HAAS Fydroski Financial Services, Inc.
Investments - Planning - Education

IPE Insights

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Look Back—2nd Quarter 2015

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Those who cannot remember the past are condemned to repeat it.
George Santayana (American philosopher, poet, 1863-1952).

Influenced primarily by the enormous stimulus packages of the Federal Reserve over the past few years, many investors, once again, seem to believe that the stock market can only go up. However, history tells us that markets almost never go up in a straight line. In most cases, markets ebb and flow in their own rhythm which usually follows a pattern of "two steps forward, one step back." There were almost no steps back since 2011 as the Federal Reserve injected an estimated three to four trillion dollars into the economy as stimulus. This huge influx of stimulus money smoothed over a lot of "warts" and kept the stock market from any meaningful downturns.

In the short term, markets can be thrown off kilter by external events such as stimulus programs, wars, political dramas etc. However, in the end, markets seek to regain their own rhythm and sometimes even overcompensate to the opposite extreme to regain that equilibrium. In this second quarter, the equilibrium momentum started to change to a more negative direction in late June as the Greek debt drama caused the quarter to end on a down note. Markets were weak at the beginning of June, then surged to new highs and finally pulled back sharply near month end. As a result, on June 29, U.S. stocks suffered their largest daily decline since October 2014 after Greece shut down its stock market and banks. It is interesting to note that the last significant market downturn was in 2011 and the Greek debt crisis was also responsible for that turmoil.

Moving on to 2015 results, the second quarter box scores for the major markets saw the Dow Jones Industrial Average down -0.29% with a 2015 year-to-date return of a very modest +0.03%. The widely quoted S&P 500 index had a small gain of +0.28% with a cumulative return of +1.23% at the mid-year mark. The tech heavy NASDAQ logged the largest gain of the major indexes in the second quarter at +1.75% and was up +5.30% on June 30 *(Source: T, Rowe Price, Second Quarter 2015 Market Wrap-Up).*

The average diversified U.S. stock mutual fund eked out a miniscule +0.03% in the second quarter creating a +2.5% year-to-date return in the first half of 2015. The bulk of these returns came in the first quarter. With respect to individuals sectors, Health/Biotechnology was the clear leader of the pack with an outstanding second quarter gain of +5% giving a year-to-date return of +17.2%. Somewhat surprisingly, the biggest sector loser was Real Estate (-9.2%) followed by Natural Resource Funds (-6.1%). Unlike last year, International Stock Funds outperformed their U.S. counterparts by rising +4.8% during the quarter extending their 2015 gains to +9.5%. Wary of the much anticipated interest rate increase by the Federal Reserve, the average Taxable Bond Fund was down -0.7% for the second quarter *(Source: Wall Street Journal 7-7-2015).*

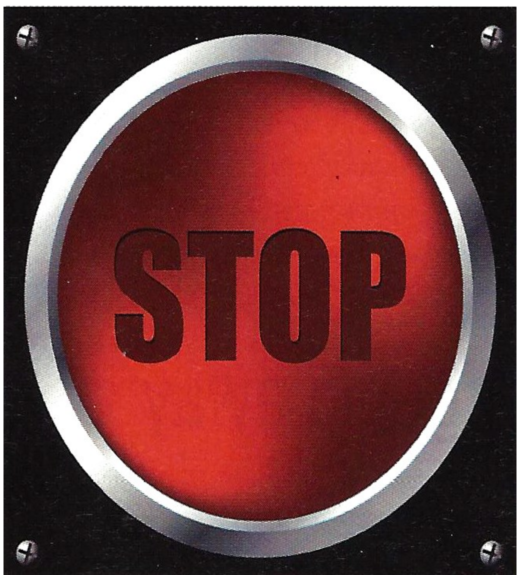
Given the torrid increase of the Health/Biotechnology sector of the past two years, the question has been raised why I do not have extensive allocations to these sectors. The answer is that I have had very regular allocations to both health care and biotech at different times. However, as Paul Harvey would say, "Now the rest of the story." In March of the last two years, both sectors have taken substantial downturns to the tune of about eight percent losses in a matter of two to three days. This type of volatility makes it very difficult to hold onto these positions for long periods of time in the risk managed models I use for most retiree clients. I do currently hold healthcare mutual funds in several of the models.

For those who are avid market watchers, as I write this article, the S&P 500 has changed direction no fewer than 15 times this year. This means traders are switching the market direction of their investments, on average, about twice a month. A report from Friday, July 24 noted that the S&P 500 has crossed its 50-day moving average a total of 27 times in the last 6 months. The 50 day moving average is used as a barometer to gage whether the market is in an uptrend or a downtrend. Some investors use the 50 day moving average to buy stocks if the S&P 500 is above the average or to sell stocks if the S&P 500 is below the average. With no Federal Reserve stimulus packages around anymore, the market is starting to act like the market again with its ups and downs but we see the frequency and intensity of these moves increasing. Whenever the S&P 500 approaches its high-water mark, traders seem to find a reason to change direction the other way.

So what is fueling this market downturn as we enter the third quarter 2015? Instead of blaming traders or computer algorithms for the volatile changes in market direction, there seems to be more serious problems right now. A reasonable explanation is the combination of slowing global growth, especially in China (the world's second largest economy) and the huge downturn in worldwide commodity prices (oil, copper etc.). As Fred Sanford used to say, "Lisbeth, I feel the big one coming." Only time will tell but the warning flags for a downturn appear to be out.

In closing, after a two year absence, I am, once again, pleased, honored and humbled to be named a Five Star Metro Detroit Wealth Manager. This marks the fourth time in the last six years for this award. On the reverse side of this newsletter, there is information that may help to prevent senior abuse. This is a huge problem in our society today and it is not going away.

If I can help with your financial planning and investments, please give me a call. Enjoy the summer and take good care!!!



5 RED FLAGS OF FRAUDULENT SCAMS

1) **They contacted you; you did not contact them.** Always obtain the phone number of the agency or business making the offer and call them. Do not call the number they provide in an email or letter.

2) **They want the issue or offer to remain secret and confidential.** If they want you to tell no one about the offer or prize, you should be on alert.

3) **You must act with urgency and immediacy.** This is an attempt to get you to act before you think things through carefully.

4) **If it sounds too good to be true, it is too good to be true.** You will need to wire money or send money using something like a reloadable money card.

5) **Money that is wired or sent using a money card is likely headed overseas.** Once sent, it is probably gone forever.

SOURCE: 1st District Attorney Peter Weir, Jefferson County Colorado

Detroit Five Star Wealth Manager

Four out of the last six years. ***Pat says—You go Jim!***

TEN COMMANDMENTS
FOR THE ELDERLY

1] Ask for identification from anyone doing a home inspection.

2] Be wary of contractors who try to scare you about dangers in your home.

3] Do not withdraw money from your bank account at the request of a stranger or someone who claims to have an official capacity.

4] Do not hire unlicensed roofers or home improvement contractors.

5] Do not conduct business over the phone without requesting that all information be sent to you in writing.

6] Do not buy anything for the chance to win a prize.

7] Guard personal information.

8] Do not sign legal papers or make financial plans without obtaining second or third opinions from someone who will not benefit from your decision.

9] Get an opinion from an attorney or CPA on any matters that may cause a family dispute.

10] Plan for your future by seeking advice from an elder attorney or planner.

SOURCE: Colorado District Attorney Larry R. Abrahamson

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