

January 2017

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MALLARD ADVISORS LLC

Comprehensive Financial Planning
& Wealth Management Solutions

THE QUARTERLY MALLARD CALL

The Four Keys to Investment Success

William D. Starnes

Investment Success can be thought of as the reward that awaits you within a vault that must be opened using four key codes. To open the lock to the vault you must turn to each of the four key codes in order. Only then will the wheels of the lock align allowing the vault to be opened. Then investment success will be yours!

Key #1 - Faith in the Future

The first key needed to obtain investment success is to have a resounding "faith in the future". This is faith in the growth and progress of economies, businesses, and people (who work and own these businesses). When you invest, you are buying a piece of a business. Therefore, you would only invest in that business if you felt that the business would make money in a conducive environment. Taken further, as globally diversified mutual fund investors, you are buying ownership in businesses around the globe, and therefore, you have a stake in the entire world economy - the economies in which these businesses operate. You would only own these investments if you felt these economies would grow over the long-term. This is faith in *progress*, not *perfection*. People, businesses, and politicians are not perfect, but if you take a step back to look at the upward curve of progress it is easy to have faith. If you can't see this progress, and are fundamentally afraid of the future (and have lost faith), it is impossible to invest successfully.

Yes, there have been, and will continue to be, great difficulties. There is always a real and painful crisis going on somewhere in our world. It will be scary at times and it is normal to be afraid, but if you don't believe that "this too shall pass," you have lost faith and will have great trouble investing.

One way to stop fear from turning into a loss of faith is by turning off the financial news, and instead reviewing history and seeing the realism of optimism. Want some proof? Google Hans Rosling's talk titled *200 Years in 4 Minutes*.

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Announcements

We are thrilled to announce that **Philip Marvil** has joined Mallard as our newest *Associate Financial Advisor*.

While new to our staff, Phil is not new to our firm. In fact, Phil was our first client, and we have worked together for eighteen years now. In other words, we know Phil very well, and he knows and understands our methods and values. Finally, he is authentic, easy to talk to, extremely knowledgeable, and committed to helping clients just as we have helped him over the years.

Please give Phil a warm welcome to Mallard.

To learn more about Phil, go to page 4 where he answers some of our questions.

Notices

Mallard E-Mail Update

Are you receiving our e-mail newsletters (which are different from this quarterly newsletter)? If not, let us know by sending an e-mail requesting to be added to our [e-mail newsletter list](#).

Use ShareFile

When sending confidential information to us, please remember to use the **secure ShareFile link** contained at the bottom of each of our email signatures rather than using the attachment function of your email software. This link is also located at the top of every page of our website.

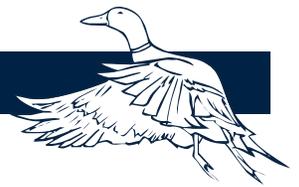
MyWealthWindow

You can always access your WealthWindow from a link found at the top of every page of our website.

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No one can plan for the future without believing in that future. I believe that one of the keys to successful investing is to win the battle that takes place (in our mind) between our faith in the future, and our fear of the future. While we must live in a volatile world, we must act "AS IF" the future will be better. There will continue to be surprises and crises of horrific nature and when they occur, we certainly won't know exactly HOW things will turn out alright, but we must know THAT things *are* going to turn out alright. What is the alternative - to live in our self-made bomb shelter? To gamble against capitalism? This does not mean living in denial, or just acting like starry-eyed dreamers. We should have faith in the future, because the facts support that faith, not because we have *blind* faith. Things will not always be rosy, and are still downright painful for many people, but progress and improvement will continue through both the good times and the bad. This progress is what we are investing in, and the world is benefiting.

This is one belief that we and our clients must accept on faith - capitalism and business growth will lead to wealth creation, not only for ourselves, but for the world. If you don't have this faith, then the stock market becomes a speculative and scary venture.

It is my faith that tells me to love panic prices - because I believe things will turn out OK in the long-run. Faith in the future will always turn out to be the main engine of a portfolio's performance. Think of those that you know who in a mindless panic, ***sold their shareholdings at prices which will never be seen again.*** Who did they sell their shares to? Those of us with faith in the future!

Faith in the future is the first of the four keys to investment success. This is because it would not be possible to move on to the next key when constantly fretting about the future.

Key #2 - Patience

Some investors don't lose faith; they simply lose patience. **Patience is the ability to wait and delay expectation of positive returns.** Patience is absolutely necessary because positive returns are not provided each and every year, and may not even be provided for many years. While I know it may be almost un-American to be patient in our world of instant gratification, news feeds, and credit cards, it is patience that is a necessary characteristic of a successful investor. There are two methods of obtaining more patience when it comes to the markets.

First is obtaining a set of realistic expectations. This comes from understanding market history, business cycles, and the frequency, depth and duration of crushing bear markets and euphoric bull markets. Once you understand that the markets can go off the rails every now and again, you can never really expect anything specific from the markets in any one year. If you are not prepared for both euphoric manias (typically resulting from a new technology) and long periods of depressing poor returns, you will not have the patience to wait things out and will bail out near the bottom. You cannot be a "fair weather friend" to your portfolio by dumping stocks when the going gets rough. You must instead have patience. Think of the pieces of your portfolio as "forever family members" instead of as "fair weather friends". We certainly must have patience for our family!

Second is keeping the dollars you will need in the next five years (or so) out of the markets. You simply cannot invest capital that you may need in the short-run for emergencies, a home down payment, or college expenses. Stocks and most bonds are for long-term portfolios. Some investors lose patience and don't have the luxury of waiting for a rebound in the stock market because they put *needed cash* into the markets when they shouldn't have and then the bottom fell out of the market.

Key #3 - A Strong Investment Philosophy

The third key to unlocking the vault is to have a strong investment philosophy. Investing can be much easier when we are crystal clear about what we believe. Just think about how confident and secure you would feel with your portfolio if you were absolutely certain about your investment philosophy! If you know where you stand, then you can't be pushed around. You would not be swayed by the media, family, or friends. You would be better able to withstand the forces that try to talk you into making poor investment decisions. With strong beliefs and convictions, you will have the discipline you need when your emotions (or others) attempt to convince you into bailing out of the stock market (or perhaps even just one sector of the market).

The most important aspect of an investment philosophy is *having one* - one that is well-defined, disciplined, and uses common sense. It should never be based upon ever changing market outlooks. While markets change constantly, your philosophy should not.



The Four Keys...continued

At Mallard, we hold a very strong investment philosophy that our clients also embrace. The key beliefs and convictions of our investment philosophy are outlined in the box below.

With a strong investment philosophy, envy is eliminated, and so is the desire to try to time the market. Changing investments or strategies (in the pursuit of higher returns) is eliminated. Becoming crystal clear about what you believe and what type of investor you are will allow you to sit back and enjoy life without the constant frustration / worry / anxiety / questioning felt by those without a strong investment philosophy. In other words, strong convictions governed by a strong investment philosophy provide the ability to grasp and hold onto the next key...discipline.

Key #4 - Discipline

Faith, patience, and philosophy allow an investor to have the necessary discipline to stick with their investment plan and to actually realize the lifetime investment returns they deserve. Investing requires steadfast discipline, which is only possible if you already have the first three keys. While patience is about the ability to wait for positive results, **discipline** is the ability to NOT act when the going gets tough as you wait patiently. It is discipline that allows investors to withstand the shock of a surprise - and this is one of the most important qualities of a successful investor.

Discipline can still be tough because the constant market surprises make the desire to "take action" compelling and feel urgent. But satiating this desire does not provide better returns. Acting on events of the moment, rather than acting towards our lifetime goals, kills investment returns and re-directs us from our deeply held beliefs. This is proven each year, when both Dalbar and Morn-

ingstar release their results showing how undisciplined investors earn far lower returns than they would have if they simply had the discipline to stick with their plan.

Our philosophy is driven by the following beliefs & convictions:

1. We believe that markets work and that it is best to assume prices are accurate (even if they are not) and therefore can't be outguessed consistently.
2. We know that the perfect portfolio, fund, guru, or investment manager does not exist.
3. We understand that global diversification is key to managing risk and participating in global growth.
4. We realize investment costs must be kept low.
5. We know risk and return are directly related. There is no free lunch.
6. We focus our clients attention on controllable factors that matter (i.e., risk control) and away from uncontrollable distractions (e.g., direction of interest rates).
7. We believe the process of making prudent decisions is more important than the short-term outcomes they produce.
8. We remain focused on strategies with high odds of a successful outcome - no long-shots.

It is discipline that can keep you afloat until you come to your senses from almost being suckered into taking action by either a mania or a panic.

In summary, investment success comes from having the following:

1. **Faith in the Future.** We are investing in something we believe in.
2. **Patience.** We must have the ability to wait for positive returns to unfold.
3. **A Strong Investment Philosophy.** We have the convictions that make us steadfast and unswayed by outside forces hell bent on getting us to "act" (i.e., trade).
4. **Discipline.** We are committed NOT to change our strategy in the face of surprise events.

These are the four keys to the vault. Notice that intellect is not a key. In other words, we will have investment success not because of our intellect, but because of the quality and content of our beliefs and behavior!

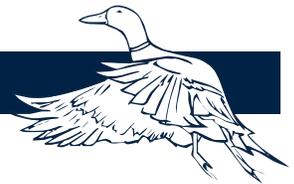
Our confidence that clients will be successful over the long term stems from these four keys. These keys allow us to better help our clients invest in a manner they will be comfortable with and will stick



with. The results: obtaining the returns they deserve and need for their own investment success.

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC

Philip Marvil Joins Mallard Advisors



To introduce our new Associate Advisor, Philip Marvil, I will use a Q&A format:

Tell our readers why you elected to make a career change to the world of fee-only financial planning and investment advice?

When I became a client of Mallard Advisors in 1999, I wanted to pursue two objectives: to ensure financial security for our growing family, and to create a plan that would allow us the flexibility to try *any* new, interesting career options that might open up later in life. I love to learn new things. After more than 25 years in the life sciences (academic, industrial, and business), I sought a change to a more service-related profession where I felt I could give back. Financial planning appeals to me as an occupation that offers satisfaction in helping others who want to help themselves. I like the concept of fee-only planning (i.e., no product sales) and that we act with fiduciary responsibility. I get to learn new things every day and put them into practice.



Tell us about your family and personal interests.

I grew up mainly in southern Delaware, but also lived abroad for a while in Switzerland and the UK. I now live in Wilmington, Delaware with my wife, Wendy, and our two teenage daughters, Hannah and Sarah. I enjoy outdoor pastimes including walking, camping, gardening, cycling, and hiking – particularly if it involves the whole family. We enjoy visiting State and National Parks and continue to visit as many as we can in our spare time.

What is your educational and employment background?

I earned a BA in Biology with a minor in Psychology from the University of Delaware in 1991. I worked in veterinary vaccine research before returning to school in 1995 to earn a Master's degree in Molecular Biology from the University of Hertfordshire in England. My wife and I settled in the Wilmington area twenty years ago, where I went to work for DuPont Pharmaceuticals. I left the laboratory in 2000 to work in life science sales for a few different companies, and eventually became a director of international and domestic sales at one of them.

What excites you most about your new position?

I am most excited by the potential to help others achieve their long-term goals. The most rewarding aspect of my prior profession involved helping someone else achieve success, and I want to apply that experience and skill set to the field of financial planning. I am also excited to join this great group of people at Mallard Advisors. It's energizing to work with others toward a common goal.

Total Return as of 12/31/2016					
	Dec	4th Qtr	Last 12 Months	Annualized	
				3 Years	5 Years
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**					
60% Equity / 40% Bond	1.32%	1.51%	9.16%	3.62%	7.84%
STOCKS					
Larger-Cap	1.96%	3.80%	11.82%	8.72%	14.49%
Smaller-Cap	1.86%	6.08%	18.17%	6.88%	14.68%
International - Developed Mkts	2.02%	(1.89%)	4.65%	(1.41%)	5.43%
International - Emerging Mkts	(0.16%)	(3.91%)	11.50%	(1.82%)	1.26%
Real Estate	4.66%	(3.04%)	8.34%	12.95%	11.62%
Inflation Hedges*	0.47%	5.14%	26.38%	(4.49%)	0.21%
BONDS					
U.S. Investment Grade Bonds	0.24%	(3.19%)	2.50%	2.83%	2.03%
Global Bonds	44.00%	(2.02%)	4.69%	4.87%	-

Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for "Natural Resources" is used.

** This portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond)