Polaris Wealth Advisers, LLC
2013 Market Commentary
Polaris Educational Series

June 2013

The Disciplined Investor

As the markets have fallen from their highs from May 21st, we are beginning to receive phone calls and e-mails showing concern about the overall markets. I want to reiterate some of our investment strategies and the discipline that we are taking with your portfolios. I'm going to apologize in advance that this will be a long e-mail, as I try to explain the markets and our investment strategy.

Ben Bernanke's speech. On Wednesday, Ben Bernanke, the Chairman of the Federal Reserve, said that the Federal Reserve may start tapering off the monthly purchase of U.S. Treasuries towards the end of the year and may stop buying treasuries all together by mid-2014. This is a type of Quantitative Easing (QE), which we discussed in our last educational e-mail. Right now the Federal Reserve is buying $85 billion in treasuries a month. It is purchasing these bonds to create an artificial demand for our U.S. Treasuries, thus forcing bond prices up and yields down. This action makes it easier for corporations and individuals to borrow at lower rates. This makes companies more profitable and increases the amount that individuals can spend.

My "takeaways":

1) Bernanke did not indicate how much the Fed would "taper" back the purchasing of U.S. Treasuries, or exactly when.

2) He did indicate that the economy and unemployment were both improving, which is a good thing.

3) The Federal Reserve will almost certainly only cut its Treasury purchases if there is a continued improvement in the U.S. economy. This alone should ensure continued strength in corporate profits.

4) Short-term interest rates are expected to remain at 0% levels, and it seems that an increase is not close on the immediate horizon. The Fed has stated that they will not consider raising rates until unemployment rate drops to 6.5%.

5) Quantitative Easing is a silent killer of your net worth. It's a nice way of saying that our government is printing money, or devaluating your dollar. If they say they are going to slow the printing press, that's a good thing (as long as the economy is strong enough to withstand it).

Indexes are just barometers. Investors often get transfixed on how a particular index is performing compared to their portfolio. The problem is that you don't own that index. It's also easy to shift your focus to the best performing index. This act is setting you up for constant disappointment. The MSCI EAFE Index (Europe, Australiasia and Far East), for example, is up 21% over the past 12 months, as of June 21st close. We've invested in it at times. The largest country weighting in the EAFE is Japan. The next largest is the United Kingdom. Each represents over 21% of the index. Switzerland is the next largest country, having a larger representation than Germany or France in exposure. China, Brazil, Russia, and India are not in this index, even though they are the second, sixth, ninth, and tenth largest economies respectively. Is this really a great representation of the international markets? It is the index of choice, however. Just not a great barometer to what is going on internationally.

Even the S&P 500 is not a perfect index. It is a weighted index. The top 20 stocks in the S&P 500 represent almost 30% of the index's weighting. The top 50 stocks represent almost 45%. Again, it is just a barometer of what is going on in the stock market, not a way of investing.

Our disciplined approach works. All of you have hired us to take a proactive approach to investing in the markets. All of you have also hired us to protect you against downside risks in the market. We have promised a well-diversified portfolio of stocks and bonds. That means that you are not 100% invested in the stock market.

I always try to explain the market using analogies. If someone passes you on the highway going 100 miles per hour, do you care? Are you willing to take the same risk as them? If not, let them drive their own race. It also means that sometimes we are going to get caught up in traffic. We'd love to zigzag our way through traffic. But as we know, shifting to the lane that appears to be moving the fastest often results in switching lanes just as that lane comes to a complete stop. Then, the lane that you were once in starts moving again, leaving you in an even worse situation.

Likewise, a singular investment approach will sometimes do better in the short-term and appear to be a great solution. But it's often a bad approach to accomplishing your long-term goals. Market volatility can feel uncomfortable. But it's necessary to be patient and remain focused on your time horizon and risk profile. A well-allocated, diversified investment strategy works over time.

As always, I welcome your comments and feedback. I look forward to hearing from you soon.

Sincerely,

Jeff