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Look Back - 3rd Quarter 2014

"The usual bull market successfully weathers a number of tests until it is considered invulnerable, whereupon it is ripe for a bust." – George Soros (Financier, philanthropist, political activist, author and philosopher, born 1930)

The third quarter 2014 started off with several foreboding global events: A Malaysian Airlines passenger jet was shot down by a Russian surface to air missile over the Ukraine on July 17. Intense fighting between Israel and Hamas continued throughout the month of July forcing a temporary shutdown of the Tel Aviv international airport and the Islamic State (ISIS) seized control of extensive territory in Iraq and Syria. Significant oil producing areas were included in this captured territory. Yet, in spite of this turbulence and uncertainty, the stock and bond markets remained relatively calm. U.S. stock market indices rose modestly on improving economic data while developed international markets and emerging markets experienced some decline.

That being said, the third quarter scorecard tallied the following returns: The Dow Jones Industrial Average was up +1.3%. The S&P 500 came in at a little less than half the DOW with a return of +0.6%. Although not by much, the tech heavy NASDAQ won top honors among the "big three" with a gain of +1.9%. Compared to the outsized gains of the 3rd quarter 2013, this year's performance was relatively small.

Historically, in most quarters that show market gains, mutual fund returns follow in kind – but not this quarter. The average U.S. Stock Mutual Fund declined in the third quarter 2014 with an average performance of -1.9%. If you are scratching your head and asking how that could happen when the DOW and S&P 500 were both up, here is the answer. The DOW and S&P 500 are made up of large company stocks. Large company stocks and large company mutual funds (which are made up of large company stocks) were generally up. However, in addition to large company funds, the U.S. Stock Mutual Fund category as reported also includes mid-size and small-size company funds. These smaller companies/funds had mostly negative returns. As an example, the Small-Cap Value category was actually down -7.1% and Mid-Cap Core was down -3.3% for the quarter. Hence, the blended average of these funds gave us the negative average return. In the bond category, the Average Taxable Bond Fund was down -.8% for the quarter. (Wall Street Journal, October 4-5, 2014.)

In any quarter, there are almost always winning and losing categories. The Health/Biotechnology Sector produced a solid +4.5% return for the 3rd Quarter. That was the only sector listed in the Wall Street Journal with a positive return. The biggest loser was the Natural Resource category with a -10.3% return. Gold Oriented Funds were down a whopping -19.0% for the July, August, September time period.

In mid-September I had the good fortune of attending the Ceros yearly financial conference in Washington D.C. It was fun to meet the customer service reps that I interact with on a daily basis. There really are faces and personalities behind the emails and phone calls that are exchanged. However, what initially drew me to the conference was the day and a half presentation by a gentleman named Michael Price. Michael is a retired Navy man living in Pensacola, Florida who is now in his mid-seventies. As a very successful money manager who runs four hedge funds and one mutual fund, Michael is one of the legends in the money management world. His total funds under management are around $600,000,000. Yes, six-hundred million dollars. Amazingly, he works from his house with a staff of five people. Michael is a very down to earth individual and I had the opportunity to sit at his dinner table one of the evenings. I discovered that he has an interest in chestnuts so we had a great time discussing money management and chestnut culture.

I have been receiving Michael's investment newsletters for several years now and jumped at the chance to listen to his story first hand and in person. He took us on an experiential journey of his years in the business discussing the things that went well and the areas that he would have changed. In the money management business, you either manage for risk or you manage for opportunity. Michael manages for risk and he told us that he had not done very well the last year. He also said that he would continue to manage for risk despite his recent poor performance. Michael indicated that implementing a reasonable risk management practice has been both difficult and frustrating as of late. However, at some point, the distortions in the market resulting from the Federal Reserve's grand monetary experiment will end and managing risk will matter again. It was an inspirational story and I can relate to what Michael is saying!

Hope that you have enjoyed the spectacular colors of nature's paint brush called autumn. We all know what is coming next. This month's guest article from the Financial Planning Association is directed to the ladies and discusses why financial planning is so essential for women. Hope that it contains some good tips for you. Happy Halloween - Take good care!!!

Women: Make a Financial Plan -- the Secret of Your Success

The gender wage gap, longer life expectancies, and potential retirement funding shortfalls are just a few of the factors that underscore women's need to plan ahead. A financial plan that includes long- and short-term goals is a must for everyone. Women, in particular, need this type of comprehensive financial planning.

Financial planning is more than just a good idea. Research has consistently shown that people who have financial plans -- and who work with financial advisors -- save and invest far more and are nearly twice as likely to feel on track or ahead of schedule in preparing for major financial goals, such as retirement.[1] While having a financial plan is important for everyone, it is especially so for women. The gender wage gap, longer life expectancies, and potential retirement funding shortfalls are just a few of the factors that underscore women's need to plan ahead

Defining Priorities
The first and most important step in the planning process is defining your life priorities -- and then setting financial goals to support them. Once goals are set, you'll need to evaluate your current financial situation in terms of cash flow and budgeting, assets and debts, and then develop a realistic investment strategy for meeting your goals. This strategy should be based on your personal circumstances, including your risk tolerance and investment time horizon.

Asset Allocation Is Key[2]
Your asset allocation -- or the way you divide your investments among stocks, fixed-income securities, and cash -- plays a pivotal role in your financial plan, because the investment decisions you make over time will have a direct effect on your ability to meet your goals.

If, for instance, your primary goal is retirement, a significant portion of your portfolio should be in investments with the potential to grow over time, such as stocks or diversified stock mutual funds, ideally through tax-sheltered retirement accounts.[3,4] If buying a vacation home is a shorter-term goal, consider including taxable -- but more liquid -- growth-oriented elements in your investment mix.

Financial planning is an ongoing process. That's why you'll need to monitor your investments regularly and make adjustments as needed to reflect changes in your life, the economy, or the stock market.

Other Planning Considerations
In addition to managing your investments, consider other financial needs, such as insurance. Life insurance, which helps provide financial security in the event of a spouse's death,[5] and long-term care insurance, which protects individuals with disabilities or chronic health conditions from the high cost of long-term care, are both important considerations for women.

Finally, no financial plan is complete without an estate plan. Estate planning helps ensure your assets are distributed according to your wishes after your death. At a minimum, your estate plan should include an up-to-date will, a durable power of attorney, a living will and possibly trusts, which may help minimize your estate's tax liability.

If you are ready to start planning for your financial future, contact a financial advisor. Together you can evaluate your current situation, create a plan, and keep it on track as circumstances in your life change.

References:

[1]Insured Retirement Institute, news release, "Investors Better Prepared for Retirement, Still Lacking Financial Knowledge," August 19, 2014.

[2]Asset allocation does not assure a profit or protect against a loss.

[3]Investing in stocks involves risks, including loss of principal.

[4]Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

[5]Life insurance policies are subject to substantial fees and charges. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy's death benefit and cash surrender value, and have tax consequences if the policy lapses.

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