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# *The Equifax Hack: What Now?*

*by Clark Kendall*

In September, credit reporting agency, Equifax, announced that they had been hacked earlier this year. Equifax claims the personal data of roughly 143 million Americans and some 100,000 Canadians has been stolen. Hackers were able to access names, addresses, Social Security numbers, driver's license numbers and credit card numbers. Although this is not the largest data hack of a company, it is likely the most dangerous in terms of the type of data that was stolen which has more to do with identity fraud than credit fraud.

The Equifax hack is not something that should be taken lightly, and with roughly 143 million Americans affected, it is safe to assume your data may have been stolen. In the weeks, since Equifax's announcement, we have had many clients asking how they can proactively protect themselves after this hack.

First, you need to be aware of who provides you with credit and monitor its usage. Next, understand that monitoring your credit and monitoring your identity are useful tools, so you can be alerted right away if someone tries to steal your identity. Keep in mind, there is no way to prevent all kinds of identity theft. Further, there is no way to protect you from someone filing a tax return on your behalf or using your information to perform insurance or medical fraud.

We encourage consumers to check their credit reports provided by the three major credit agencies: TransUnion, Experian and Equifax. The quickest way to check all three credit reports is at www.annualcreditreports.com (the only website recommended by the Federal Trade Commission). Please remember, you are checking your comprehensive credit report, not your FICO score. You can select one or all three and each agency must provide you with a free report every year, if requested. You can download the report, print it at home or review online.

"In September, credit reporting agency, Equifax, accounced that they had been hacked earlier this year. Equifax claims the personal data of roughly 143 million Americans has been stolen."

What's important is that you take the time to look at your credit reports closely. Check for any unused credit cards or lines of credit and have them closed. Additionally, you should be checking your credit card statements closely for any strange charges – especially on a monthly basis. Oftentimes, something small but recurring is when fraud goes unnoticed.

A second way to protect yourself have is to request a credit freeze. This will not affect your credit score; however, freezing your credit does require managing a number of moving parts. First, you have to make this request for each of the three credit reporting agencies by calling them and providing them with your name, address, date of birth, Social Security number and other personal information. Generally, a nominal fee of $5-$10 is involved to freeze your credit.

Once the request is approved, the credit

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**Equifax Hack,** *continued from page 1*

reporting agency through which you requested the freeze will send you a confirmation letter with your unique PIN number. We recommend keeping this PIN in a safe place where you will remember it because it is required to lift a credit freeze. Lifting a credit freeze also involves a nominal fee and will take several days. Keep in mind, you have to do this for all three agencies with their respective PIN numbers.

While a credit freeze will make it more difficult for a thief to open new accounts in your name, it can be very burdensome to you as a consumer. When there is a freeze on your credit, you are unable to request credit reports, and you will be prevented from opening a new credit card or bank account. A credit freeze may also impede your ability to apply for employment, rent an apartment or buy insurance. Equifax is proposing a simpler method, but at this time, the process is rather cumbersome.

If freezing your credit seems like a daunting task, you have another option. You may enroll in a paid service that monitors your identity as well as your credit. Monitoring your identity will alert you if your personal data is found on illicit websites or appears on someone else's public records. You can have a service scan for your email address, driver's license number and medical insurance numbers too. One way identity thieves commit fraud is by blending personal information from a variety of sources and creating a new person - this is called Synthetic Fraud. Imagine, someone uses the Social Security number of deceased person with your name and someone else's address.

When looking to pay for a credit monitoring service, be sure to check if they just monitor your credit usage or will include personal data scans. It's possible you have free credit monitoring through your credit card company like Discover, as a benefit as an AAA member or some other associations. If you were part of the OPM hack and enrolled in My ID Care, you have that monitoring through 2025 which includes Identity Restoration support. If you were lucky enough not to be part of the OPM hack, you can pay a provider like My ID Care or Identity Guard $10-$20/month for the monitoring services and restoration services. If you have children, some of these providers allow you to include their Social Security numbers as well.

Lastly, there's "Identity Theft Protection" which is offered through companies like LifeLock. While they cannot prevent your identity from being stolen, they claim they can help restore your credit and save you time contacting the various credit card companies and banks which you use. Some of the providers listed above, including LifeLock, offer this assistance. The Federal Trade Commission also has a great website (identitytheft.gov) for walking you through the steps to report and recover from identity theft on your own, and it is free to use.

We also suggest a few simple things you should do on a regular basis to protect yourself. Changing passwords on your main email account and financial accounts every six months is a proactive way to prevent hackers from gleaning sensitive data within your emails or your bank account information. You want to make sure your password is strong with a mix of lowercase and uppercase letters and special characters. A weak password on your accounts is a low bar for hackers.

A handful of financial institutions allow you to use a PIN in lieu of security questions and many are now offering dual authentication features such as texting a code to your phone that must be used within a short timeframe. If you're a client of Charles Schwab & Co, you can add voice recognition to your profile. Just call the client service number 1-800-515-2157 and they'll be happy to set it up for you.

Our goal with this article is not to scare you or make you feel insecure about your personal information. The reality is that this is the technological world in which we live. Cybersecurity is becoming more and more important and if we can equip you with the skills and information to combat cybercrime, we hope that you will be able to rest easy knowing you information is safe.

***Did you know? The average age of an S&P 500 company is less than 20 years old, down from 60 years in the 1950s, according to Credit Suisse.***

# Strong Economy, Strong Conscience = Muscle Markets

**By Clark Kendall**

### THE QUARTER IN BRIEF

Encouraging economic data and a series of unsettling news headlines vied for Wall Street's attention in the third quarter, and ultimately, investors were not shaken. The S&P 500 rose 3.96% over three months, getting a lift from upbeat manufacturing and consumer confidence readings as well as earnings news. Away from our shores, the economies of China and Europe showed improvement, and foreign stock benchmarks rallied along with ours. A slumping dollar offered no big spark for the commodities markets. The residential real estate market looked to be cooling off. The quarter was filled with major news stories, yet the bulls sauntered through the disruptions.

### DOMESTIC ECONOMIC HEALTH

Consumer confidence barometers were among the most impressive economic indicators last quarter. By August, the Conference Board's index topped 120, far above its original score of 100; it was at 119.8 in September. The University of Michigan's consumer sentiment gauge ended the third quarter exactly where it ended the second quarter – at a solid mark of 95.1, rebounding from a July dip to 93.4.

The economy's two key purchasing manager indices were elevated well above the 50 level, which also cheered Wall Street. In September, the Institute for Supply Management's (ISM) factory Purchasing Managers Index (PMI) jumped to 60.8 – rising above 60 for the first time in 13 years, after readings of 58.8 in August and 56.3 for July. ISM's service sector PMI came in at 53.9 for July and 55.3 for August (at this writing, the September reading was pending).

Hiring eased during the quarter. Employers added 156,000 net new jobs in August after a July gain of 189,000. The main jobless rate ticked up from 4.3% in July to 4.4% in August, while the U-6 rate, tracking unemployment and underemployment, held at 8.6%.

Inflation showed definite signs of picking up, or at least, nearing the Federal Reserve's 2.0% target. The Consumer Price Index showed a 12-month advance of 1.7% in July, then 1.9% in August. With personal wages improving annually at a decent 2.5%, did personal spending increase? Not as much as economists hoped. The gain was 0.3% in July, but merely 0.1% in August.

Few investors thought the Federal Reserve would tinker with interest rates in the third quarter, and it did not. It did; however, announce a strategy to cut its $4.2 trillion balance sheet at its September policy meeting. The Fed's strategy to cut their balance sheet is a reversal of the monetary easing policy that began back in 2008.

Cybercrimes were also conspicuous in the quarter. Credit reporting titan Equifax had its databases hacked, leaving the personal information of more than 143 million Americans at risk. Whole Foods and Sonic also suffered major identity theft breaches.

"Consumer confidence barometers were among the most impressive economic indicators last quarter."

### GLOBAL ECONOMIC HEALTH

News about the European economy was increasingly positive, even as Spain's Catalonia region threatened to secede and Brexit negotiations continued. By August, joblessness in the European Union had fallen to 9.1%, an 8-year low; unemployment was down to a record-low 5.6% in Germany. Euro area consumer confidence rose to a high unseen since prior to the credit crisis, as the summer ended. In September, the European Central Bank (ECB) forecast growth of 2.2% for the region, which could lead the ECB to wind down its longstanding bond-buying effort.

Late in the quarter, China's official statistics bureau projected 6.9% GDP for the year; Nomura, JPMorgan Chase, and Citibank upgraded their forecasts for China's 2017 growth to 6.8%. When it came to India, the outlook was far less rosy; as the third quarter ended, the Asian Development Bank cut its GDP forecast for India's current fiscal year by 0.4% to 7.0%, and Fitch Ratings slashed theirs by 0.5% to 6.9%. Particularly alarming was news that the Indian manufacturing sector had advanced only 1.2% year-over-year through July.

### WORLD MARKETS

As September's final trading day ended, 13-week (quarterly) gains were widespread among foreign benchmarks. The MSCI Emerging Markets index surged 7.02% in the third quarter. Not far behind was the Hang Seng; Hong Kong's index soared 6.95%. The Shanghai Composite rose 4.90%. MSCI's World Index posted an advance of 4.39%.

Quarterly improvements also occurred for the CAC 40 in France, which added 4.08%, and the DAX in Germany, up 4.09%. Canada's TSX Composite rose 2.98%; Japan's Nikkei

**Quarter in Review,** *continues on page 4*

**Quarter in Review,** *continued from page 3*

225, 1.61%; India's Sensex, 1.45%. The United Kingdom's FTSE 100 gained 0.82%. Australia's All Ordinaries was an exception, putting up a third quarter loss of 1.11%.

**COMMODITIES MARKETS**

The U.S. Dollar Index weakened by another 2.66% in the third quarter, yet the broad raw materials market did not rally strongly in response; although, select futures did. Heating oil made the biggest advance among notable commodities, rising 21.9%. Elsewhere on the NYMEX, oil added 12.2%, closing at $51.64 on September 29.

Gold fell after hitting an YTD peak in the quarter, but ended the third quarter at $1,284.80, its lowest close in more than a month. The yellow metal rose 3.4% in the third quarter. Silver prices increased only 0.3% to $16.68 across the quarter. Platinum went up 1.2%; palladium, 12.0%. Amid the base metals, zinc gained 15.0%; aluminum, 11.4%; copper, 9.2%. Cocoa stood out from most other crops with a 7.4% advance. Wheat lost 12.3%; cotton, 8.3%; corn, 4.1%. Natural gas ended up losing just 0.86% in three months.

**REAL ESTATE**

Prospective home buyers looked around and saw fewer homes on the market in the third quarter, along with fewer homes they could actually afford. According to the National Association of Realtors, the median existing home sale price in August was $253,000. The latest available edition of the 20-city S&P/Case-Shiller home price index (July) showed prices advancing 5.9% annually.

By August, the NAR reported that existing home sales had declined in four of the last five months. They were down 1.3% in July and another 1.7% a month later, with the sales pace reaching a 12-month low. The Census Bureau's picture of new home buying was no better: a 5.5% stumble for new residential sales in July, a 3.4% dip in August.

Between June 29 and September 28, fixed-rate home loans grew slightly more expensive, according to Freddie Mac's Primary Mortgage Market Survey. On September 28, the survey showed the following interest rates: 30-year fixed, 3.83%; 15-year fixed, 3.13%; 5/1-year adjustable, 3.20%. The numbers from the June 29 snapshot: 30-year fixed, 3.88%; 15-year fixed, 3.17%; 5/1-year adjustable, 3.17%.

**LOOKING BACK…LOOKING FORWARD**

Tech shares and small caps outran the blue chips across summer, but not by much. During a fine quarter for U.S. stocks, the Russell 2000 nearly matched the gain on the Nasdaq, rising 5.33% and taking its YTD advance to 9.85%. The CBOE VIX volatility index fell 14.94% in the third quarter, putting its YTD loss at 32.26%. On September 29 at the closing bell, the key benchmarks settled as follows: Dow Jones Industrial Average, 22,405.09; S&P 500, 2,519.36; Nasdaq Composite, 6,495.96; Russell 2000, 1,490.86; CBOE VIX, 9.51.

Investors think of the fourth quarter as a "sweet spot" for the market, and they can cite history to affirm their belief. Since 1950, the S&P 500 has advanced in 79.1% of fourth quarters. Its average fourth quarter performance from 1950-2016: +3.9%. Both the Dow and S&P are entering the quarter on 6-month winning streaks, and bulls seem to be okay with the prospect of a fourth quarter rate hike and the Federal Reserve thinning its bond holdings. Then again, there is no sure thing on Wall Street. As an example, September has long been characterized as a bad month for equities, but that was not the case this year. Confidence is certainly abundant and anticipation is high as a new earnings season begins, and if history repeats itself, 2017 will go into the books as a strong year for U.S. equities.

| % CHANGE | Y-T-D | Q3 CHG | 1-YR CHG | 10-YR AVG |
|---|---|---|---|---|
| *DJIA* | +13.37 | +4.94 | +23.49 | +6.12 |
| *NASDAQ* | +20.67 | +5.79 | +23.28 | +14.05 |
| *S&P 500* | +12.53 | +3.96 | +17.12 | +6.50 |

Sources: wsj.com, bigcharts.com, treasury.gov – 9/29/17
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

## *When a House is a Home and Real Estate is an Investment*

**By Paola Bruening**

When buying a home are you really making an investment purchase? If you buy a home to flip it or buy it as a rental property, the answer is yes. If you buy a home simply to live in it, the answer may be no.

Your home is an expression of your lifestyle, a wonderful setting for your life, and a place you can enjoy in privacy and comfort. As an investment, though, it is essentially illiquid, and its rate of return is never certain.

Home values do not automatically increase with time as many buyers learned during the Great Recession. Simply using the S&P/Case-Shiller home price index as a barometer, house prices today are roughly where they were in 2007. It has taken the residential real estate market a decade to recover from the mortgage meltdown.

Over the years, real estate values have risen, and they will probably keep rising for the near term – but perhaps, not as quickly as some buyers hope. Why, exactly?

Home prices are inexorably linked to wages. Over the past year, hourly earnings have grown 2.5% with an unemployment rate at 4.3% as of May 2017. This has mystified many economists and frustrated others. Normally, when the jobless rate is below 5%, there is much greater wage growth. For example, six months before the start of the Great Recession (March 2007), the unemployment rate was 4.4%, and wages were growing at 4.2% a year.

Ideally, wage growth keeps pace with rising real estate values. That correlation is not happening now. In the past year, the 20-city S&P/Case-Shiller home price index has shown home values appreciating at a rate of between 5.5-6% annually. If real estate values continue to climb 6% per year and wages rise just 2.5%, you will soon see buyers priced out of the market – unless, of course, home prices drop because sellers can no longer get the prices they want. However, another variable is the increase in foreign purchasers buying property as an investment or to rent, specifically, in our large cities. These variables should be taken into consideration by sellers (and buyers).

The fact is, stocks have appreciated more than real estate in the long run. Through the decades, home values have increased about 4% annually and stocks have increased about 10% annually (albeit with some remarkable year-to-year volatility).

> "Home values do not automatically increase with time as many buyers learned during the Great Recession."

Stocks do not need upkeep. Houses need myriad repairs with time, and repair costs can eat into your gains. You must also pay property taxes. If you envision your home as an income-producing asset, that means playing landlord on some level. Many homeowners are not ready to take that step.

Remember that home values tend to rise gradually. If you see your home as an investment, see it as a long-term one. Staying put ten years or more before selling or trading up could help you realize the kind of financial outcome you desire.

We incorporate strong leadership with scalable operations to maintain profitability, so our clients can have faith in our longevity.

-Kendall Capital Value Statement #6

## Should You Look at Insurance as an Investment?

**By Carol Petrov**

Is a permanent life insurance policy an investment? Within the financial planning academic community there are varying opinions. We are of the opinion that term and permanent life insurance are tools to meet the long term goals of individuals and families.

A life insurance policy offers a death benefit in the form of immediate cash, and tax free if structured correctly, which can help maintain a household and pay off debts. If you have a net worth over $5 Million, it can help heirs pay estate taxes, too. If anything is left over, the death benefit would provide an inheritance. In a business context, it helps a company weather the loss of a key employee or fulfill a buy/sell agreement.

> "A life insurance policy offers a death benefit in the form of immediate cash, and tax free if structured correctly, which can help maintain a household and pay off debts."

So, assuming you conclude there's a need, do you want to pay for pure, inexpensive term insurance which you may cancel once the term is up? Do you want to pay for insurance that lasts your lifetime? If so, then the next question is do you want this permanent life insurance to also act as an investment for you or your heirs to spend on a tax free basis? It's the latter option which we'll discuss here, called Variable Universal Life Insurance or VUL.

Some financial advisors draw parallels between a VUL and a Roth IRA. Because permanent life insurance is usually paid for with after-tax dollars which also go into Roth IRAs. Permanent life insurance policies have cash value associated with the policy that grow on a tax-deferred /tax free basis. When comparing only these features, a universal life policy may seem akin to a Roth, but in reality, premiums are divided between the cost of the life insurance and the amount that gets invested in a specified line up of mutual funds called "cash value." This is why the premiums for VULs are higher than the premiums for a Term life policy – because you're paying for the ability to invest and have permanent insurance.

Often, customers will accept less death benefit in order to stay in a comfortable cost range for these policies and lose sight of the primary reason for life insurance in the first place. In reality, their needs will likely decrease as their children grow up and they pay off their mortgages, so they can always decrease their amount of life insurance and pay a lower premium. However, with VULs, the cost of life insurance goes up with age so they often just stop paying the premium. This is foolish, not only because they'll have zero life insurance coverage, but because if they chose that product for the tax-free investment, they've lost that, too. Whereas if they had been investing in a Roth IRA, they'll still have that asset to spend or pass on to their heirs.

The key issue is separating the needs for life insurance and the desire for tax-deferred or tax-free investments. As a Kendall Capital client, if you have a policy like the one we described and would like us to evaluate it with you, please let us know. As always, we will be happy to review your insurance needs and goals, while giving you honest advice as your fiduciaries.

## A Friendly Reminder of What to Do with Suspicious Emails

Recently, we have had a number of clients reach out to us with concerns about an email they had received from a sender claiming to be Schwab, TD Ameritrade or another financial institution. We want to remind you that if you receive a suspicious email, please do not click on any links or forward the email directly to us.

If you would like our input, please take a screenshot of the email and send the screenshot to us for our review. Alternatively, a quick way to find out if the email is spam or a phishing attempt is to hit "reply." If the email address is does not appear to be anything close to the financial instiution claiming to have sent the email, it is very likely spam or a phishing attempt.

You may also reach out to the financial institution claiming to have sent the email to find out if they have, in fact, sent you an email. If they have not, the financial institution may ask that you forward the email or send a screenshot to their fraud department for their review.

## *Tax-Loss Harvesting*

**By Jason Tkach**

If the stock market maintains its current status, it looks like 2017 will end up being a very good year. Consequently, depending upon when you have most likely realized capital gains for a host of reasons. What will we do about them? Going into the end of the year, we will implement various strategies for your short and long term benefit.

Throughout the year, we look for opportunities to sell losers to offset winners in our clients' portfolios, a practice called tax-loss harvesting. Tax-loss harvesting means taking capital losses (selling securities worth less than what you first paid for them) to offset the capital gains you have amassed.

While this doesn't eliminate your losses, it can mean immediate tax savings. It can also help us diversify your portfolio. Many times this will help us to position your portfolios for better long-term, after-tax returns.

The major reason we utilize tax-loss harvesting as an investment strategy is for the tax-saving potential. Up to $3,000 of net capital losses can be deducted against earned and unearned income annually, and any losses above that can be carried forward to offset capital gains next year.

So, by taking a bunch of losses this year, and carrying over the excess losses into 2018, you can potentially shelter some (or maybe all) of your long-term and short-term capital gains next year. This gives you a chance to shelter winners you've held (even for less than a year) from being taxed at up to 39.6%.

An example of how we utilize this strategy is really quite simple. Let's say we purchase a mutual fund and find that come the end of December, the value has declined. If that mutual fund passed along capital gains to you in the form of a "distribution", we would sell that fund, realize the loss to offset the capital gains distribution and reinvest the proceeds in a similar ETF or mutual fund. These capital gains distributions are passed along to the investor whether they want them or not and thus is taxable to them. So, if we can realize a loss to offset that distribution, it helps manage our client's overall tax burden.

During this process, we watch out for the IRS "wash-sale" rule. You can't claim a loss on a security if you buy the same or "substantially identical" security within 30 days before or after the sale. In other words, we can't just sell a security to rack up a capital loss and then quickly replace it with the same thing.

Keep in mind, the wash-sale rule applies to all of your taxable holdings whether owned individually or jointly. If you sell a loser and your spouse purchases the same investment within that time frame, you violate the rule. This rule also applies to holdings in an account owned by a corporation under your control.

While tax-loss harvesting is often a year-end tactic, it can be a year-round strategy. If you are interested in finding out more about how and why we implement this and other tax saving strategies, please give us a call. We will work closely with your CPA or tax preparer to help you take advantage of these and other wealth management strategies.

CFA Institute

***Congratulations to our Portfolio Specialist, Jason Tkach, who became a CFA® charterholder in August 2017!***

## *Best Practices for Talking to Your Kids about Your Wealth*

Are you a Middle Class Millionaire? If you have children, at some point they may discern how wealthy you are – and in turn, learn how "rich" their parents are. How will you handle that moment? How will they handle that knowledge?

We all know (or have heard) about children from wealthy families who grew up to become opportunistic, materialistic, and unmotivated young adults living off their parents' largess. Other children learn to treat family money with respect and admiration, recognizing the role it plays for the family, while glimpsing its potential to help charities and the community.

What accounts for the difference? It may boil down to values. When the right values are handed down, a young adult is poised to hold wealth in high regard and receive it with maturity. The key issue here is to talk with your children about how you amassed your wealth and how they may be able to create their own success and in turn also create wealth.

It is not uncommon for Middle Class Millionaires to never tell their children how wealthy they really are, and this withholding of information can be risky. In hiding the details and avoiding the talk, parents may see a child grow into a young adult who is ill-prepared to understand and manage wealth.

A good first step is to set financial expectations for your children. After your kids learn how wealthy you are, they may expect your money to play a financial part in their personal lives, especially in adolescence. Tell them, frankly, what you are willing or not willing to do and why. Help them understand your thoughts, so you can answer common questions like when will the family wealth come into their lives? Will you want to fund their college educations, or help them with car payments?

You can help them see that wealth has meaning. We sometimes like to ask our clients the question, "what does having money mean to you?" In other words, what should that money accomplish? What dreams should it help you pursue, and what fears or worries could it be used to address? How does having money fit into your vision of success – is it integral to it or inessential to it?

It has been said that money never transforms character; it simply reveals it. The responsibility of handling wealth amounts to a test of character. Thoughtful conversations with your children about the meaning of wealth may help them pass that important test when the time comes.

600 Jefferson Plaza
Suite 410
Rockville, MD 20852

phone: 301.838.9110
fax: 301.838.9113
toll free: 877.260.7935

info@kendallcapital.com
www.kendallcapital.com

Chief Investment Officer . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Clark Kendall
Relationship Manager & Financial Planner . . . . . . . . . . . . . . . . . . . . . .Carol Petrov
Portfolio Manager . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Paola Bruening
Portfolio Specialist . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Jason Tkach
Client Service Associate . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Madolynn Morken
Accounting Associate . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Zemin Zhu
Marketing Specialist . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Diane Kendall

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