

## THINKING LIKE AN ALLIGATOR!

We all duck when we think something is coming at us. It is a natural instinct. This instinct, part of our brains that has not evolved since our reptilian past, as Terry Burnham penned in [Mean Markets and Lizard Brains](#), is wired to behave in such a fashion, responding to fear and greed instinctively.

Consequently, as the market has dwindled in value over the last couple of months, it's easy to see why our reptilian brains take over. We get fearful and we run.

However, DALBAR, Inc. found that the average investor in U.S. stock funds earned 3.7% per year over the course of the past 30 years. During this period, the S&P Index returned 11.1% annually and funds underperformed the index by about 1% per year. This disparity is due to the reptilian in us, to run when fear is in the air. It is no better when markets are doing well. When this occurs, the natural inclination is to get greedy and invest more. Unfortunately, this is what leads to investors underperforming.

At Capstone, if there is nothing else we can do but act as reptile tamers, then that is what we shall do. Even if it means that we ourselves have to fend off our own reptilian urges.

The recent scare lasted all but a couple of months and the S&P 500 rebounded as quickly as it declined with the benefit of strong words from Europe and China, stating that they would do anything in their power to lower interest rates and print more money. And that is what they did.

So with that, the market has responded in kind, just as it has continued to do since September of 2011 when the U.S. began quantitative easing (QE). Rejoice and smile at quarterly statements, and push that reptile brain of yours away for a couple of weeks.

### Portfolio Notes

*The foregoing comments represent the general investment analysis and economic views of the Advisor, and are provided solely for the purpose of information, instruction and discourse. Only comments in the Portfolio Notes section relate specifically to the Capstone Portfolios and the investment positions.*

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*"crafted portfolios for the thoughtful investor"*

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**ETF PORTFOLIOS (Aggressive, Growth, Moderate, Conservative and Income)**

The rebound in the S&P 500 did not carry over to the ETF portfolios. Both the decline and the bounce back were impacted by biotech and pharmaceuticals. We have made our biggest changes to the portfolio in over a year. We have decreased the exposure to Biotech (IBB) and SPDR S&P Pharmaceuticals (XPH), respectively, by one half, reducing it to 5%. We have decreased the bond exposure and replaced short-term bonds with international exposure to Vanguard Total International (BNDX) and Doubleline Total Return (TOTL). On the stock side of the equation, we added 5% to iShares Cohen and Steers Realty (ICF), SPDR Regional Bank (KRE), and Consumer Discretionary (XLY). Overall, we have increased the stock exposure in the aggressive model from 10% to 60%. The growth model was elevated from 40% to 60% and both the moderate and conservative model increased from 40% to 55%.

The Aggressive, Growth, Moderate, Conservative and Income portfolios were up 0.8 %, 0.7%, 1.0%, 0.8% and 0.4%, net of fees over the last 12 months, while the S&P 500 rose 7.1% and the DOW (an index of 30 companies) increased by 5.2%.

**Analyst Upgrades** declined 0.8%, while the S&P 500 increased 7.1% in the last 12 months. Gains came from LKA-Tencor (KLAC) up by 34.4%. Dow Chemical (DOW) climbed by 17% and LAM Research increased by 17%. Losses are accruing from Hewlett Packard (HPQ) down 49%, Mosaic (MOS) down 9.6%, and F5 Networks (FFIV) suffering a loss of 8.4%.

**Analyst Momentum** gained 6.24% versus the S&P 500 gain of 7.1% in the last 12 months. Increases to the portfolio were lead by PBF Energy up 12.3%, Costco (COST) up 7.7%, and American Axle (AXL) with an increase of 6.5%. Drags to the portfolio came from Chesapeake Energy (CHK) down 13%, Commercial Metals (CMC) down 11.9% and Bunge Limited (BG) down 5.8%.

**Focused Strength** suffered a loss of 1.9% in the last 12 months, compared to the S&P with a decrease of 0.61%. With short-term and longer-term signals indicating potential losses, the portfolio has swung into full defensive mode, investing 100% into iShares Barclays 20-year bonds

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(TLT). The gain experienced last month was diminished to a decline of 0.3%.

**MaxBalanced** is down 1.5% over the last 12 months versus the Dow Jones Global Moderate portfolio with a gain of 1.3%. The MaxBalanced portfolio is structured like a university endowment; investing in more than 12 asset classes. The idea behind this investment is that we cannot predict the market, nor can we accurately forecast how assets are measuring up at any given point.

While what was once performing quite poorly is no longer down as much, the overall holdings are still declining. WisdomTree Emerging Markets SmallCap Dividend (DGS) is suffering the greatest loss at 22.7%, up from an original decline of 28%. This is followed by iShares Mexico Index Fund (EWW) with a loss of 19%, up from a previous fall of 25%, and Guggenheim Multi-Asset Income (CVY) down 21.4%, a rise from an initial loss of 23%. The gains are SPDR Regional Banks (KRE) up 10.5% and Consumer Staples with a rise of 10.5%.

**Bond ETF** decreased 0.3% in the last 12 months, compared to the Barclays Aggregate Bond Index up by 2.2%. Of the 13 holdings, 6 indicated losses and the 7 that have gains are ever so slight. The gain is led by long-dated iShares Barclays 20-year plus (TLT) with an increase of 5.4%. The two most significant losses are from emerging market bonds (EMB) and high-yield bonds (HYG), down 8.5% and 8.4% respectively.

*Please feel free to pass "The Portfolio Reporter" to interested friends and family members. For more information about your investments, please contact your financial professional.*

*The Analyst Upgrades, Analyst Momentum, Target 2015 Conservative, and Bond ETF programs are based on Ready-to-Go Folios selected by Capstone to meet specific objectives of investors. Detailed information on these programs is available from Folio. Prior to 4/1/15, the MaxBalanced program was managed at a predecessor firm but using the same methodology and by the same manager. The performance reported above is model performance reflecting how the programs were actually traded but without any deposits or withdrawals as would be typical in an actual account. The returns are in U.S. Dollars and include reinvested. Past performance is no guarantee of future performance. There can be no assurance that a client's investment objective will be achieved or that a client will not lose a portion or all of his or her*

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Financial Planning • Asset Management • Risk

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*investment. All returns are in time-weighted total return and include dividends. If a dividend is declared but not paid out in that month, then the returns from a previous month may be adjusted higher to account for the dividend payment*

## **MONTHLY CONFERENCE CALL**

**Our next monthly conference call will occur Thursday, November 19th at 11:00 a.m. Mountain Time (1 p.m. EST).**

To *listen* to the Live Call, below is the information:

Phone Number: [866-740-1260](tel:866-740-1260)

Access Code: 4682824

To *view* the slides during the Live Call, you will need Internet access and a phone: \*

Website: [www.readytalk.com](http://www.readytalk.com)

Access Code: 4682824

(Enter 4682824 in the field under "PARTICIPANT, Join a Conference")

**\*You must also dial into the phone number above to hear the live conference call.**

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