REFLECTIONS

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WINDGATE
WEALTH MANAGEMENT

www.windgatewealth.com

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Three questions to help your friends and family find the right fit.

This July marked our 29th year registered as an investment advisory firm. This anniversary is a good time to say thank you for the opportunity to manage your wealth and investments over the years. Your trust is most appreciated. Added thanks is due to all of you who have introduced us to friends and family over the years. These referrals are the highest compliment that we can receive.

Often, when we are following through on an introduction, the party referred to us is unsure of what they should be seeking. After all, finding an investment advisor is difficult. However, finding the right advisor can have a meaningful impact on your future, as we hope you would attest. We imagine you have your own suggestions for any friends or family looking to start a successful relationship. Here are three additional questions to raise should any of your friends or family be in search of an advisor.

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If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 844.377.4963

Your Account Online

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What value do they promise?

We have all read studies claiming that very few professional investors can beat the market consistently. This is largely true. But "beating the market" by selecting the best investments is just a small portion of what advisors attempt to do. A good advisor can get between you and an impulsive decision. Having an objective voice, one that is unbiased by emotion, can help put the daily changes in the market in proper perspective to your long term goal.

Putting your money in good investments does not guarantee that you will keep it there. A good advisor will outline the best plan to align your values, financial goals, and capital. With this understanding – likely reiterated regularly in conversation – you become far more likely to stay the course, especially when markets become most challenging.

The difference in your returns, if you stay invested according to your plan as opposed to abandoning it, will not show up on your quarterly statement. However, its impact on wealth creation is very real.

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Are they listening or making an offer?

We all know what an offer looks like. It is someone in conversation with you while keeping one hand behind their back. As you speak, they smile and nod. Then at the conversation's first lull, the hand comes out – that is the offer. It may be a great offer. It surely has a great story. You may ask yourself is this offer the right answer for you?

A quick offer is all too common in investor experiences, but a good relationship depends on an advisor learning about you and your goals. In fact, during the initial conversation, you should be the one doing most of the talking. You need advice that fits your financial situation. Make sure your advisor is listening to get a good understanding of what your situation is.

How Are They Compensated?

Currently, there is no uniform standard of care in the financial services industry. This means that how you receive financial advice may differ depending on if you visit a bank, insurance agent, broker, or independent advisor.

How can differing standards impact your relationship with an advisor? Understand the term Fiduciary Standard. A Fiduciary Standard means that advisors must provide advice that is always 100% in the client's best interest. This issue has gained national interest as the Department of Labor has recently passed a law that dramatically increases the number of firms held to the Fiduciary Standard.

As it stands, however, being a fiduciary is not a requirement that needs to be met in order to call one's self an investment advisor. However, firms registered with the Securities Exchange Commission, or registered as an investment advisor with a state regulating agency, have always been held to applying the fiduciary standard when making investment decisions for their clients. There are intelligent and dedicated advisors who do not follow the Fiduciary Standard, but working with a partner whose interests are aligned with your own can ensure that you are not being sold investments that are not in your best interests.

The key is to ask an advisor to discuss any conflicts of interest. More directly, you might ask if they are a fiduciary, and how they are compensated. An advisory fee may be a flat fee or a percentage of the portfolio being managed. Also, it may come from commissions or fees on certain products being sold to you. The more you know about your advisor's compensation arrangement, the more you will understand their motivations and be able to put their advice in proper context.

Understand the term Fidicuary Standard.

Your advisor should promise you more than advice on stock picking or timing a market. You want someone that will help you set important goals, recommend a plan, and monitor your steps to achieve it. Trust-building takes time and effort. With these three questions in mind – what value is promised, are they listening or making an offer, and how are they compensated – you will be more prepared to go forward with your search.

FINDING VALUE OVERSEAS

Michael Corbett,
Chief Investment Officer
Portfolio Manager

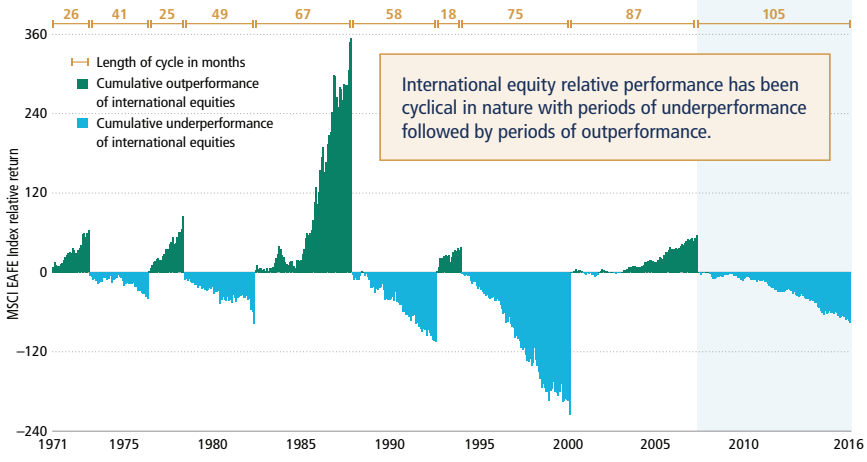
International markets have made numerous headlines in 2016. Investors around the globe were startled with news of the UK "Brexit," as British stocks fell 3.2%, bordering European shares were down 8.6%, and the pound plunged more than 10% versus the U.S. dollar. Reaction at home was equally nervous, as the yield on the 10-year U.S. Treasury Bond closed below 1.4%, a level not seen since the final days of World War II.

As seen in the dramatic market volatility surrounding the "Brexit" news, the U.S. market gained back all of its losses in just three days and is now back near all-time highs. Headline events like "Brexit" remind investors how dangerous it is to trade on emotion, since markets are very uncertain in the short-term. Taking a longer term view, we can see more meaningful trends that we can act on strategically.

Long before pundits had ever coined the term "Brexit," intelligent investors had been analyzing the trend of "mean reversion". Mean reversion is the idea that asset class performance is cyclical in nature, with periods of underperformance followed by periods of outperformance. Historically, when an asset class is out of favor for a while, future returns are likely to be strong. It can be difficult knowing when the direction of an asset class might turn, and initial results are often painful as the opportunity requires investing in an out of favor market. However, just like pulling back on a slingshot, every new degree of underperformance can add greater upside over time.

Mean reversion is the idea that asset class performance is cyclical in nature, with periods of underperformance followed by periods of outperformance.

CUMULATIVE RELATIVE PERFORMANCE OF THE MSCI EAFE INDEX AGAINST THE S&P 500 INDEX



Valuations and dividend yields are more attractive overseas

Top 5 countries in the MSCI EAFE Index by market capitalization	Forward P/E (x)	Dividend yield (%)
Japan	12.56	2.41
United Kingdom	17.22	4.28
France	14.40	3.91
Switzerland	17.44	3.62
Germany	12.61	3.12
United States	17.89	2.18

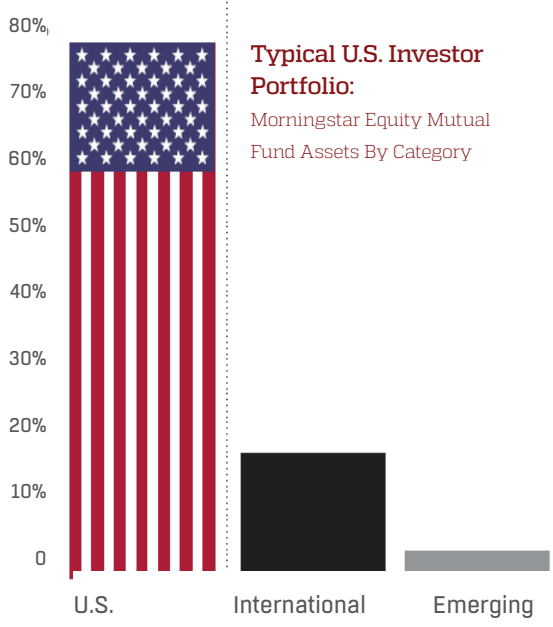
A comparison of returns between international and U.S. equities since the 1970s suggests that opportunities overseas are currently attractive. As seen in the graphic above, international markets have now underperformed the S&P 500 Index for 105 months, far longer than the historical norm. Not surprisingly, having undergone nearly nine years of underperformance, international market valuations are also more attractive than those in the U.S.

In addition to the mean reversion argument, valuation among overseas markets are much more attractive than the U.S. markets. The table above clearly shows that valuations are more attractive in several foreign markets. Germany, for example, is nearly 30% cheaper than the U.S. market.

"Brexit" is merely one event, likely to be a blip on the market's long-term timeline. The UK's decision is a zero-sum game, with Britain's losses potentially being gains for Germany, France, or China. Aside from any "Brexit" news, it is our long-term outlook based on relative valuations that is guiding us to increase your diversified portfolio allocations towards more international opportunities.

A comparison of returns between international and U.S. equities since the 1970s suggests that opportunities overseas are currently attractive.

U. S. INVESTORS KEEP 77% OF EQUITY PORTFOLIOS IN DOMESTIC COMPANIES



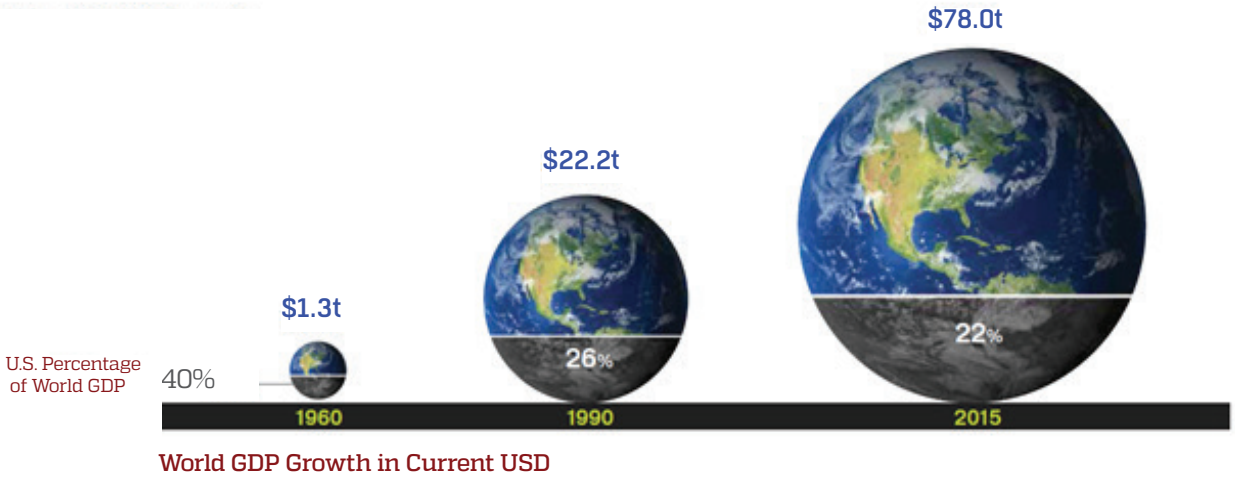
While our lives have become increasingly globalized, our investing approach has not. According to Morningstar, investors have over 75% of their equity portfolios invested in U.S. companies. They may be missing out on a large opportunity, as U.S. companies represent less than half of the world's market capitalization, and the U.S. represents just 22% of Global GDP (gross domestic product).

Global GDP has exploded from $1.3 trillion in the 1960s to over $70 trillion today. The world has become significantly more wealthy, with the U.S. contributing a smaller share of the globe's economic activity. While domestic investments remain a core element of portfolios, investors that practice global diversification stand to benefit most from growth worldwide.

U.S. companies represent less than half of the world's market capitalization, and the U.S. represents just 22% of Global GDP

Source: Morningstar as of 12/31/2015. Does not include target date funds of funds. Global funds are classified as international.

U.S. REPRESENTS 22% OF WORLD GROSS DOMESTIC PRODUCT (GDP)



Source: World Bank as of 12/31/2015.
t=trillion

WHAT SOLE BUSINESS OWNERS NEED TO KNOW ABOUT SOLO 401(K) PLANS

As A Sole Business Owner, A Solo 401(K) Allows You To Pay Yourself Up To $53,000 As Both An Employee And An Employer.

Running your own business is like running a marathon. You may have coaches and people to lend support, but in the end, it all rests on your shoulders.

Thankfully, there are a few benefits to being a lonely entrepreneur: one being a solo 401(k). These plans are ideal for individuals in charge of their own businesses who want to save more money for retirement. Read on for more details on why a solo 401(k) could be perfect for you and your business.

The Benefits Of A 401(K) Built Just For You

A solo 401(k) is ideal for business owners with no employees other than a spouse that want to maximize retirement savings. It is easy to administer and provides many of the same benefits as a traditional 401(k) including tax-deductible contributions.

Any money you invest in a solo 401(k) allows you to save for retirement with income before it is taxed. By contributing to a solo 401(k), you benefit from a lower tax bill and potentially far greater savings growth into the future.

Unlike a regular 401(k), which only allows employees to make a contribution up to $18,000, a solo 401(k)'s contribution limit is $53,000 a year (or $59,000 if the participant is 50 or older). That is because you can make contributions as both the employer and the employee - a double win for the self-employed.

While many self-employed entrepreneurs choose a SEP IRA for their retirement savings, a solo 401(k) may be a better choice if you earn less than $212,000 because you will face fewer contribution limits. The solo 401(k) allows you to pay yourself twice, both as the employer and as the employee. The "employee" contribution you can make is limited to $18,000. The "employer" portion is limited to 25% of compensation. Added together, the "employee" and "employer" parts must be $53,000 or below. For example, if you earn $100,000, you can only contribute $20,000 to a SEP IRA (subject to the 20% self-employment compensation limit). However, if you instead open a solo 401(k), you can make an "employee" contribution of $18,000 in addition to the "employer contribution" of $25,000, for a total of $43,000.

Unlike a regular 401(k), which only allows employees to make a contribution up to $18,000, a solo 401(k)'s contribution limit is $53,000 a year (or $59,000 if the participant is 50 or older).

Like a regular 401(k), a solo 401(k) charges a 10% penalty if you withdraw the funds before age 59.5. Required Minimum Distributions start at age 70.5 and there will be a fine if you do not take those appropriately.

Unlike the traditional 401(k), you may not be allowed to take loans from a solo 401(k), so make sure you do not use liquidity that you will need for a purpose later, such as a near term investment in your business.

Vesting is immediate in the solo 401(k), and there is no Roth option to the solo 401(k), so younger people with access to a Roth account through a traditional employer may want to maximize those contributions first.

A solo 401(k) is also a great option for those running their own business but still working elsewhere. If you are eligible, you can contribute to a 401(k) run by a company and a solo 401(k) that you create yourself. In addition, your spouse working for your business, is also allowed to contribute funds in a solo 401(k) that you have created, so you can double the annual family retirement funding limits.

If you do have part-time employees or seasonal help, they must work 1,000 hours or less for you to be eligible to create a solo 401(k).

The solo 401(k) allows you to pay yourself twice, both as the employer and as the employee.

Being a sole proprietor managing your personal retirement and tax savings options calls for much responsibility, but as your advisor we can certainly help.

Quick Facts - Solo 401(k)

- Only those with no employees other than a spouse are eligible.
- You can contribute up to $53,000 in tax-deductible savings.
- The plan is easy to administer and maintain, no need to file until assets reach $250,000.

QUOTES ON MONEY, WORK AND HUMOR

Money can buy happiness, but words are free. Here are a few of our favorite quotes regarding money, work and humor.

- "In America, anyone can become president. That's the problem." - George Carlin
- "I've lived through some terrible things in my life, some of which have actually happened." - Mark Twain
- "The most powerful force in the universe is compound interest." – Albert Einstein
- "Everyone has a plan until they get hit." - Joe Lewis
- "I used to work in a fire hydrant factory. You couldn't park anywhere near the place." Stephen Wright
- "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die of euphoria. " - John Templeton

- "Being on a movie set is like one long financial crisis." John Cusack

- "Put not your trust in money, but put your money in trust." Oliver Wendell Holmes

- "When an investor focuses on short-term investments, he or she is observing the variability of the portfolio, not the returns - in short, being fooled by randomness." - Nassim Nicholas Taleb

- "How many millionaires do you know who have become wealthy by investing in savings accounts?" - Robert G. Allen

- " History doesn't repeat but it rhymes." - Often attributed to Mark Twain

- "To be an investor, you must be a believer in a better tomorrow" - Benjamin Graham

CELEBRATING 25 YEARS

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