

2nd Quarter Investment Commentary

By

Michael J. Porro, CFP, EA

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“This country works. It works in a way that blows the mind. In the 20th century, the Dow went from 16 to 11,400 and we had two world wars and a Great Depression.....Your children are going to live better than you if we elect three bad presidents in a row.”

--- Warren Buffett, Chairman Berkshire Hathaway

(Interesting commentary about the US presidency, but remember Mr. Buffett isn't always right and who sits in that office will make a difference. Please plan to vote smart. The points I am attempting to make are that fortunately for us, our country is structurally broad and diverse enough to withstand many mistakes and that when placed in proper perspective: things are better than some would have us believe.)

“Morality binds and blinds....It binds us into ideological teams that fight each other as through the fate of the world depended on our side winning each battle.”

--Jonathan Haidt, author, [The Righteous Mind](#)

“Facts don't necessarily have the power to change our minds. In fact, quite the opposite. In a series of studies in 2005 and 2006, researchers at the University of Michigan, found that when misinformed people, particularly political partisans, were exposed to corrected facts in news stories, they rarely changed their minds. In fact, they often become even more strongly set in their beliefs. Facts, they found, were not curing misinformation. Like an underpowered antibiotic, facts could actually make misinformation even stronger.”

-- Joe Keohane, the Boston Globe 2010

The second and third quotes above help set the table for the months ahead as we engage in our presidential election. I have clients, friends and family on both ends of the political and religious spectrum and scattered in between, so I do my best to keep my own leanings close to the vest. I believe that we must all rise up higher than our individual selves and opinions and seek the greater good for all. Imagine that we all are wrong in our opinions and that a new way of seeing and greeting the world does exist. In typical win-win bargaining style if we answer what our world could be and define how to get there, we may survive the extremism that has taken a chokehold of our country and world. So, maybe these quotes help us ponder how we move forward. It all matters to our financial and spiritual security.

What a year thus far. We had the “end of the world” again and the stock market selloff in February, the Brexit vote and another market selloff in June. Terrorist attacks worldwide, most notably those in the US, France, Turkey, Iraq, Pakistan and Afghanistan. The unfolding of the US Presidential election begins to dominate domestic headlines. China rattling sabers for dominance of the China Sea. While our US stock market indexes, the Dow Jones Industrial Average and the S&P 500, closed at new all-time highs in early July. Whatever happened to “sell in May and go away”?

We are pleased to report that it appears the washout in the oil related and mineral related stocks has reached its bottom and commenced a recovery over these past six months. Having endured the loss in value in these sectors since mid-2014, this is a welcome relief. Our portfolios again found that our individual stock picks performed better than our mutual fund holdings. Back on track, our faith in the art and work of investing has been restored, at least for the present. This recovery has boosted the returns on most of the accounts that we manage above those of the indexes and the mutual funds that we hold. Our accounts are up an average of 4.4% YTD through June 30th and up 1.6% for the second quarter. Year-to-date, the DJIA rose +2.90%, while the S&P 500 +3.84%, the Russell 2000 +2.40% and the NASDAQ actually fell -3.29%.

We used the market selloffs in February and June as opportunities to again purchase positions in several companies that we sought to own. In retrospect, since the markets are up since those points, we didn't buy enough and missed several that we wanted. But in never knowing when we take action how such decisions will actually pan out, we exercised caution. In the second quarter we bought shares in Abbott Labs, Illumina, Great Batch, Hormel Foods, Blackstone Group, NXP Semiconductor, Corning, Sensata Technology and Johnson Controls. The takeover of our position in Newport closed in May and finally some of the cash for the EZChip takeover was deposited into some of our accounts in early June. (**Note:** This takeover closed in February; however, we still await the cash to be deposited into most of our accounts. The value of these shares, at \$25.50 each, still is not reflected on your Schwab statement. The reports enclosed with this letter reflect the correct value of your portfolio as of June 30th). During the quarter we sold our shares in Spyglass Resources. This one-time “promising and undervalued” investment in the Canadian oil sands couldn't withstand the severe drop in oil prices. We realized our losses and moved on. Sorry, we can't win them all.

We added two mutual funds to our accounts during the Brexit sell-off on June 24th. These were John Hancock Tax-Advantaged Dividend Income Fund (HTD) and Vanguard Total Stock Market Index Fund (VTI).

Going forward we continue to see gradual global improvements in the world's economies. I prefer slow moderate economic expansion rather than robust rapid growth. I suppose one benefit of the 2008 financial calamity is the setup for slower global growth going forward. Despite all of the bad news that continues to dominate the news headlines, we have many positive developments unfolding on our planet. Let me site a few:

- 1) Human life spans are the longest in history;
- 2) Worldwide standards of living are the highest in history;
- 3) American workweek of 34.4 hours has never been shorter;
- 4) Productivity has never been higher;
- 5) Communications have never been faster;
- 6) Worldwide travel and communication have never been easier;
- 7) Violent crime in our cities is in a long-term cycle of decline (we would never know this from the recent headlines);
- 8) The essentials of life- food, clothing, energy and shelter- have never been more affordable;
- 9) We, in the US, are finally weaned off our dependence on foreign oil and will soon be a major exporter of energy;
- 10) The US household net worth hit an all-time record of \$86.8 trillion last year (2015), as reported by the Federal Reserve;
- 11) Breakthroughs of innovation in medicine, genetics, technology and therapies surface monthly;
- 12) World trade is at its highest in history;
- 13) NASA's latest spacecraft, Juno, entered the orbit of Juniper, arriving just one second off of its scheduled arrival time after five years of travel;
- 14) Global interest rates and mortgages are at their lowest, perhaps in history: ten-year US Treasuries yield 1.57% and 30 year mortgages today can be had for 3.5% or lower;
- 15) Home sales in the US increased for the fourth consecutive month.

We really should be looking at the positives, instead of the negatives that fill our 24/7 news media. But alas, why spoil the fun?

In brief, we intend to continue with our plans to collect our dividends and interest as the months roll along and ready ourselves to add to the positions we like during times of market downturns and panic. We believe that the anticipated late summer selloff took place early this year with the drop after Britain voted to leave the European Union. Between now and the US Elections in November, we believe that the equity markets will muddle along. Once the elections are over, the uncertainty of the presidential election subsides and clarity of the direction of our country becomes evident, we will have a move one way or another going into 2017. I know this isn't saying much, of course we will have a move one way or another, but my point is that we anticipate that no dramatic moves in stock market direction until

after the elections. Unless of course we have some sort of a terrorist attack in the US prior to November. That could change the dynamics.

Retirement Cash Flow Analysis

We encourage you to consider using the summer months to update your Retirement Cash Flow Analysis to assure yourself that your financial plans for your future are still intact. Please give us a call to arrange time to undertake this work. We just need from you an update of your expenses, income, assets and liabilities. Let us know that you wish to have us prepare your RFCA (Retirement Cash Flow Analysis) and we'll send along our current records and a work sheet for you to provide updated figures.

As always we thank you for your continued confidence and business. Please make sure to call should you have any questions regarding your portfolio or the direction we plan to take.

P.S.:

Books that I recently read that have proven insightful include:

War by Other Means by Robert D. Blackwill and Jennifer M. Harris, both Senior Fellows at the Council on Foreign Relations offers a perspective on geo-economics and statecraft and our US history.

The Bad-Ass Librarians of Timbuktu by Joshua Hammer offers insight into the history of this one-time center of intellectual thought and commerce, and struck home how nations, cultures and cities can fall from prominence to obsolescence in short order.

A World in Disarray: American Foreign Policy and the Crisis of the Old Order by Richard Haass, who earned his doctorate dissertation the Middle East and has served as President of the Council on Foreign Relations since 2003, offers a comprehensive history of the Middle East and the seeds of the current turmoil facing our world. Any of his books are insightful.

I recommend these to everyone who wishes to broaden their viewpoints on these critical issues before us and to build a foundation for better decisions.

