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# Strategic Insight: Winter 2014-2015

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## Laying The Foundation For 2015

Dear Friends,

While examining your accounts for 2015, we will review the historical returns and many other characteristics of several investment alternatives. Today, walk through a little bit of our "asset allocation" process with us through the following table and short commentary:

| **Returns of Common Investment Types 2013 and 2014** | | | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Comment** | **Ticker** | **2013 Return** | **2014 Return** | **3 Year Return** |
| U.S. Large Co. Stocks | Capitalism's present winners, grown from small companies. Relatively stable, slower growing. | SPY | 32.3 | 13.5 | 20.3 |
| U.S. Small Co. Stocks | Volatile but over time returns most among stocks. | IJR | 41.3 | 5.9 | 20.3 |
| U.S. Midsize Co. Stocks | Sweet spot. Stable but still fast growing. | IJH | 33.5 | 9.7 | 19.9 |
| Foreign Devel. Country Stocks | Stocks of all sizes domiciled overseas | VEA | 21.8 | -6.0 | 10.7 |
| Foreign Small Co. Stocks | Lots of potential growth. Volatile, highly subject to currency fluctuations. | VSS | 16.6 | -5.1 | 10.2 |
| High Yield (Junk) Bonds | Lower Quality Bonds | JNK | 5.9 | 0.8 | 6.6 |
| Corporate Bonds | Debt of U.S. Companies | BIV | -3.6 | 7.8 | 3.4 |
| Emerging Country Stocks | Volatile, often fast growing like small stocks. | EEM | -3.7 | -3.9 | 3.3 |
| U.S. Treasury Bonds | Debt of U.S. Government (“risk free”) | IEF | -6.1 | 9.1 | 2.0 |
| Commodities | “Real” Things – minerals, metals, liquids, gases, land, etc. | DBC | -7.6 | -28.1 | -11.6 |
| Gold Stocks | Gold Mining Companies | GDX | -54.0 | -12.4 | -28.4 |
| | | **Average Return** | 6.9 | -0.8 | 5.1 |

Notice how different the results are from year to year and from investment to investment. What informs us as we enter 2015 about how we should combine the above and other investments to produce solid investment results? If we can identify the underlying causes behind the returns and estimate the strength behind the causal factors, we will be at least somewhat informed about how 2015 might play out.

For example, a strong and strengthening U.S. dollar favors U.S. assets over foreign ones. So we will overweight U.S. stocks and bonds. Next, we know that many commodities are denominated in U.S. dollars. If the dollar strengthens, the prices of these commodities drop - not a good investment. So we steer clear of oil, energy related stocks and bonds and so forth for other commodities. Thirdly, looking at a seven to ten year historical record, we notice U.S. stocks have been strengthening for a very long time and they may be getting fundamentally expensive. Wanting to hedge our confidence in the dollar-pushed U.S. stock market, we could initiate a “deep value” position, which will hold its value when U.S. stocks begin to crumble. The period after 2000 offers a perfect example of the benefits of deep value hedging.

We wish all of you a wonderful 2015 and thank you for entrusting us with a portion of your wealth.