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Money Managers You Can Trust

October 2014 Thoughts and Insights

As we head into the fourth quarter, we would like to open our letter by reminding ourselves that September and October are notoriously the most volatile months for investing of the year. This volatility, however, is not an indicator that we are headed for a 2008 like crisis. It just means that the opposing forces in the market are causing prices to fluctuate, and it reminds us that a well-diversified and balanced portfolio with a long term view will always fare well during choppy markets.

Let's take a more detailed look at the headlines and the economic forces that we have on our radar, and how they may impact our investment thinking.

On the positive side, the US economy is doing better, and economic momentum is firm. Jobs have had the best pace of growth in 4 years. Capital expenditures are at a 14 year high. US equities are positive for the year and we have maintained a full allocation to our stock holdings in 2014.

Since the S&P 500 and Dow Jones averages did hit all-time highs we should expect a normal reversion to the traditional levels of value, and we welcome what we think of as a normal correction. This healthy price correction is no indication of a looming US recession or a reversal to a long term bear market.

Outside the US, in contrast, multiple risks appear to be rising. Europe is a notable global weak spot with the German economy suffering directly due to sanctions on Russia following the Ukraine situation. The French and Italian economies cannot seem to grow due to heavy budgetary burdens. Despite Mario Draghi and the ECB's commitment to continued quantitative easing to help stimulate growth, Europe may see recessionary and possibly deflationary pressures, which is bad for global growth. We were hopeful that the European stock market would do well following the lead of the US, but since this did not happen we did exit our positions earlier this month.

The US dollar has rallied as a safe haven but a stronger dollar could cause US exports to decline hurting our total GDP growth. However, internal statistics insist that the US consumer is buying more "made in the USA" thus countering any export weakness in the overall economy. Inflation is stubbornly low, holding down wage growth which also holds back domestic growth. We continue to hold our overweight positions in technology and healthcare as both of these sectors have outperformed the market this year.

In their most recent meeting the US Federal Reserve announced that it will continue to hold interest rates down, which signals that the stock market is still a better place to be invested than cash, which earns nothing. We should expect interest rates to slightly rise due to the end of the Fed bond buying this month. We remain committed to our investments in preferred banks stocks and oil and gas pipelines due to their yield opportunities.

Our disciplined approach to asset allocation has proven its merits by providing us with strong performance and smoother returns, without the need for Tums that could have been required following the dramatic swings of the stock market these last few weeks.

As always, we invite you to call or write to talk about anything related to investments, our thinking or about our winning baseball team! Go Royals!

Michelle

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