

*Building & Preserving Wealth by Design - Not by Chance*

# QUALITY FINANCIAL CONCEPTS

## Doug's Insights

Date: December 21, 2015

Category: Investments

### *Thoughts on The Markets*

#### *“Feds Raise Interest Rates – Selling on the News”*

For most of 2015, the expectation of the markets was continued growth with markets expanding in the high single digits for the year. Clearly, this year has proved to be frustrating. No different than any other year with headlines portraying one worry or another; a crisis here, another overseas. The U.S. economy continues to grow, albeit with less than stellar economic numbers. And for most of the year, we have been in the on again, off again discussion of an increase in interest rates. Finally, last week the Federal Reserve determined our economy was strong enough for it to change their interest rate policy.

For the first time since early 2006, the Federal Reserve Rate was increased with a quarter point rise. Really, only ¼% which in the scheme of things will have a negligible impact on the economy. That is if you do not count the anticipation this rate increase will create. It was only last Wednesday and the conversations have already begun on when the next rate increase will occur and whether the Federal Reserve will know when enough is enough. So, no sooner is the first question answered as to whether the Federal Reserve will finally increase the interest rate, a string of new questions arise and the short term volatility in the markets continue.

The Dow Jones 30 is currently at 17,128. It has reached a high of 18,351 last May and a low of 15,370 last August. This represented a correction and a 16.2% decline from its last high. The year started at 17,823 and then the roller coaster ride began. No straight trend this year. A low in February followed by a high in March and once again below the start of the year in April. All of this was before the high in May followed by the low in August. From its low, the Dow recovered 2,548 points followed by more large moves up and down. We never time the markets, but timing can be everything. It is years like this which may make investing disheartening. It is also years like this which allow for select opportunities, especially for managers. There are times when everything is moving in the same direction and owning the index may appear smart. However, when quarterly profits are reported, many of those companies whose stock rose with the markets often fade and maybe even fall when their numbers fail to justify their current price. When this occurs the indexes fall, since an index does not distinguish between great companies and those who are mediocre.

I recently had lunch with a representative from American Funds, which is an investment company I have used for decades. I was reminded of their approach on investing. Due to their size, most funds are managed by one or more teams. While this is different from many, it is not why they remain one of my key fund groups. They remain one of the fund groups with the long term objective in mind. Their managers' performance bonus is not based upon the last quarter, not even the last year. Their bonus is based upon the last four years and eight years. Similar to comments

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### *Insights Continued*

often made by Warren Buffett; he is not worried about the next quarter or next year. He is looking to where the companies he purchases will be in five, ten, or fifteen years. Quality investing is more like a marathon than a sprint.

For our *Managed Asset* program, as usual we have used this year to evaluate each fund in use and for those with individual securities, each of those holdings as well. We have added select new individual stock positions and taken advantage of pricing to add to key holdings. There are times when quality companies find their stock out of favor; sometimes for key reasons and other times for reasons beyond their control. As an example, we have added Macy's to select portfolios. As recently as June, it was trading in the high 60's, but due to the strong dollar and a warm Fall, the price of their stock has fallen. In this case, it was not because of poor management or improper inventory control, but anticipated lower sales and more discounts because of warm weather and perhaps less foot traffic expected due to the strong dollar and fewer foreign travelers visiting key US cities where Macy's is located. Even with this recent decline, for 15 years its stock has averaged approximately 7% annually and its dividend is currently yielding 3.9%. Knowing the dollar has always cycled from strength to weakness back to strength and unseasonable warm or cold weather is not uncommon, I would rather purchase Macy's when its stock is trading off, than at its high.

Like Buffett and others, looking out not next year, but three or more years in the future when I am anticipating Macy's will once again see \$60 per share. If it takes four years to reach this value, it would represent a growth of 11.37% per year from my last purchase, and this is not counting the income from the dividend which would add another three percent per year. Not every purchase works for Warren Buffett, nor has it worked for QFC. This is why we diversify and limit the exposure to any single stock.

Similarly, we have evaluated the mutual funds we use. There are times when styles alter or managers may leave and it could warrant a change in the funds we use. We have selected a number of new funds and are rolling these out as it makes sense for each portfolio. Again, we are looking for long term performance. While near term performance is always appreciated, it is the long term performance that makes the real difference.

Do not be surprised by the size of the capital gains being distributed by the funds this year. With so few days left in 2015, this may be the first year in a while with negative returns. Regardless of the ending result for 2015, you should remember this is a marathon and the finish line can easily be five, ten, and even twenty years or more into the future. We will continue to work diligently on your behalf and should you have any questions, please let us know. Never hesitate to reach out to us.

Wishing you and yours a Merry Christmas and a safe Holiday Season.