



**CAPSTONE**  
Investment Financial Group, LLC.  
Management

Financial Planning • Asset Management • Risk

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PORTFOLIO REPORTER

## Going Nowhere Fast!

Well, the first half of the year is in the books and markets have gone nowhere. The S&P 500 is up about a per cent and the Dow Jones Industrial Average is down by a fraction. Foreign markets have done somewhat better, but....they are showing signs of greater volatility and falling faster as the quarter ends. After a great run up, China shares are tumbling at warp speed. Commodities continue their swoon and the bond market is jittery, concerned about when the first hike in Fed funds rate will come.

While many are discussing "increasing volatility", the market actually had its quietest period in two decades during the past quarter. It featured an eight week period in which the market failed to go either up or down a full per cent in a week. We have not seen that calm a market in over two decades!

Over the long haul, valuations are one of the main drivers of future returns. Simply put, when you buy an asset at a low price in respect to its anticipated earning stream, you are likely to see it do very well in the future. When you pay a relatively high price compared to historic norms, you are likely to have a below average return.

So, we remain in the dark as to what will happen in the short term. We are far beyond the normal time range for a market correction of 10% and even one of 5%. Price-to earnings ratios remain well above historic averages (i.e. valuations are currently on the high side), while growth remains somewhat slow and earnings reports have been shaky year to date. Will we see some increased international stability, the increases in GDP and earnings growth that were expected for 2015, a continuation of job growth, and an increase in consumer confidence? If so, any correction may well set the stage for the next move up for markets. If not, we may settle into

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the doldrums for the time being.

We do not plan to make large changes in your portfolio at this time due to these geo-political issues. We regard them largely as noise and as totally unpredictable as to what direction they will take in the future. To quote Donald Rumsfeld, it is the “unknown unknowns” that will move markets this quarter.

Our focus is on entire market cycles which span many years. We try to buy investments that we believe can deliver good risk adjusted returns over the entire market cycle. Our emphasis is on controlling risk in order to avoid very large portfolio drawdowns. The idea is to take advantage of compounding your money, which Einstein correctly called the eighth wonder of the world!

### 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.*

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

The ETF portfolios continue to gain ground against the S&P 500 (a broad market index holding 500 of the largest companies). Gross returns are above the S&P 500. The results are attributed to iShares Nasdaq Biotechnology (IBB) and SPDR S&P Pharmaceuticals (XPH).

The Aggressive, Growth, Moderate, Conservative and Income portfolio returned 5.7%, 2.8%, 3.2%, 3.2% and -0.2% over the past 12 months, respectively, after fees. This compares to the S&P 500 up 7.4% and the DOW (an index of 30 companies) ahead by 7.2%.

**Analyst Upgrades** has lagged the broader S&P 500. Trending with lower returns since March, the Analyst upgrader is now down for the year by 2.15%. Weakness came from Frontier Communications (FTR) down 24%, and Avago Technologies (AVGO) down 5%. Strength came

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from CMS Energy (CMS) up 5% and Tesoro Pete Corp (TSO) also up 5%.

**Analyst Momentum** gained 15.5% net of fees versus the S&P 500 with an increase of 7.4% in the last 12 months. Drags to the portfolio included Benchmark Electronics (BHE) for a loss of 7%, and Alon Energy (ALJ) with a decline of 3%, this was after selling Alon for a gain of 26% last month. Ascena retail Group (ASNA) is up 4% and Barnes and Noble is also up 4%.

**Focused Strength** Continued to give up gains and is now down over the last 12 months by 4.3%. The volatility is extreme as the rotation in strength between asset classes is high. Half of the portfolio is in Vanguard S&P 500 (VOO) which is down 1%. This represents half the portfolio. The other half is in cash as the volatility and declined across the board has resulted in reducing the exposure to the stock market. Commodities and bonds are equally down and therefore the model has us out of the market in half of the portfolio.

**MaxBalanced** is down over the last 12 months. The weakness globally and holding bonds has weakened the portfolio. To date, the portfolio is down 0.7% versus the Dow Jones Global Moderate portfolio up 1.2%. 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.

As a whole, there is more red on my screen, meaning the holdings are down, then there is green, the investments are up. iShares Mexico Index Fund (EWW) continues to remain the one of the biggest losers down 16%. Weakening further in the last month was Guggenheim Multi-Asset Income (CVY) now down 17%. The reasons to hold these investments, despite being down is what we have experienced with Wisdom Tree Japan (DXJ), once down significantly, it is up 10%. An odd assortment leads the gainers from SPDR Regional Banks (KRE) up 11% to Farmland Partners (FPI) up 13%.

**Bond ETF** declined 0.4% in the last 12 months, compared to the Barclays Aggregate Bond Index, which was up 1.7%. Of the 13 holdings, 7 indicated losses, and the 6 that have gains are just

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slight. The two largest losses are from emerging market bonds (EMB) and high yield bonds (HYG).

*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 opinions expressed here are based on the author's views and should not be construed as financial advice. Model results do not represent actual trading and may not reflect the impact that material economic and market factors might have on the advisor's decision-making if the advisor were actually managing a client's money. 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 investment. Please contact Capstone directly for a list of the recommendations provided over the last year. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.*

## MONTHLY CONFERENCE CALL

**Our next monthly conference call will occur Thursday, July 16th 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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