

Quarterly Update

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ALMOST ONE IN FIVE - 61 million Americans are on Medicaid (health care coverage for low-income Americans), 19% of our population of 319 million (source: Centers for Medicare and Medicaid Services).

SEARCHING FOR HIGHER YIELDS - The yield on the 10-year government paper of various countries around the world as of the close of trading last Friday 4/11/14 included the USA (2.62%), France (2.01%), Italy (3.22%), Greece (6.32%) and Japan (0.61%). The yield, by definition, reflects the perceived default risk of the different countries' issued debt (source: Financial Times).

NOT UP TO SNUFF - The 75-year (1939-2013) average growth in the size of the US economy (i.e., GDP annual growth) is +3.7% per year. However, the actual growth in the economy has not reached +3.7% or greater in any calendar year since 2004 (source: Commerce Department).

The first quarter of 2014 has come to a close and we have recently ushered in the beginning of Spring. There are many events to look forward to this time of year: new blossoms on flowers, seasonal cookouts, warm weather outdoors, and the official beginning of the baseball season. This time of the year also means that the professional golf season is in full swing, and if this year's Masters at the famed Augusta National in Augusta, GA is any indication, it will be an exciting year on the PGA Tour. As a golfer you are allowed to carry a total of 14 clubs in your golf bag, and a savvy golfer knows that each club in that bag has a purpose. At times the right choice is to pull out the driver and attempt to hit the ball as far as you can down the middle of the fairway. On the green, a golfer would opt for a putter, as this is the club that would give him or her the greatest probability of success. Other times, if a golfer finds him or herself in a sand trap, there is a club for that too.

In golf, club selection could mean the difference between a reasonable putt for par or landing in the strategically placed pond right behind the green. It could be the difference between making the cut or not, or even winning a tournament. Imagine for a minute that every golfer was forced to select one club at the beginning of a round of golf, and hit every single shot with that club? How would this affect a golfer's performance on the course?

How would this type of strategy work in the financial markets? Do you want to pick one stock, sector, or even asset class to invest in and be bound to stay with that selection for the duration of a specified period of time? What would happen if a group of stocks was selected for your portfolio at the beginning of the year and the stock market goes through another 2008? Or, what if your portfolio was allocated to fixed income and you had to hold that throughout the year while interest rates all of sudden rose substantially? This is the type of "buy and hold" mentality that hurt many investors' portfolios in 2008, and subsequently cost investors opportunities on the upside.

We do not have to look back much further than the past couple of years to see the importance of having a sound portfolio management discipline that involves evaluating what is actually playing out in the markets, and avoiding "indicators" that attempt to tell us what the market should be doing. Our approach to investing is based upon finding leadership in the market, and attaching a discipline that offers rules for accepting that a trend is no longer working. Our discipline is based upon the irrefutable economic principles of supply and demand, and dictates that we adapt into assets controlled by demand and away from those controlled by supply.

I know there is much uncertainty surrounding the markets given things like the conflict between Russia and Ukraine as well as continued fears over a sluggish economic recovery. This uncertainty has caused many investors to make investment decisions based on fear versus making decisions based on market conditions. Just like any golfer, we have a full complement of clubs to swing. Our "clubs" take the form of stocks, sectors, and asset classes. For the past couple of years the US Equity market has held the dominant trend of leadership, but at some point this will end and we will put that club back in the bag. Until then, US Equity remains the focus for growth opportunities as this asset class continues to rank as the strongest out of the five broad asset classes we evaluate.

Thank you for your business and support.

P.S. If you think this type of information would be of benefit to anyone you know, please share this communication with them.

These are the views of James Steen & Jason Pearson. No independent analysis has been performed and the material should not be construed as investment advice.

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