TAMMA CAPITAL

Personalized Investing for Your Future

Investment Perspectives
2015 Q3

When Risk and Returns Really Start to Matter

I often tell new or prospective clients that asset management is the sexy part of the many facets of wealth management that I work on. For most clients it is investment returns that get their attention. But as I go on to explain what it is that I really do and how I help people figure out where they want to go and ultimately how to get there, asset management begins to take a back seat.

Ben Carlson highlights a Forbes article on financial blogger Michael Kitces (who I also follow) in which Kitces touches on the following point, "Ten years before retirement, get serious about asset allocation. “The amount of return you get then actually starts to matter a lot, but the risk you’re taking matters a whole lot more, too.”

Carlson goes on to give a good example of Kitces point below;

- Let’s say you start saving at 30, at which time you stock away $500 a month. Each year you increase that amount by 3% to keep up with inflation. Miraculously — because this is a fake retirement calculator scenario — you earn an even 7% annual return on your money each year. By age 60 you have roughly $830,000. Not bad. But let’s say you don’t want to retire until age 65. By then you’re portfolio would grow to more than $1.2 million. That means around 35% of your ending value at age 65 would come from the last 5 year’s worth of portfolio growth. The pressure at that point can be intense if you’re not sure what you’re doing.

Whether you are just starting out in your career and even if you are in the middle of it, the best thing that you can do for your investment portfolio is to continue to focus on your career investment and to make good financial decisions. This is where wealth management becomes more important than asset management.

The equation to build wealth is no secret but it does require a large dose of discipline rather than IQ;

- Save as much money as you can in a tax-deferred retirement account
- Invest in yourself so you can earn more money
- Limit the amount of debt that you carry.

While all of these are important, probably the most critical and overlooked aspect to investing is investing in one’s self. By investing in yourself and changing your own focus you can change your financial life. You have to maximize your primary source of income by making yourself valuable to other people in some way. Saving more isn’t how most people become wealthy. Wealthy people maximize their primary source of income.

The earlier you can get all of these working in balance with each other your chances for wealth management success increase.

In regards to the recent downturn incurred within the equity markets during Q3, I offer a few points by Blaine Rollins of 361 Capital;

- "A portfolio is a collection of assets assembled to achieve a certain goal that is almost certainly not measured over days or weeks. As Yale's David Swensen has said, "Casual commitments invite casual reversals." Investors must acknowledge that the dips in the growth of a dollar chart may be painful in that moment, but are to be expected. If the initial reaction is to sell when a strategy prints a negative return, we'd suggest re-thinking the diligence process itself, rather than the strategy selected."
- "When looking at a portfolio on a daily basis during times of stress, investors are almost guaranteed to be disappointed. Any given day, week or month, strategies or assets that are uncorrelated over longer periods can behave similarly to overall market movements, and if risk has increased, the moves will be larger. Ideally, investors will have thought through this possibility ahead of time, which will allow for more level-headed thinking during market turmoil."
- "One's emotional response to daily moves should be considered when constructing a portfolio. The key is to know that you will have an emotional response in the face of losses, but rather than react, trust that you have constructed a portfolio to be resilient in timeframes longer than a day, week or month. If, as an investor, you find yourself ready to jettison assets after a week, quarter, or even a year of disappointing performance, then you are probably better off holding Treasury bills, as you are almost guaranteed to be selling for the wrong reasons."
- **You build a portfolio for the long haul; getting too focused on day-to-day movement can only undermine the hard work you have already done.**

Insider Trading

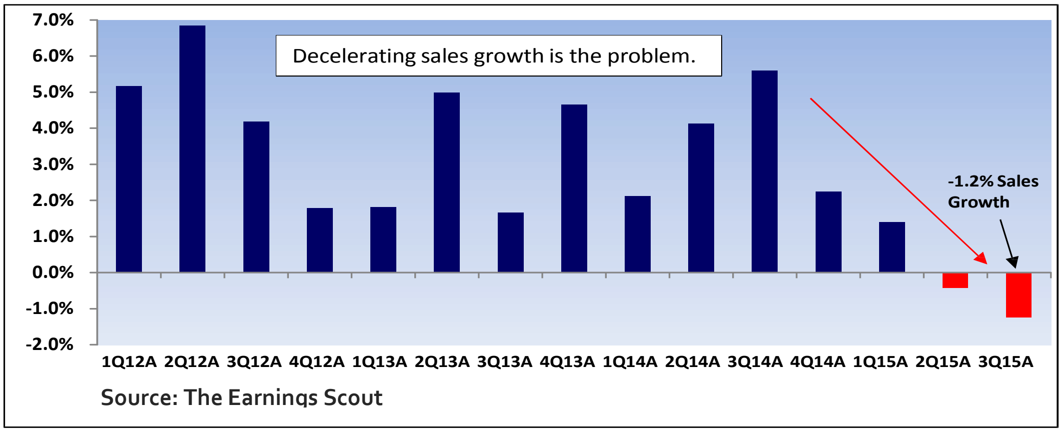
1...percentage of American households (i.e., top 1 out of 1,000) control 22% of the wealth in the country, up from 7% in 1979 (source: Bank of America Merrill Lynch survey).
54.7... percentage of the American taxpayers (51.2 million out of 93.6 million returns) that reported adjusted gross income less than $50,000 during tax year 2013 legally did not pay any federal income tax (source: Internal Revenue Service)
90...percentage of startup businesses launched in the USA fail, primarily due to self-destruction and not due to competitive pressures (source: Startup Genome Project). (source: Money)

State of the Portfolio

One thing that is for certain is that there is never a shortage of topics or issues to worry about within the global equity markets. Recall that last quarter Greece was all of the rage. The overwhelming sense of concern today is what to make of the drop in global equity markets around the world. While many people attempt to put together well thought-out reasons for the downturn, no one really knows and it is extremely unlikely that there is just one driver.

One outcome in the drop in equity prices has been the decision by the U.S. Federal Reserve not to raise interest rates. So what does this mean to individuals and U.S. equity and credit markets? What it means to me is that it continues to make U.S. equities probably the best option as an option class. However, the risk in owning equities likely continues to grow.

By certain valuation measures such as the various P/E ratios, U.S. equity markets appear to be fairly priced at a macro level. But what we pointed out last quarter as has Nick Raich, CEO at The Earnings Scout, top level revenue growth continues to lag behind and disappoint.



Raich goes on to say, "To their credit, corporations are doing an excellent job managing their businesses through the challenging economic environment; however, until business activity, in the form of increased sales, picks back up, it will be very difficult for stocks to sustain a rally."

Over the course of the past quarter we have been streamlining our current portfolio of positions. I have always believed in maintaining a concentrated portfolio of between 25 and 35 positions. A well-diversified group of holdings within this size has proven to be just as effective or more effective than holding a portfolio with a larger number of positions.

Recently we have reduced our total positions to the lower side of that range. Half our positions fall into the small/mid cap category with the remaining positons in the large cap category. Part of this strategy is directly tied to the drought of companies that we like at prices that we can buy at a discount.

Our recent adds include the following;

- **Skyworks Solutions**; produces components that go into the Apple iPhone
- **Synchronoss Technologies**; software that allows your smartphone to sync your data

Our recent drops include the following;

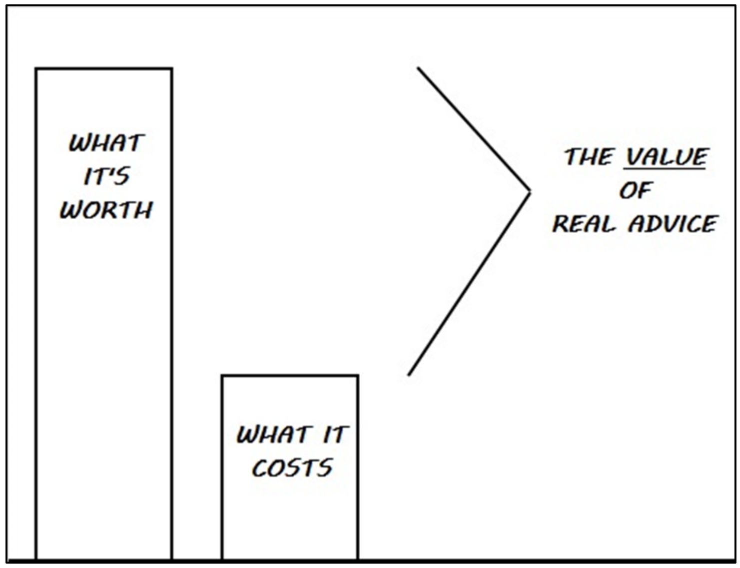
- **Lindsay Corp**; produces irrigation systems, weak growth amid continued drop in commodity prices which has curtailed farmer expenditures
- **Panera Bread**; casual fast food, this was a pure choice between owning Panera vs. Buffalo Wild Wings. I chose BWW based upon better growth opportunities and company strategy. However we would own Panera again at the right price
- **Kansas City Southern**; railroad company, again this was a choice between owning KCS vs. Union Pacific

Personalized Investing; Client Bill of Rights & Investing in Yourself

I was reading an article recently which was focused on what would constitute a Client Bill of Rights. In speaking with a few of my current clients I asked them their thoughts and overwhelmingly they touched on expectations that they had of me as their advisor. Based upon those conversations, I came up with the following of what I seek to provide in order to fulfill my client expectations.

TAMMA Client Bill of Rights;

- Really understand client and help them live their best financial life
- Help client make smart financial choices and avoid mistakes
- Tell the truth and be completely on the client's team
- Have good judgment and be able to find answers to client challenges
- **Bring the client peace of mind**



What I have found in helping people throughout the years is that clients put the most value and emphasis on the last bullet, peace of mind. People want to know that they have someone on their side or team who is always looking out for their best interest who can be relied upon in a crisis or time of need. In addition, people want someone for whom they can trust and place their confidence in. This is the most rewarding part of what I do at TAMMA, providing clients with peace of mind.

For questions about any asset and wealth management topics, do not hesitate to reach out to us to find out what options may be best for your own personal situation. Remember at TAMMA, we help to personalize investing for your future.

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