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2015 3rd Quarter Investment Progress Report

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By Michael J. Porro, CFP, EA

"Because something is happening here, but you don't know what it is. Do you, Mr. Jones?"

-Bob Dylan

We have market indexes hitting new highs, but closing down for the year through Sept 30th. Our DJIA, for example, closed at its all-time high of 18,312 on May 19th, but is down -9.08% through September. Many individual investments, especially those out of the indexes or the range of Robo-Traders, are trading near prices we haven't seen in years. Oils and related stocks, emerging markets, some of the technology positions and those of Brazil are included in this group.

The world continues to struggle with the fallout of the 2008 financial debacle, China GDP slows, economies that depend on natural resources to power their growth grasp for breath, the Middle East crumbles under the violence of warfare, Syrians seek refuge from almost certain death, Greece continues to teeter, Ukraine bleeds (out of the headlines, but bleeds nevertheless), Europe continues to muddle through as the Euro Central Bank drops rates to less than 0% while the United States stands up as the best of the worst. Our Fed postpones an increase in the Fed Funds rate (again) on fear of upsetting the global recovery and deflationary trends. Buddhists in Myanmar are advocating violence. What is happening in this world and how do we make sense of it all?

We finally had our overdue correction in August and September when the DJIA touched 15,370 during trading on August 24th, 16% lower than its all-time closing new high of 18,312, then a rebound to 16,285 by the end of the quarter. While, our markets could experience further downward pressure should our elected bloats in Congress choose to shut down our government again like they did in 2011 and 2013 which wounded progress made earlier in the year, we believe that the worst of this correction is over and the bull market shall continue. We do not believe that a recession in the United States is on the horizon for the following reasons: a) Inflation is virtually dead. CPI year-over-year measurements currently stand at 0.2%, one of the lowest readings in the past fifty years; b) Employment is steadily improving; new jobs have been created at a pace of over 200,000 per month since the beginning of the year. 3.1 million new jobs were added last year and another 2.5 million are anticipated for this year. Unemployment, at 5.1%, is the lowest since April 2008. Underemployment

remains elevated at 10.3%, but this helps keep a lid on accelerated wage growth and subsequent inflation; c) Initial claims for unemployment four-week moving average remains near its lowest level since the spring of 2000. This low level of initial claims suggests that the risk of recession remains very low; d) The yield curve is not inverted. This occurs when the short term rates are higher than long term rates indicating an abnormality and a looming recession. The current upward sloping yield curve is a positive for economic growth; e) The Leading Economic Index continues to improve. While advancing a modest .01% for August, this index is still up 4.4% year-over-year. Additionally, housing continues to move forward, as the NAHB/Wells Fargo Housing Markey Index (HMI) increased to 62 in September. Readings above 50 are positive. This is the highest reading since October 2005. Sales of new homes increased 21.2% through the first half of 2015. Also, single-family permits are now at their highest level since January 2008. So, while the global worries can drag us down, let's not lose sight of the positives that are overshadowed by the negative circumstances that surround us. The "worst six months" of the investment year are ending as October draws to a close.

We added cash into the market during the pullback, just as we had planned. So far, these have worked out for us, as the markets shot up from those August lows. The DJIA, for example, closed at 17,623 today, October 26th, much improved from those 15,000 ranges in August. We believe that the Bull is intact and that the August-September pullback was a healthy dynamic for further gains in equity values. This will not be a clean ride higher and should be froth with uncertainty and volatility, but this action is what makes a bull market. We ride higher on the wall of worry. Bull markets end in euphoria, said John Templeton. We are a far cry from such euphoria today.

We enjoyed two additional takeover announcements during the quarter: EZchip by Mellanox for $25.50 a share (not enough in our opinion) and PMC Sierra, still in the midst of a takeover battle, for over $10.50 a share. These, both up over 26% for the year, offset the negative returns of our oil related and out-of-sorts technology positions. The current unrealized losses in these investments continue to hurt our overall performance now. They should turn one of these days. I note that shortly before the recent takeovers of EZCH and PMCS these stocks traded down to $14.30 (on May 13th) and $5.65 (on August 24th) respectively. Value inherent in our investments is not always reflected in their day to day stock prices.

"There is no great secret in fortune making. All you do is buy cheap and sell dear, act with thrift and shrewdness and be persistent." **-Hetty Green, The Witch of Wall Street**

We intend to accumulate natural resource stocks during the ensuing months while they are cheap and out of favor with the investment community at large. We will also add to our selected mutual funds in order to broaden out our exposure to market advances.

We've included your Progress Report through Sept 30th and also Year-To-Date. As you can see the value of your account increased substantially since September 30th along with the market rebound. I think it important to keep things in perspective: investing is a long range venture and a focus on the value of your account on one day of a given period will distort the long-range returns of your portfolio, especially when that one day is a down day for the markets.

Please give us a call should you wish to discuss any aspect of your investment program with us. As always, we enjoy hearing from you.

Thank you again for your continued business and confidence.