

July 3, 2015



Clients,

Most of my thoughts about specific strategies and portfolios are woven into the all-accounts Performance Summary. In particular I direct you to the comments about Nate's Notes.

My expectation is that markets will climb upward again for the next three weeks or so and eventually break higher than we have seen year-to-date. With what I am seeing now, I think it is unlikely that we will see a drop of 5% or more from where we are, and even more unlikely to see a drop of 10% or 15%. I will continue to approximate being fully invested.

A big part of the buying pressure holding up stock prices is from corporations buying their own stock, from foreign investors because our markets and economy are doing better than theirs, and from index funds which buy everything in the index regardless of merit. When corporations buy their own stock it reduces the shares outstanding and thus each remaining share owns more of the corporation and is of more value. That is true if the corporation retains its value, and hasn't used options to issue even more shares to executives and thus concentrate the wealth into their ownership. Smaller corporations and others with more domestic sales are doing better than the multinationals because of the dollar's high value.

In terms of allocations, I have been shifting more towards the High Income portfolio and preferred stocks because of the lower volatility and assured dividends. It particularly makes sense in a non-trending environment which has fewer opportunities for capital gains. A timing portfolio in an oscillating market has more risk and trading than I think is practical, especially with other people's money.

I have made an overall shift towards more allocation to the Tested Source strategy. I have come to realize that I don't have to reinvent the wheel and spend days doing statistical work where reliable and persistent patterns are hard to find; using other people's work and newsletters that give strong probabilities of strong returns will serve both you and me just fine. I'm excited about adding the Nate's Notes portfolio. There are other good newsletters out there such as from the Motley Fool and Navellier, but I'm already stretched to put enough positions in each of our current portfolios in order to achieve reliable sampling. Instead of providing specific stock recommendations, most of the resources that I read and use provide data and opinion on market and economic conditions or tools for evaluating positions for purchase or sale.

While I'm disappointed that we are not getting far better than market returns such as I have done in the past, when I look at the history of other money managers I see periods of exceptional returns followed by shorter periods of mediocre or below market returns. While our overall returns are not exceptional, we do have exceptional returns from some portfolios. I'm not embarrassed by our overall returns. Probably fewer than 10% of money managers have a comparable performance record over 13.5 years. For my business as a whole, rather than to push the river, I'm taking more of an attitude of flowing with it and trying to navigate as I do so. I'm old enough (Dr. Kaplan says I have a health age of 55.), and we are personally financially secure enough, that if the business declines I can ride with that. If we get a few quarters of exceptional returns the business will likely grow and that is fine also.

I would welcome the opportunity to meet with any or all of you to review your portfolios and your financial goals. It is often productive to review how what I manage fits in with your other investments and assets, or to review the best avenues for achieving your long-term financial needs and goals.

Thanks for the trust of your business.

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