

## • Firm Update by Jim Steffen, CFP®, President



I recently passed a major milestone. A silver anniversary you would say. Except there was no party, no celebration, and no cake. I actually forgot about it until several days later. June 1, 1991. I've been "in the business" for 25 years! They say your kids grow up right before your eyes (which is true), but these 25 years have truly been a blink of an eye. I wasted no time after college graduation, passed my insurance license exam and I was in business.

A financial advisor not exactly, a life insurance agent most definitely. Every college grad's dream job! How humbling to cold call all day in an attempt to meet complete strangers and sell them life insurance. The true definition of rejection. I could have never imagined how the industry and my business would change. In 1991, the Dow was trading just above 3,000, a stamp was 29 cents and a gallon of gas was \$1.14. I paid (financed) \$12,000 for an Eagle Talon which I thought was the hottest sports car on the street.

What's changed? Well the stock market is up 600%, stamps up 62%, and gas is up 100%. Technology has changed the world as well as the financial planning industry. Perhaps the biggest change has been the evolution of the client experience, or should I say the lack of one back in the day. I had a lot of policy holders, customers at best. Definitely not clients. Every day was about the next transaction and very rarely about building client relationships. Thankfully those days are gone! I'd like to think some of my gray hairs have brought some wisdom to me. I know the last 25 years have brought gratefulness. Grateful for the 260 families that we call clients. It is those relationships that make my work so rewarding. Grateful for the referrals and introductions you send our way that allowed me stop cold calling many years ago! Grateful for my talented team. Without them there is no business. They deliver a client experience that I would have never dreamed possible. And most grateful for your continued trust and confidence. I wonder what my Golden anniversary will look like?!

The 12th Annual Trott Brook Benefit Bash is coming up on August 25th. Yes, that is a Thursday! After 11 years of hosting this event on a Saturday in September at Rum River Central Park, we decided it was time for a change. We have partnered with the City of Ramsey Foundation and Ramsey's Summer Concert Series. Concerts take place every Thursday evening throughout the summer at The Draw Park & Amphitheater (located just north of our office). The Benefit Bash will be the last concert of the series. Another change is there will be no tickets to purchase. Like all the summer concerts, the Benefit Bash will be free to attend! We'll have three different food trucks onsite beginning at 5 pm, as well as the Ramsey Lions Club selling beer and Killebrew Root Beer. A long-time Minnesota favorite, Tim Mahoney, will be performing a solo acoustic show from 6:30-9:00. Since 2005, the Benefit Bash has donated over \$84,000 to the Ann Talle Anoka Area Chamber of Commerce Scholarship Fund and they will continue to be a beneficiary this year. We are excited to have added a second recipient in 2016 being Youth First Community of Promise. Both the Scholarship Program and Youth First exist to help kids strive to be the very best they can be. I hope to see you there!

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## • Commentary by Ted Erhart, CFP®, Financial Consultant



I recently saw the movie, *The Big Short*. The movie is based on the book of the same name by Michael Lewis. I would highly recommend both. The story is about a handful of money managers who saw the housing crash coming in the mid-2000s. This tiny group of people made millions, and in a few cases billions, for correctly predicting the mortgage meltdown and housing bust. But the story isn't just about a bunch of guys who made a ton of money.

The story is also about how difficult it can be to take the huge contrarian bets that are often necessary to generate outsized investment returns.

One of the main protagonists in the story was Michael Burry out of California. He's an interesting character. By most accounts, he was the first person in the world to make an investment bet that the U.S. housing market was going to crash. In the early 2000s, Burry started to notice that mortgage lending practices seemed to have deteriorated tremendously. Underwriting standards had dropped and even some of the mortgage products being sold seemed questionable at best (think of interest only or even negative amortization loans, etc.). Burry figured out that sometime around 2007, waves of defaults would begin as many of the shadiest adjustable rate mortgages would reset with significantly higher monthly payments.

To profit from what he thought was going to happen, Burry identified investment instruments that he knew would suffer mightily if the mortgage market blew up. In-effect, he then persuaded a number of Wall Street banks to sell him insurance contracts on these instruments. The technical term for the insurance was "credit default swap." If homeowners began to default on their mortgages as Burry predicted, his credit default swaps would pay-off in droves.

Unfortunately for him, Michael Burry's bet was early. He bought his first credit default swaps sometime around 2004 or 2005. Looking back, we now know that the housing bubble kept inflating across the U.S. for around two more years. Consequently, Burry's credit default swaps sat in his portfolio showing big losses. Burry's problem was that he was managing outside money. His conviction was as high as ever but his investors couldn't understand the arcane investment instruments he had purchased and why they were showing ongoing losses. A number of investors threatened to withdraw their money.

Finally, after fending off his own clients for several years, the subprime crisis started to roll in June of 2007 when two Bear Stearns mortgage portfolios imploded. Over the next few months, the credit default swaps which had been sitting in Burry's portfolio with significant losses, began showing windfall profits. By the spring of 2008, Burry had liquidated his positions, earning more than \$700 million in profit for his clients.

Most people don't distinguish between being early and being wrong. Unfortunately, in investing, getting the timing exactly right is impossible. The lesson is, in order to be right, many times you have to be willing to look wrong, and more often than not, for a long time.

Disclosure: Past performance does not predict future returns.



*Jim & Lisa Steffen*

Looking back on the last few months, the Steffen's have had a busy (and fun) schedule. We all enjoyed some time in Arizona over Spring Break as we attended the LPL Masters Conference, played golf, hiked and soaked up some sun at the pool. As soon as the basketball season ended, the golf season began. Tommy has embraced the game, and was fortunate to play in several JV meets at school. A few different leagues and tournaments will keep him busy all summer. Lauren has been enjoying her freedom (driver's license) since March, working two part-time jobs and spending time with friends. Her Legacy soccer team will start practice in a few short weeks. Lisa has struggled with food intolerance and her health for the last several years. This spring, with a new sense of wellness, she started a Facebook page (Passionate Wellness Explorers) and a monthly group meeting. She has had an overwhelming response and has been passionate about helping others with their health and well-being. Summertime means fishing time for Jim. He has been enjoying his new jet boat and spending lots of time on the Rum. Tommy, Jim and Jim's dad skipped Canada this year and went to Wisconsin instead. They floated the Namekagon River for three days as they perfected their fly fishing. Great weather, average fishing, but most importantly three generations making memories that will last a lifetime. We hope you enjoy making your summer memories with family and friends as well!



*Nikki Cellette*

Summertime...On a beautiful lake is where you can find me almost each weekend. A day of boating or floating on a raft and I feel like the luckiest girl in the world! This spring break led us to Cave Creek, Arizona. My family along with my parents and sister had a whirlwind adventure touring Sedona, Old Scottsdale, Phoenix and Las Vegas. We had many adventures such as four wheeling in the Sedona desert, horseback riding in Cave Creek, zip lining from the Rio hotel in Las Vegas and touring Hoover Dam. My husband George loved nothing more than the TPC Stadium Scottsdale Golf Course; Las Vegas stole my daughter Brooklyn's heart with Carlos' Bakery from the TV show "Cake Boss," and my son Zach enjoyed the four wheeling in the desert and walking the strip of Vegas. This was the kids' first trip out west and our goal was to see as much as possible in six days. I do think our mission was accomplished! We are so thankful that my parents were able to join us. I truly treasure every moment making memories with them. In June, we welcomed the newest addition to the Cellette family. After years of Zach and Brooklyn begging and pleading for a puppy we finally made it happen! Little Zoey, our seven pound Shih Tzu / Yorkie mix puppy, is becoming acclimated to our busy lives and we all love her dearly! Have a fantastic summer!



*Krisandra French*

Summer is officially here! My husband and I are looking forward to the warm weather, being outside and spending time with our grandson Jaxton! Jaxton loves going to the park. Grandpa recently showed him a new way to get there: the 4-wheeler. That has become his highlight every time he comes to visit. "I go to the park on wheeler with Bapa." He has been such a blessing and is so much fun. Our youngest son Zach finished out his sophomore year at Anoka High School. It's amazing to think he only has two more years until graduation. He has started working so it's hard to fit golf in as much as he would like to. I have picked up a little side hobby. I started making cakes for weddings, birthdays, and special occasions. My biggest project is in October when I have to make 20 eight inch cakes and a two-tiered cake for my cousin's daughter's wedding. It will be a challenge, but I'm excited to be a part of her special day. I do this for fun because the dynamic changes as soon as it becomes real work. Baking is something I have always enjoyed doing. Have a wonderful summer and I hope you are able to get out and have some fun with your family.



*Ted Erhart*

The first half of 2016 was busy (as it always is). Kelly and I spent a week in Puerto Rico in January with my mom and dad. It was a fun trip with beautiful weather, eighties and sun virtually every day. I thought it would be a lot like Mexico but I learned Puerto Rico really has its own distinct culture. Of course, the biggest news is my wife Kelly and I are expecting our first child. We learned of the pregnancy, happily, on the birthday (February 22nd) of my brother Nick who recently passed away. That was a nice surprise. I was a little concerned of the fact that we visited Puerto Rico in January. As you may know, the first case of the Zika virus was identified there in December. Fortunately, we had Kelly tested and she was given the all-clear. I've spent a lot of time with our "puppy" Sadie the last 6 months. I think she was 12 pounds when we brought her home in December. The last time I weighed her she tipped the scales at over 70! I'm hoping she doesn't get too much bigger. Sadie, a Chesapeake Bay Retriever, will be heading out to gun-dog school this summer. She loves to retrieve. I'm hopeful that all the time and effort I've put in has positioned her well for some formal training. Looking forward to the fall hunting season.



*Cyrea Lynch*

Fun in the sun! Where does the time go? As I watch my son Gavin grow into a big 6-year-old, I realized how short this period of my life really is. Coaching soccer and tee-ball for the five and six year-old boys over the last two months was one of the most precious and rewarding things in my life. Not only did I see different attitudes and styles of parenting, but I learned so much patience. Being present in the moment with little people can impact your life greatly. I never knew how much the innocence of a child could impact me. I have enjoyed these times tremendously as I realize just how fast they will go. Gavin and I recently traveled to Kamp Dells for a long weekend with a group of moms and little boys. It was a trip to remember in so many ways. I would recommend the journey to Waterville, MN if you have young kids or grandkids. They would love it! The drive is well worth it for the HUGE waterpark, pony rides, fishing, mini golf, camping with s'mores and daily activities for all ages. Making memories is a once in a lifetime opportunity. Make the best of whatever season of life you are in and enjoy your summer!

*A more balanced approach*