. In early spring, we started working on our home. Our house was built in 1988 and has never undergone any significant remodeling, so essentially everything needs to be updated. So far we've been removing wall-paper, replacing fixtures and working on the electric. It looks like 2016 will be the big year for remodeling. Kelly went on two trips this spring. In April, she attended the World Cup of horse jumping in Las Vegas with some friends. Then in May she traveled to New York City for several days on a girls trip to Manhattan. My only trip this spring was to Omaha for the Berkshire Hathaway annual shareholders meeting which I've previously written about. We're both looking forward to spending some time in northern Minnesota later this summer.



Krisandra French

I'm happy to say we made it through another hockey season with our youngest child Zack. Now he's into golf, and, like my husband, wants to be out on the course every day. But that's OK with me because I know he's having fun and can't get into too much trouble out there. I've started to play a little bit more myself. My husband and I try to golf together at least once a week (which is a lot for me)! This spring we also got through another high school graduation. Our third child, Josh, graduated from Anoka High School and is now officially an adult, ready to make his own decisions. As a mom, it's hard trying not to tell him what to do. Like my husband says, "Hold on loosely, just don't let go." Those are words I cherish with all my kids. Now it seems strange only having one child left at home (it's so quiet). As I look to the future, becoming an empty nester is much closer to reality. I do, however, look forward to traveling with my husband when we retire so we can have a little more "us" time. We are still enjoying our grandson, Jaxton, and love watching him grow. He is such a little ham and his personality is amazing. He is already a year and half. Where does the time go? I love being able to "face time" him if we're unable to get together in person for an extended period. He loves to "face time" and tries to kiss the phone when we say goodbye. I hope all of you enjoy the rest of your summer.

A more balanced approach