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PORTFOLIO REPORTER

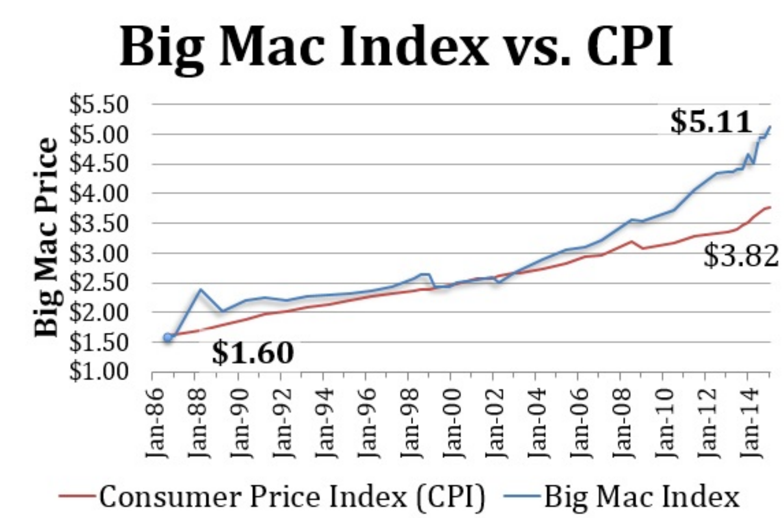
No Inflation a Good Thing

Last week, the Consumer Price Index (CPI) was released by the Bureau of Labor Statistics, stating that "over the last 12 months, the all items index increased 0.1 percent before seasonal adjustment."

As an update, the Economist Big Mac price in the U.S. came in at $4.79, down $0.01 from $4.80 in July 2014. Clearly this indicates little or no inflation over the last year.

The adjustment in price of the Big Mac and the CPI are similarly unchanged over the last year. This runs counter to what has occurred over the past 25 years.

The hike in the price of a Big Mac is quicker than the official rise in consumer prices and has remained this way since the late 90s. In 1998, the average price of a Big Mac was about $2.50. As of July 16, 2015, The Economist reports that the average Big Mac now totals $4.79. If we were using CPI, the price of a Big Mac today would be about $3.82 (see graph below).



"crafted portfolios for the thoughtful investor"

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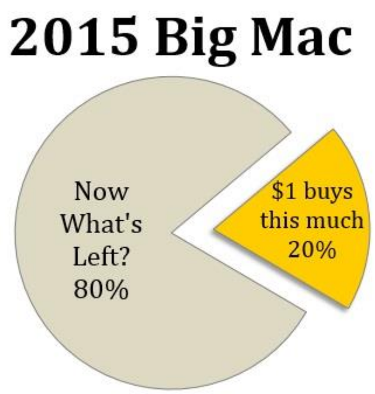
Using the Big Mac Index to Measure Inflation

The Economist newspaper created the Big Mac Index in 1986. The Big Mac Index was designed to compare the price of currencies between different countries. The index is based on a theory called purchasing-power parity (PPP). This theory looks at the same basket of goods in each country and then makes adjustments according to the interest rate one would pay for a loan or receive for a savings account. This adjustment for interest rates makes the price of a Big Mac comparable in each country. The Big Mac index has just one item; however, because it contains beef, dairy (cheese), wheat (bun), cost of labor, and the cost of real estate, it appears to be an accurate representation of prices in the United States and abroad.

Rather than use the Big Mac index for comparing the value of currencies between countries, we wanted to take the price of the Big Mac each year within the U.S. to see how it changes over time. You could also use this approach to look at the trend of prices for other countries as well.

Since 1986, the price of a Big Mac has increased 199% from $1.60 to $4.79 today. During this same time period, the Consumer Price index has increased at a much lower rate of 116%.

In 1986, $1 would have purchased over half of a Big Mac. Today you would have to cut the sandwich into three pieces and only eat one piece to get your dollars' worth. Consequently, each dollar we have is buying a lot less.



Implications for Investors

The implications for investors is no different than what we pointed out last month in the Portfolio Reporter:

> *"Well, the first half of the year is in the books and markets have gone nowhere. The S&P 500 is up about one pecent 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…. 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 totally unpredictable as to what direction they will take in the future."*

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)

We continue to keep the portfolio we have, as we have not seen a reason to change what we own. We remain invested in iShares Nasdaq Biotechnology (IBB) and SPDR S&P Pharmaceuticals (XPH). 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 Aggressive, Growth, Moderate, Conservative and Income portfolio returned 8.9%, 5.2%, 5.6%, 5.6% and 2.8% over the past 12 months, respectively, after fees. This compares to the S&P 500 up 8.9% and the DOW (an index of 30 companies) with a gain of 7.3%.

Analyst Upgrades has lagged the broader S&P 500. Trending with lower returns since March, the Analyst Upgrader is up 1.6% for the last 12 months. Weakness continues to come from

Frontier Communications (FTR), down 26%, Diamond Offshore (DO) down 12%, and Avago Technologies (AVGO) with a fall of 8%. Strength came from Reynolds American up 15%, Lockheed Martin with a gain of 10%, CMS Energy (CMS) inclining by 7% and Tesoro Pete Corp (TSO) with a rise of 11%.

Analyst Momentum gained 14.8% net of fees versus the S&P 500 with an increase of 8.9% in the last 12 months. Drags to the portfolio included a decline in Avis Budget Group down by 1%. All other holdings have increased, specifically Assurant (AIZ) up 9% and Beacon Roofing (BECN) with a climb of 6%.

Focused Strength continued to give up gains and has been down over the last 12 months, currently with a loss of 4.6%. The volatility is extreme as the rotation in strength between asset classes remains high. Half of the portfolio is in Vanguard S&P 500 (VOO) which is down 1%. The other half is in cash as the decline in volatility across the board has resulted in a reduction of exposure to the stock market. Commodities and bonds are equally down and therefore has us out of the market with half of the portfolio.

MaxBalanced also remains at a consistent loss for the last 12 months. The holding of bonds and the overall global weakness has crippled the portfolio. To date, the portfolio is flat, versus the Dow Jones Global Moderate portfolio that is experiencing a gain of 1.5%. 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. However, there is still a fair amount of green, indicating that certain investments are up. iShares Mexico Index Fund (EWW) continues to round out as one of the biggest losers with a dive of 17%. Guggenheim Multi-Asset Income (CVY) also remains down by 17%. Joining the losing stocks is Wisdom Tree Emerging Markets Smallcap Dividend (DGS) with a fall of 17%. It is still important to hold these investments, despite their losses, as we have experienced steady rises with various stocks including Wisdom Tree Japan (DXJ), which was once down significantly and is

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now up by 14%. An odd assortment of winning stocks range from SPDR Regional Banks (KRE) up by 12%, to Farmland Partners (FPI) with an incline of 4%, despite suffering a considerable loss of 9% in the last month.

Bond ETF increased 0.6% in the last 12 months, compared to the Barclays Aggregate Bond Index, which was up 2.8%. Of the 13 holdings, 7 indicated losses, and the 6 that have gains are ever so 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, August 20th 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
Access Code: 4682824
To *view* the slides during the Live Call, you will need Internet access and a phone: *
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