Investment Perspectives
2014 O1

An Indecisive Beginning to 2014

A year ago the equity markets were off to a fast and furious start which ultimately led to a total return of 33.2% for the Russell 3000 index which is the equity portion of our model benchmark that we use at TAMMA. In 2014 the Russell Index had no such start squeezing out a return of only 1.5% in the first quarter. The Vanguard Total Bond fund used as the fixed income portion of our model benchmark had a similar return of 1.4% for Q1 2014.

One of the main reasons for the slow start in 2014 has been the sluggish growth in the US economy. Both earnings and sales growth remain tepid which have been hampered by one of the worst winters recorded here in the US. There has been a steady stream of earnings reports that sited weather as the main driver for companies' woes in addition to the Federal Reserve mentioning it numerous times in its Q1 statement which they believe led to lower GDP growth. While weather no doubt played some role in this slowing of growth, there are other factors both company specific and macro economical that is driving market performance thus far in 2014.

Two key financial metrics that we pay close attention to are interest rates and the change in earnings estimates.

Interest Rates

- The fed began its bond tapering last year with the hopes to ease the US off of the stimulus it had been pouring into the economy since the beginning of the great recession in 2008. The consensus thought of this reduction of stimulus is that interest rates will increase. For those of you looking to purchase or refinance a home, a little over a year ago you could have found a 30 year fixed rate around 3.5%, today that rate would be 4.5%.
- The increase in rates tends to slow an economy down as borrowing costs increase which results in reduced growth and profits. This poses a challenge especially in a low growth environment which we currently have in place today.
- Typically when the 10 year treasury yield has reached the 3% yield mark it has been bad for both

stock and fixed income investors. Company earnings tend to be reduced while an increase in yields means that fixed income investors could lose money as the value of their bonds decrease if they are not held to maturity. (Refer to the chart above courtesy of Earnings Scout)

Earnings Estimates

- Companies know how to play the earnings game and they play it quite well. By lowering earnings forecast and then beating those lowered expectations, companies are revealed on Wall Street. What we have learned by teaming up with the research firm Earnings Scout is that the change in earnings estimates is the real key and driver of growth and subsequent stock performance. More specifically, the trend in the change of a company's earnings estimates is what we are focused on.
- According to Earnings Scout research, a majority of companies in the S&P 500 after beating their Q4 2013 results had their next quarter's earnings estimates reduced. During Q4 2013 earnings season, the magnitude of the downward Q1 2014 EPS estimates increased showing a worsening trend that some attributed to the weather but was also from the rise in interest rates at the end of 2013.

Forward Outlook

We have always been staunch believers in companies that use debt sparingly, generate relatively strong cash flow, and trade at a reasonable level to their sales and earnings growth rate. These tenants are even more important to us as we see the change in earnings estimate revised down and the possibility of interest rates rising.

Our equity focus is a balance blend between large cap companies that are less sensitive to interest rates who carry far less debt than average and who provide for growing dividend payouts. Examples include the following:

- Apple, although growth has slowed the company continues to generate significant cash flow, has virtually no debt, and has been and continues to have room to increase its dividend payout
- Walt Disney, the company has numerous revenue streams such as amusement parks, movies, and television (think ESPN for sports fans) which offers growth at a reasonable level, generates significant cash flow, and offers an increasing dividend payment as well

Our other focus is on small/mid cap companies that can find ways to grow in this market based upon product or service differentiation or up and coming technologies that could replace current established products, services, and/or processes. Examples include the following:

- Greenbrier Companies, designs, manufacturers, and markets railroad freight cars and is at the heart of the oil and natural gas boom in the US allowing companies to get natural resources to processing plants and to end consumers
- Nuance Communications, for those of you that use Siri on your apple iPhone, Nuance is the voice behind this technology which is also expanding into other markets such as the medical field

- Terra Nitrogen Company, with a growing global population one area of the market that we see opportunities in is agriculture, Terra supplies farmers with fertilizer to help grow and protect crops

Currently we see economic growth as steady but not spectacular. Central Banks around the world will continue their accommodative monetary policies which should help to keep interest low.

Most equity markets are fairly valued relative to their historical averages. As we have noted previously, there is a declining trend in the change of earnings estimates which could result in a pull back of 5% to 10% within the overall equity markets.

While political uncertainties around the world will always make headlines, we see pull backs that most of these events may create as good entry points for companies that we would like to hold for the long-term.

While TAMMA is always focused on the future, we know that we cannot predict the future. This is why we take the approach of "bookending the future" by preparing for both opportunities and challenges when it comes to personalizing investing for your future.

Personalized Investing, Helping to make Wealth Planning a Reality

Can you envision what your retirement years may look like? Do you see yourself traveling the world, living in your ideal location, spending time with your loved ones, or setting out on a new second career? Before you can start putting together a retirement plan, you need to know what you want your retirement to be.

If you think of retirement from a crawl, walk, run perspective; the crawl stage would be when you first try to envision what your retirement years would be like. At TAMMA even before we begin discussing numbers and asset management strategies, we help clients clarify what their retirement vision looks like. Without having a vision, you cannot develop the necessary plan to help guide you to where it is that you ultimately want to go.

Here are a few steps that you can follow to help get you started. Be mindful to take your time and thoroughly think through what you see your retirement as being. This is one time where it is good to think selfishly!

1. Start with a clean sheet of paper and begin to write down the ideas that come to mind about what your ideal retirement would be. Think big; remember the only limit right now is you.
2. Take your ideas and break them down into more specific details. For example, you may want to retire to a warmer climate but are you planning to live there year round, do you plan on maintaining two residencies, and where exactly is that future destination to be? Case in point, a more specific idea may be that you plan to live in the Outer Banks in North Carolina with an ocean view home during the winter and spring months while residing in a new smaller condo in Michigan during the summer and fall months due to family commitments.

3. Once you have your specific ideas down, decide what retirement objectives are most important to you and prioritize accordingly.

We hope that you can see that there is a lot of work to be done even before you begin to consider financial figures and asset management strategies when it comes to retirement planning. Although TAMMA can help facilitate the initial steps outlined above, it really begins with you. Our goal is to help you reach those goals though planning and management of your investable assets.

The fourth step is where working with TAMMA could help bring some of your ideas into reality. We would begin the process of analyzing and identifying what it might take to accomplish your retirement goals that would likely include;

- Determining the costs involved
- The amount of time it would take
- How much you would need to save
- The probability of success

And as you go through your working years and there is a need to be flexible with your retirement goals, there is no need to worry. We can pivot your retirement plan to accommodate whatever life may throw your way. Once your financial data is clearly outlined, we can put together a framework and roadmap that works best for you and your situation thus helping to make your retirement goals a reality.

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