Polaris Wealth Advisers, LLC

Polaris Educational Series

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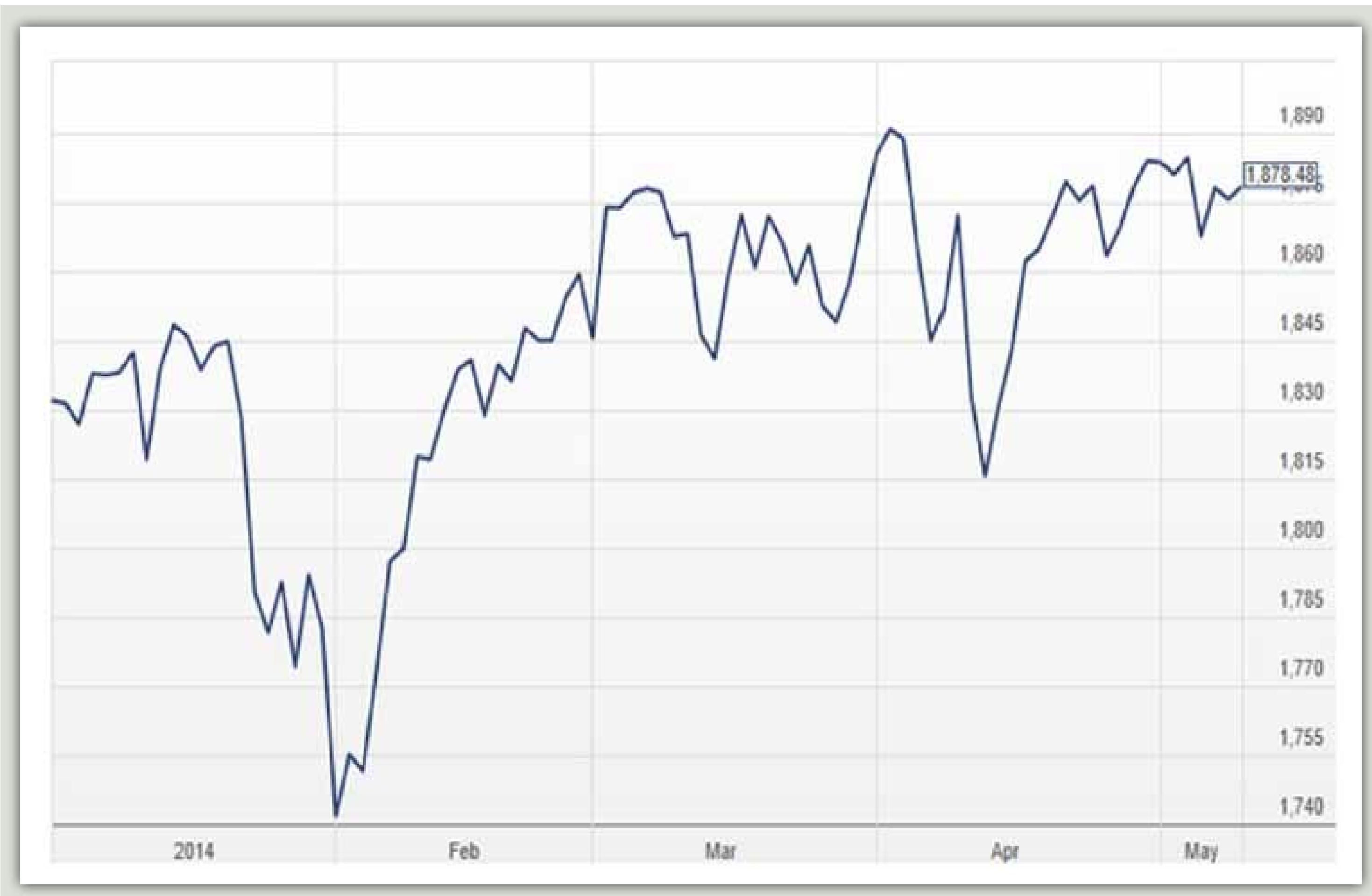
Changing Investment Trends

This year has been anything but dull. The S&P 500 dropped almost 6% from mid-January to early February, going from being up a little over 1% to being down almost 5% in just a few weeks. It has since rebounded to being up 2.54%, as of May 9th.



What is more interesting to me has been the change in leadership. What worked last year is not working (as well) this year, and what didn't work (as well) last year is doing very well this year. One of the best examples is to look at the bond market and gold last year compared to this year. The chart on the next page shows four different investments, each an ETF covering a segment of the bond market or gold: BND (Vanguard Total Bond Market), TLT (20+ Year Treasury Bonds), GLD (Gold), and TIP (Inflation Protected Treasuries). 2013 was one of the worst performing years for these categories, and the return data in the charts shows that all of them were down significantly.

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Going into 2014, most investors were not looking to shift any portion of their portfolio into these laggards of the prior year. Yet these investments are some of the best performing asset classes for 2014, as seen from the chart found below. Unless you got into them early (in January), you missed out on the majority of the return that they have experienced for the year.

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There has also been a tremendous shift from "growth" oriented investments into "value" oriented investments. The three graphs to the right demonstrate how value has fared compared to its growth counterpart. In each case, value is the blue line, growth the red. The only difference between each chart is the assets size of the investments; large, mid, and small respectively. In each of the charts to the right, you will see that growth began the year outperforming value in each respective asset class. In mid to late March, value began to outpace growth and is now significantly outperforming in each asset class.

Large-Cap Value vs. Large-Cap Growth ETF

Mid-Cap Value vs. Mid-Cap Growth ETF

Small-Cap Value vs. Small-Cap Growth ETF

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Even the sector strength has shifted. The top performing sector in 2013 was Consumer Discretionary. To date, it is the worst performing sector. Utilities, on the other hand, was one of the worst performing sectors last year. Year-to-date, it is the best performing sector. Again, this indicates a shift from momentum to more defensive segments of the market, as seen in the graph below.

Utilities ETF vs. Consumer Discretionary ETF

The Polaris Solution:

Polaris Wealth Advisers manages each of our seven investment strategies dynamically. This means that we try to identify where the strength and weaknesses are in the markets and reallocate our portfolios accordingly. For example, we shifted our ETF strategies from being over-weighted in growth into value several weeks ago after it became evident that the trend had shifted. This move has added return to our clients' portfolios while reducing risk (value oriented investments historically take less risk than their growth peers). Our largest domestic core position is in mid-cap value. We also sold out of our consumer discretionary ETF several months ago, after capturing strong gains due to 2013's price movement. As we saw the momentum wane and then turn negative, we were quick to sell this once top producer and replace it with more defensive ETFs.

We have made very similar moves in our individual stock strategies. We have been moving out of growth stocks or low paying dividend stocks and have been moving into less volatile segments of the market with companies that pay stronger dividends. These investment decisions were made to try to stay in front of the strength of the markets and avoid areas of weakness.

All investments decisions are clinically made using Polaris' proprietary strategies. Our allocation changes are made incrementally because rarely will the markets provide absolute evidence of an impending market movement. We manage money in this manner due to the old adage, "The markets can remain irrational longer than you can remain solvent." In other words, you may think that you are completely correct about why the markets should be doing something, but it doesn't mean they have to act that way. We'd rather be partially correct, than completely wrong and never insist that we fully understand the mood of the markets. Arrogance is a great way of being separated from one's money.

We look forward to discussing the markets and Polaris' strategies with you at any time. Feel free to contact your local Polaris representative or feel free to call me.

Sincerely,

Jeff