October 2015 Thoughts and Insights

Q3 was a very painful quarter for the markets with stocks posting their worst quarterly performance since 2011. The S&P 500 was down (-6.9%) and the Dow was down (-7.6%). Among the worries driving the decline are fears that China's slowing growth will hurt the US and global economies, weakness in emerging markets hurting commodities, and rising junk bond yields. Further fueling the selloff was the Federal Reserve's decision in September to NOT raise rates, despite signs of a strong US economy. We were not surprised by the Fed's decision to hold, but we were bewildered by the reasons they gave for their decision. Both the Bernanke and Yellen leadership style is to be openly transparent and data driven. This time around the data was there to support a mild lift off, yet the board chose to wait based on variables that had never before been deemed decision factors.

Given the extreme volatility in the markets, the Fed's decision to "change the rules", and strong technical indicators of further downside weakness in equities, we decided to temporarily reduce our exposure to stocks. We did this via the sale of SCHB, our broad market stock ETF. Furthermore, October is on record as being the most volatile month of the year, in part due to increased activity from mutual funds trading as they position their investments for their fiscal year-end of Oct. 31.

We are still strong believers in the US markets, and we do plan to re-buy our SCHB holding in the next 6 weeks to 3 months. We have held onto all our positions in technology, healthcare, and financials. The energy sector was one of the worst performing sectors for the period (down -18.4%), but we are still holding our MLP's despite price declines. Our energy investments are classified as "mid-stream" pipelines and their business purpose is to transport oil. Their contracts are based on flows and not on the price of oil. So we may endure some paper losses, but these stocks still pay very healthy 5-8% dividends. We do monitor dividend reductions, and if our holdings do reduce their payouts we will revisit our strategy.

With all of this being said, we are now one week into October, and the energy markets have significantly come off their lows. Equities have also rebounded and our portfolios are up on average about +2%, but the markets are still volatile with daily triple digit moves. Last week the Labor Department issued a "bad" jobs report and the market sold off worried about future US growth. However, the next day, the market came roaring back on the idea that not only is the Fed holding rates at zero, but that they may stimulate again. The bottom line is that the equity markets are extremely volatile, and we are comfortable being slightly underweight for now. We look forward to using our cash to buy back in, especially in consumer staples, at cheaper prices.

As for fixed income, our investments are extremely stable. We remain focused on dividends and principle preservation. We sold out of our emerging market bond funds last year, which reduced the volatility in our fixed income portfolios.

The equity performance over the next six to twelve months will be based on the global economy's ability to improve/grow, the stability of US corporate earnings and improved clarity regarding Fed policy. We have not changed our conviction to hold a well-diversified portfolio of stocks and fixed income for the long term.

In other news around the office, Molly is studying hard to become a National Social Security Advisors (NSSA) certified advisor. To earn this designation she will have to complete an extensive course on all aspects of Social Security, and pass a certification test. We will now have an expert on hand to understand and advise on which Social Security strategies make the most sense for our clients, depending on their individual circumstances.

As always, we remain dedicated to the prudent stewardship of your investments. We invite you to call, write, or stop by anytime with any questions you may have.

Michelle

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