

Newsletter – August 2014

We would like to welcome former Orienteer Financial clients to Shorepoint Capital Partners, and we look forward to working with you. We are also very pleased that Brian C. Keating, CFP®, founder of Orienteer Financial, is joining the Shorepoint team as a Senior Wealth Manager. Brian brings over two decades of financial planning and investment management experience to our firm. Our group is dedicated to providing people with advice for their financial planning and investment needs in thoughtful and simple terms. Our enjoyment of our work and colleagues (further enhanced by Brian's presence) will be evident to you and provide you with a resource for input that is dependable, creative, and prudent. With that said, we always welcome feedback on how we can serve you better.

MARKET TRENDS 6/30/2014

<u>US Stock Markets</u>	<u>Q2</u>	<u>YTD</u>
S&P 500 Index	5.23%	7.14%
S&P MidCap 400 Index	4.33%	7.50%
Russell 2000 Index	2.05%	3.19%

<u>Int'l Stock Markets</u>		
EAFE Index	4.09%	4.77%
Emerging Mkts Index	6.60%	6.14%

<u>Fixed Income</u>		
Barclays Intermediate		
Gov't/Credit Bond Index	1.23%	2.25%
Barclays Capital Muni Bond		
3 Year Index	0.71%	1.04%

<u>Commodities</u>		
SPDR Gold Shares (NAV)	1.70%	9.23%
Goldman Sachs		
Commodities	2.69%	5.71%

<u>Real Estate</u>		
Dow Jones US REIT Index	7.06%	16.42%

<u>Yields</u>	<u>6/30/2014</u>	<u>12/31/2013</u>
6 Mo. US T-Bill	0.06%	0.09%
10 Yr UST	2.53%	3.03%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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Market Resilience

The most remarkable characteristic of the second quarter of 2014 was the resilience of financial markets. Geopolitical strains worsened. We witnessed tensions between Russia and Ukraine spike as Putin, fueled by Russian Nationalism, took back Crimea in what many see as his desire to re-draw the old maps of the past. In today's headlines with the missile attack on a Malaysian commercial airplane, we are seeing the senseless and crude destruction that occurs when you let loose the "dogs of war".

The Middle East cauldrons of discontent also bubbled hotter with skirmishes bordering on Civil War in Syria and Iraq, where old divides threaten to emerge yet again despite the loss of so many lives and so much money invested in trying to restore stability to a region sadly and ironically more stable under a ruthless, vicious dictator.

The Long View of Global Disruptions and Crises



As if that weren't enough, vicious civilian beatings and murders of youth on both sides of the Gaza conflict fanned the flames of the simmering war between Israelis and Palestinians/Hamas. Again the headlines today seem to be getting worse as the battles get deadlier and more destructive.

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"Our bond allocation to international and emerging markets as a contrarian play for some time now has produced uneven results..."

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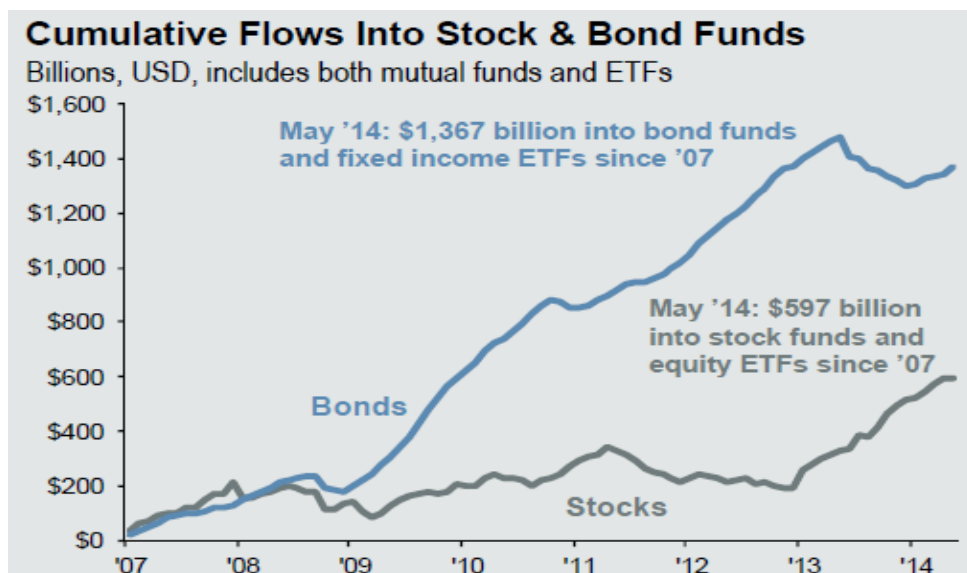
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Bond Complacency?



People have been pouring money into bonds for five years.

Despite all of these issues, the market remained resilient and marched to new highs with the Dow crossing 17,000 for the first time in history. Even with the strong returns in equities, cash flows into bonds exceeded those into equities for the last three months. Since 2007, \$1,367 billion has been invested into bond funds and ETFs compared to only \$597 billion into stock funds and equity ETFs. Contrary to expectations, U.S. Treasury bonds were also strong - higher prices and lower interest rates. In the grand scheme of things, one would be hard pressed to find a more secure, diverse place to live than in the US - and thus to invest and to be a part of a vibrant economy, admittedly not as strong as we would like at this point, but far better than many places around the globe.

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“...much of what we do is in the spirit of prevention, of helping ourselves and our clients to avoid the wrong move at the wrong time.”

“...we think it still makes sense to take a longer-term view, to be disciplined and to recognize that investments usually take time to work out.”

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Flexibility and Resilience Amidst Information Barrage

The modern world has been called flat by Tom Friedman. Other investors like Mohamed El-Arian have referred to the multi-speed world of the global economy where recoveries, progress, declines, plateaus and false starts are all happening simultaneously. With the ease that we can move our electronic currencies, the flattened world if you will, it is easy to make changes to investments. It is easier than ever to access different types of investments all of the world. So it does make a lot of sense for us as your advisors to remain flexible in our thinking. We need to be ready to react intelligently to changes, to new information, to new structures or opportunities.

However, we need always to remain vigilant about the long term view and the world view we form and develop daily. We need to differentiate between tactical moves and strategic thinking. The tools of technology have ramped up our access to information and news and our ability to “DO” things. But often it makes sense to NOT do something new just because you can. ***In fact, much of what we do is in the spirit of prevention, of helping ourselves and our clients to avoid the wrong move at the wrong time*** - the wrong mistake as Yogi Berra might have said. It takes discipline, objectivity, and conviction to avoid making mistakes at false inflection points such as the market bottom of March 2009, when so many individual investors wanted out of the market. In a world awash with information and a news media that promotes sensationalism, we think it still makes sense to take a longer-term view, to be disciplined and to recognize that investments usually take time to work out.

Our View

We have remained bullish on stocks for several years. We favor the asset class in general over bonds but still believe in maintaining a diversified portfolio which requires an allocation to fixed income. However, even within the bond allocation, we have taken a non-traditional investment approach - little to no exposure to U.S. Treasury Bonds or high grade, long term corporate bonds. Instead, we have favored mortgage-backed bonds, municipal bonds (when appropriate), floating rate loan funds, preferred stocks and MLPs, which have generally outperformed the broad bond market benchmarks. Our bond allocation to international and emerging markets as a contrarian play for some time now has produced uneven results – robust results in 2014 after a weak 2013 – but remain an important piece of our bond allocation.

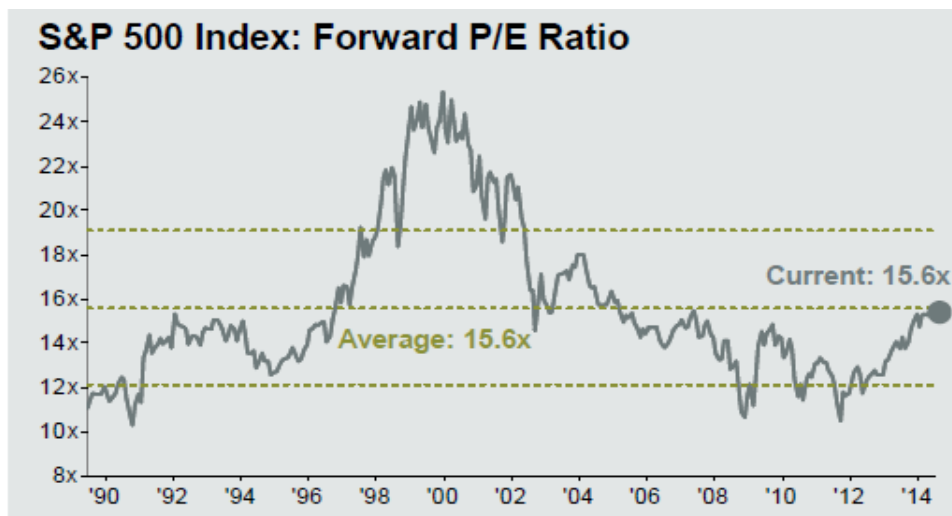
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“...expect that volatility will pick up...”

“...remain confident in the importance of diversification and exposure to less frothy areas of the markets.”

With an accommodative interest rate policy by the Federal Reserve and central banks across the globe following along, money is cheap and flowing. It feels as though the “wall of worry” and skepticism so vital to this massive rally is changing to a sentiment of modest belief. Usually the last stages of a bull market are marked by euphoria. While we seem a ways from such a party, we are wary. Even with global tensions and more fairly valued stock prices, volatility has been very low, bordering on complacency. However, we would expect that volatility will pick up due to the global tensions, the Federal Reserve reducing its bond purchase plan, higher earnings expectations not being met and from stocks with generally higher valuation levels. So we are doing little things but not making big strategic changes yet. Stocks still look relatively better to us on a valuation basis than do any other major asset classes.

Market at Average Value



Overall, we remain confident in the importance of diversification and exposure to less frothy areas of the markets. We continue to add to emerging market equities. In our stock portfolios, we have been adding to retail stocks, some financials, telecoms and technology, which have generally underperformed the broader equity market. As contrarians, this discipline and patience is vital to keep risks down, to locate value in the places others don't see it, or to wait for it to emerge.

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