

## Newsletter – October 2014

### SHOREPOINT IS TURNING 5!!!

We are very excited to share with you that Shorepoint is approaching our Five Year Anniversary! Luis and I started working together in the aftermath of the greatest financial collapse since the Great Depression. During the last five years, we have tripled the number of clients we serve, while the amount of assets we manage has risen by more than five fold. Luis and I are very thankful - to you, our clients and colleagues, for the support from our families, and to our stellar team, rounded out by Brian, Pam and Ashley. We understand that this growth has been a collaborative achievement, and we are very grateful for the confidence and support we have received along the way. We will remain focused on continuing to deliver on our commitments in the years to come and we will always strive to serve our clients better.

To commemorate this milestone, Shorepoint has decided to support two local non-profit organizations that we admire. Shorepoint will be donating \$5,000 to the **House of Possibilities** and to the **Community Preparatory School Endowment Fund**.

**House of Possibilities (HOPE)**, based in Easton, MA, is a state-of-the-art facility that provides support to families having children and adults living with developmental challenges, both cognitive and/or physical. It provides high quality programming and weekend respite services, including overnight respite that supports individuals and their families requiring 24/7 care. HOPE brings to life the ultimate potentiality for children and adults having developmental disabilities while providing much needed relief for their families.

**Community Preparatory School**, based in Providence, RI, gives motivated students in grades 3-8 the opportunity to reach for their dreams, regardless of family income. Community Prep offers all the benefits of an independent school - small classes, challenging academics, and a positive, nurturing environment - combined with the cultural and economic diversity of a public school.

One of the reasons we are so captured by these organizations is that they share our view of transparency and the importance of honest, open, and direct communication – in addition to their noble missions and work. Should you be interested in learning more and/or getting involved with the House of Possibilities or Community Prep, they will welcome you warmly.

### MARKET TRENDS 9/30/2014

<u>US Stock Markets</u>	<u>Q3</u>	<u>YTD</u>
S&P 500 Index	1.13%	8.30%
S&P MidCap 400 Index	-3.98%	3.20%
Russell 2000 Index	-7.36%	-4.40%

<u>Int'l Stock Markets</u>		
EAFE Index	-6.12%	-1.55%
Emerging Mkts Index	-3.50%	2.43%

<u>Fixed Income</u>		
Barclays Intermediate Gov't/Credit Bond Index	-0.03%	2.22%
Barclays Capital Muni Bond 3 Year Index	0.30%	1.34%

<u>Commodities</u>		
SPDR Gold Shares (NAV)	-7.59%	0.95%
Goldman Sachs Commodities	-12.46%	-7.46%

<u>Real Estate</u>		
Dow Jones US REIT Index	-2.67%	13.32%

<u>Yields</u>	<u>9/30/2014</u>	<u>12/31/2013</u>
6 Mo. US T-Bill	0.03%	0.09%
10 Yr UST	2.50%	3.03%

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

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*“Despite these dramatic ongoing events, the market moved slightly higher but with increased volatility - in both stocks and bonds.”*

*“Investors are watching intently to see if the Federal Reserve under Janet Yellen can extricate itself from QE...”*

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### Q3 2014 GLOBAL DEVELOPMENTS

As with last quarter, headlines were dominated by upsetting developments abroad during the third quarter of 2014:

- ❖ *The rise of ISIL/ISIS, a violent, fascist arm of Islamic terrorism now capable of holding land and generating revenue to fund its operations with the sale of oil on the black market.*
- ❖ *The arrival of Ebola to U.S. shores and the fear of a pandemic or epidemic becoming global.*
- ❖ *The weakening of the Eurozone and the strong U.S. dollar negatively impacting U.S. multinationals' revenue.*
- ❖ *Continued investor concern with the slowdown in China's economy.*
- ❖ *Ongoing tensions with Russia and Ukraine and the knock on effects of this conflict with Europe and the U.S. through the implementation of sanctions reminiscent of the Cold War.*

Despite these dramatic ongoing events, the market moved slightly higher but with increased volatility - in both stocks and bonds. While equities trend back to more normal levels of volatility, it is fixed income that is displaying much higher than average levels of anxiety - though both markets seem overdue for correction. Investors are watching intently to see if the Federal Reserve under Janet Yellen can extricate itself from QE (quantitative easing, or the Fed's purchase of government bonds), currently scheduled to end this month. The bond market is currently expecting that rates will begin rising mid-2015 (based on bond futures). However, we have never had ZIRP (zero interest rate policy) for this long in our nation's history. And we haven't seen the type of economic devastation of 2007-2009 since the Great Depression. So the truth is that no one knows how it will end or what the exact impact to stock and bond markets will be. Also, after several decades of the greatest bond rally in history, there exists enough insecurity and opinions, exacerbated by liquidity, that short term market moves are exaggerated. The tendency now for the Eurozone to follow our massive easing provides further distortion - via tons of easy money available on cheap credit, which, by the way, allows, if not encourages, us to remain easy for longer as well. It just seems like quite a gamble the world has made and continues to double down on monthly!

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*“...we sold shares in Gross’s Total Return Fund a few years ago because we feared it was becoming too large as to become unwieldy. We were able to find other alternative bond funds and managers ...”*

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### GROSS EXIT

At the end of the quarter, we saw headlines about Bill Gross, that pillar of the bond managing giant, PIMCO, leaving the firm for Janus. Billions of dollars quickly left PIMCO for other firms. Gross has been a great manager over the years, but, as is often the case for investors, PIMCO drew assets in more recently based on our society’s penchant for the cult of personality, more than from his recent track record. It’s not as interesting to talk about the importance of investment philosophy, process and systemization. But that’s what we try to do here at Shorepoint. In fact, many clients may remember that we sold shares in Gross’s Total Return Fund a few years ago because we feared it was becoming too large as to become unwieldy. We were able to find other alternative bond funds and managers with equal or better performance without their ability to be nimble being compromised by the constant inflows of “fast” money. Candidly this is a concern we are monitoring with the Doubleline Total Return Fund managed by Jeff Gundlach, the talented breakaway portfolio manager from TCW who we first spoke to personally when the fund launched a few years ago and has since grown prodigiously. History seldom repeats itself exactly, but it does rhyme and we are ever watchful - navigating risks and identifying opportunities.

### INVESTMENT IDEAS AND OPPORTUNITIES

Amidst the current dour global view, we thought it would be balanced to review some of the good things going on domestically:

- ❖ *Low interest rates continue , allowing homeowners to refinance and businesses to expand with less expense.*
- ❖ *Unemployment is improving with the rate finally dropping below 6%.*
- ❖ *Inflation is very subdued and below historical averages.*
- ❖ *Low energy prices may be here to stay, acting as tax cut, with oil prices down over 20%!*

*“...we had experienced a recent period of abnormally low volatility, which we expected to end; well, so far in October, volatility has reemerged...”*

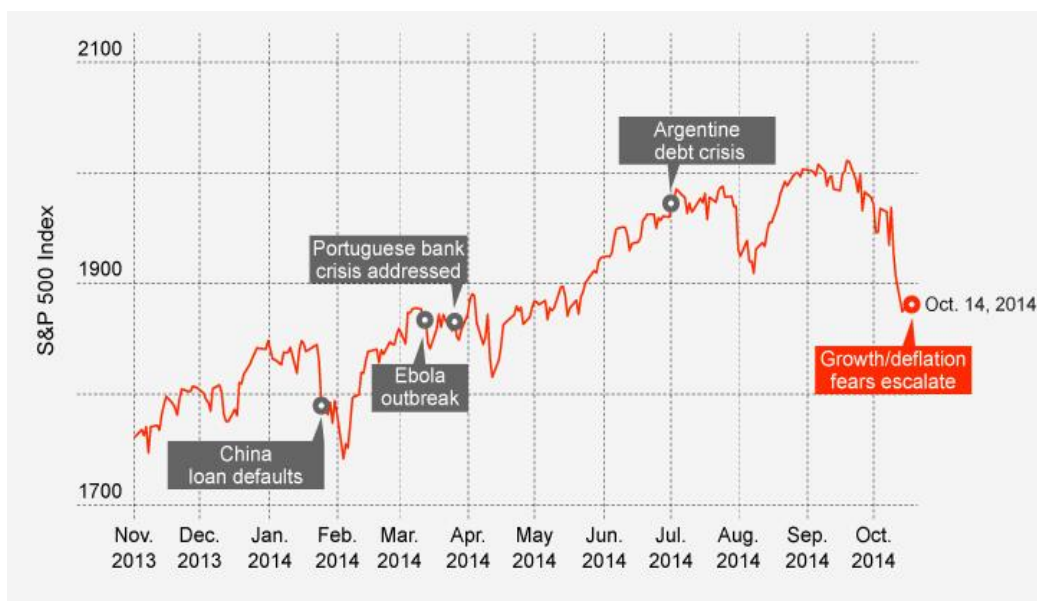
*“The increase in volatility has led to negative investor sentiment which we believe is positive for the stock market.”*

*“Our focus still remains on income generation which lowers portfolio risk and fulfills a clear need for clients.”*

*“...the S&P 500 Index has about 100 companies with a yield greater than the 10 year U.S. Treasury Bond.”*

As we discussed in previous newsletters, we had experienced a recent period of abnormally low volatility, which we expected to end; well, so far in October, volatility has reemerged, fueled by many of the issues discussed in the newsletter. In addition, some specific companies have struggled financially this quarter – hurt from the strong U.S. dollar and company-specific missteps. The increase in volatility has led to negative investor sentiment which we believe is positive for the stock market. The S&P 500 Index (large cap stocks) recently corrected almost 8% from its high and the Russell 2000 Index (small cap stocks) corrected more than 15% from its high. Market corrections are a normal functioning part of financial markets.

### SEVERAL STEALTH CORRECTIONS THIS YEAR



Source: Haver Analytics, Bloomberg L.P., as of October 14, 2014 via Fidelity Investments

We try to be contrarian when we think it is prudent, so we are using this pullback to add to small cap domestic stocks. We continue to hold and add to other out-of-favor groups such as emerging market stocks and bonds, retail stocks, large banks, and telecommunication stocks. We are also very positive on energy MLPs which have sold off on lower energy prices although that has little to do with their success. Our focus still remains on income generation which lowers portfolio risk and fulfills a clear need for clients. Currently, the S&P 500 Index has about 100 companies with a yield greater than the 10 year U.S. Treasury Bond. Overall, stocks still look relatively better to us on a valuation basis than do any other major asset class. The recent pullback put stock valuations below historical levels especially with companies holding huge cash balances, buying back stock, and increasing their dividends.

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