

Fall 2013

Market Strategies



Exposing Axioms

With our years of combined experience, we have managed client accounts through many market cycles. Along the way, we have honed our skills by learning from mistakes and avoiding emotional decisions. This is a humbling profession since we are graded on a quarterly basis and there is almost always a stock that performed better than those in our portfolios. This is also a business that runs rampant with theories, adages and axioms suggesting a great investor can be made by following a few easy steps. If only it were so, then everyone would be wealthy. Certain theories, however, can be taken to the bank while others are pure conjecture.

The latest theory that made the rounds on Wall Street this summer even had an ominous sound to it, *The Hindenburg Omen*. This threatening scheme was so rare, yet so foreboding, it nearly always proved accurate that a serious market crash was foreboding. The details of the charade are actually boring, but if five random numerical events occurred, and they did, then within forty days the stock market always crashed- except, of course, not this time. It is always much more interesting to forecast a crash than to suggest the market will advance higher. This is the same rationale the nightly news doesn't report the safe landing of every plane at the airport; however, if a plane misses the runway, we now have headline news.

Every year we encounter the *sell in May and go away* theory. While it is true the volume of stocks trading hands does reduce during the summer months, it does not always result in the performance of stocks going down when the days are long.

Dear Clients and Friends,

Time surely does fly as we say hello to another Ohio Fall season. I am not sure where the time has gone but I know my family has kept busy. We have been on the run as schedules for three kids keep us heading in different directions. (Our neighbors must think we run a taxi service out of our garage as cars are constantly coming and going!)

As the kids' fall sports seasons draw to a close, focus has shifted to winter sports and the completion of college applications for our oldest son. It has been somewhat trying to sit back and watch him go through this process but as parents we are confident he will find his spot and do well. We have also been keeping an eye on his college fund and hope both it and the market continue to move in a positive direction as we recognize that tuition never seems to have a downturn.

With the end of the year just around the corner, we want to remind you if you have turned 70 ½ and have not withdrawn your Required Minimum Distribution (RMD) yet this year you have until December 31, 2013 to complete this request. For our clients, we will touch base with you if you still need to make a withdrawal.

Judy and I would like to thank you for your business and support this past year. We are extremely pleased with our growth over the past 3 ½ years and would appreciate it if you would pass our name on to a family member, friend or business acquaintance. Our best references are our clients!

Tom

There are years the market slides in the summer; however, over the last two years it has been a good period to be an investor. We know of no investor who has ever actually followed this theory, but we expect this theory to continue to be popular with the media. The volume of transactions are actually nearly a third lower from five years ago, but the stock market has eclipsed the 2007 market highs, so volume and share prices are not mutually exclusive.

There are investment axioms we consider golden and support the disciplines used in managing client capital. All year long the most quoted government entity has to be the Federal Reserve Bank. This powerful independent entity is posed with the daunting task of supporting full employment and limiting inflation. Their ability to drive interest rates and control the money supply has produced the adage, *don't fight the Fed*. This assumes that if the Federal Reserve wants to push interest rates up or down, they will. Many a bond manager has lost this battle and we certainly won't put client assets in the path against Federal Reserve policy. After signaling since May that the Federal Reserve might taper their \$85 billion per month bond buying, the Fed decided to keep the spigots open and sent bond prices higher. We entered the year expecting interest rates would commence their ascent, and now that they have, we've further reduced the maturity of the bonds we buy on your behalf to shorten the impact of rising interest rates over the next few years.

We also positioned portfolios going into this year believing stocks would have a solid year; however, we didn't expect the S&P 500 to be up 18% after three quarters. This harkens the saying, *nobody goes broke when taking profits*, so don't be surprised if we take some of the gains off the table before year-end. We always endeavor to *buy low and sell high*, and for certain areas of the market it is clear that *stocks have gotten ahead of themselves*, so we'll *sell into the greed and buy on the fear*. For instance, the Consumer Discretionary sector stocks are up 28% for the year, which is far better than the spending growth of American consumers.

We don't always believe, *as goes January, so goes the year*, but we do know that *you don't marry your stocks*. Similar to the overall economy, this is a year where the discrepancy between winners and losers has expanded. This creates a *stock pickers market since not all boats are rising with the tide*. Many companies are performing well, and nearly all of your stocks have higher earnings this year than last year. If there is a *Santa Claus rally* this year, it will be the result of solid spending during the holiday season. Of course, *if Santa Claus should fail to call, bears may come to Broad & Wall*. Since the old joke that *economists have predicted five of the last three recessions* is mostly true, we'll work diligently so your portfolio can be adaptable and remain productive to meet your financial goals.



"Trusted financial advice ~ Client focused service"

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