

2014 Third Quarter Investment Commentary

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Our correction finally arrived, setting up a base for further stock price appreciation. We didn't write that it would be a joy ride.

“Let us not seek the Republican answer, or the Democratic answer, but the right answer. Let us not seek to fix the blame for the past. Let us accept our own responsibility for the future.”

- John F. Kennedy

“If Keynes were alive today, he might be warning of a repeat of 1937, when policy mistakes turned a promising recovery into history's worst double dip.”

- Peter Coy of [Bloomberg Businessweek](#)

“If you get outside the partisan boxes, there's a completely obvious agenda to create more middle-class, satisfying jobs. The federal government should borrow money at current rates to build infrastructure, including better bus networks so workers can get to distant jobs. The fact that the federal government had not passed major infrastructure legislation is mind-boggling, considering how much support there is from both parties.”

- David Brooks in [The New York Times](#)

“There are still too many people in America who regard depressions as acts of God. I think Keynes proved that the responsibility for these occurrences does not rest with Providence.”

- Bertrand Russell

“On a routine day, many Americans, for as much as they say otherwise, really don't want to be informed so much as to be confirmed in their political biases.”

- Leonard Pitts Jr. of the [Miami Herald](#)

At the end of September the major averages bettered some of our accounts due to the hit we took during this correction. Nevertheless, we held up much better than the Russell 2000, which was down 5%. The DJIA was up 2.09%, the S&P 500 up 6.04% and the NASDAQ up 7.16% through September 30th. We'll catch up once money finds its way back into the smaller companies.

I wrote previously that we were overdue for a correction. It finally arrived proving to be short and sweet. This played out according to script, beginning in August and ending in October. After the DJIA hit its 66th new all-time high of 17,138 on July 16th it fell to 16,368 on August 7th, then resumed its upward advance to 17,280 on September 19th only to fall again to closing low of 16,117 on October 16th. The bloodletting ended on huge trading volume on Oct. 15th, the highest since October 2011, as the DJIA fell to an inter-day low of 15,855 before closing at 16,142. After the 16th, stock prices headed up again to a new all-time high of 17,391 on October 31st. The S&P 500 and other indexes follow a similar pattern with the Russell 2000 correcting the most, by falling over 12% during the downturn. The S&P 500 closed above 2000 for the first time ever on August 26th with its close of 2000.02, its 75th all-time new high this year.

You've experienced this volatility many times over the years, and as I've written before, we should be accustomed to this by now. We used the downturn, as I wrote that we would, to accumulate stocks that we believe are good long-term investments. You see these purchases in your account on your monthly brokerage statements. We moved most of the cash that we've been accumulating in small accounts into small cap value mutual funds. We are most certain that the correction is over and believe that stock prices will trend upwards through the end of this year and most likely beyond. Enjoy the ride.

Today is Election Day. I hope you participated. Without tipping my political leanings, which turn with whoever will assist in delivering purposeful collaboration towards a world in which everyone has the opportunity to thrive, I implore us all to elect intelligent Americans to represent us. Now I know that intelligence may be defined differently by each of us, and I don't have the space to go into a full blown essay over the many forms of intelligence as defined by people like Howard Gardner or G. I. Gurdjieff, but I know for sure that we need a better range of intelligence in our congress, both on state and federal levels, than what we have now. Think about this: Our country has huge infrastructure needs. We could borrow today at historically low interest rates, low labor rates and low raw material prices to upgrade our facilities. Doing so would move our nation into a state-of-the-art position in infrastructure. Furthermore, doing so would move thousands of Americans off of unemployment and onto the tax paying rolls, including the Social Security Trust Fund. Additionally, doing so would stimulate creativity among we citizens as we work together to get the job done, as well as improve our job skills. Are we doing this? No, and why not? Ask your elected representative. Meanwhile, the Chinese have built the best speed train system on earth and recently contracted to do the same in Mexico. Instead of working smartly, some of our elected representatives in Washington spend their energy shutting down our government and building walls along our borders and between collaborative action.

We will solve all of the social and economic issues before us when we step away from ideology and move forward together. "Sa each his own," as my father-in-law used to say and this has been the magnificence of America. We live together well when we respect the differences among us and help each other. Saying "Yes" rather than "No" opens up worlds of possibilities. The United States needs representatives in our legislators who will say "Yes" and then make it happen. We grow poorer each month we delay constructive, positive collaboration.

We continue to believe that our nation, and our world, moves towards a better place, despite ISIS, Ebola, rampant ownership of firearms, extremists' of all stripes, political morons, 24/7 negative newscasts, U.S. gangs and hatemongers, The Middle East mess, Vladimir Putin, Mexican drug lords and the great sucking American drug addiction, disparity of wealth world-wide, U.S. underemployment, our failure of Congress to implement fiscal stimulus and infrastructure funding, lagging personal income growth, Ferguson, Missouri and whatever else keeps a lid on progress. The grind out from the morass of 2008 has not been easy and is still unfolding. Inflation is still low, unemployment is decreasing (falling to 5.9% through September from 6.7% at the beginning of the year), interest rates remain at historic lows, Leading Economic Indicators and Coincident Economic Indicators continue to improve, the NAHB/Wells Fargo Housing Market Index (HMI) continues to advance, GDP expanded at a 3.5% annual pace in the 3rd quarter following a 4.6% advance in the 2nd quarter, corporate earnings and profits continue to improve, oil prices are falling (a barrel of oil traded for about \$76 this morning-this is better than a tax cut and puts extra cash into everyone's pockets), rail traffic, as reported by the Association of American Railroads, increased by 4.4% through September 30th vs. the same period last year. With the elections behind us, another layer of uncertainty leaves and we enter into what the Stock Trader's Almanac calls the best six months for investing (Nov. through May). Enjoy the ride!

I recently read an article by Barry Ritholtz, an investment maven and author, entitled, "*Even if you can pick them, you won't keep top stocks*" in The Washington Post. He relates the tales of five hot stocks, Apple, Google, Tesla, Netflix and Chipotle, and their phenomenal growth since their initial public offerings. While their rides each have been stupendous IF one held their positions from the start to today, the volatility over their history was severe enough to have scared most investors out of the stocks at one time or another. Apple, for example, has lost 25% or more six times in the past ten years. During each of these drops, most investors dumped their shares in a panic. Others sold after reasonable gains of say 30% or more. The same pattern follows with the other four winners. He describes how the human brain isn't built to sustain investments due to fear of holding too long, both to the upside and downside. "As I shall show you, each of these companies would have sent you running for the exits, repeatedly, over the years screaming as if your hair were on fire," he writes. I'm sure you can Google the full article if you're so inclined. It does provide grist for thinking and pondering, especially after the dramatic, but short, drop we just lived through.

Thank you again for your business and confidence. We look forward towards the close of the year.

