The sign of Four, four and 4
(with apologies to Sir Arthur Conan Doyle)

Thanks for tuning-in. I'm Skip Helms and I own a small investment firm in Biltmore Park, North Carolina. We help people who are retired or getting serious about it.

This is our second quarter market newsletter. The first three months of 2015 were pretty dull. The S&P 500 barely broke even. That dullness wasn't equal, though. The Health Care and Consumer Discretionary groups in that index had strong gains. Utilities, Finance and Energy had modest losses. The other five groups in the index muddled-along.

In my last couple of newsletters, I mentioned that big companies were starting to catch-up after the smaller firms led market performance since 2009.

That could still happen but last quarter, mid and small companies regained their dominance. The Dow Jones Industrial Average lost a fraction of a percent while the Russell Mid and Small-cap indexes were both north of 4%. In April, big-caps reasserted themselves.

I'm going to get back to this in a minute.

We saw more stock volatility in the first quarter. I think a lot of this is Fed Watching. The Federal Reserve has much greater powers since the crash. Speculators are hanging on every word for clues about interest rate direction. They didn't get much to go on. Corporate earnings were a little soft too.

I agree with a lot of economists that think the Fed will start gradually raising short-term interest rates this summer. That only takes us from zero to low so I don't see it choking off the economy. It might even spur investment from companies who face higher borrowing costs.

This is the beginning of May and one of Wall Street's many sayings is, "Sell in May and go away". The six months we just entered has a much lower traditional return than the colder six months.

If you invested $10,000 into the Dow Jones Industrial Average on May first, 1950, sold out on October 31st and did the same thing with your net proceeds every year, by 2014 you would have lost $227. If you had done the same thing on November first and sold on April 30th, you would have made $738,000.

Effectively, the entire return of that market came in the "good" six months of the year.

The trouble with using that as an investment strategy is that for most of those 65 years, we had yield alternatives in cash or bonds. Those rates are now at 75-year lows. So the stock market is historically flat through the summer and yields aren't much better.

Every quarter there is no end of talking-heads on TV and the net throwing facts and conjecture at us. It is way more than any of us can actually use.

Today I want to talk about how WE sift through this kind of economic data.

I also want to talk about how we see our role in the chain of investment decisions.

The inspiration for today's talk was earning the business of a family who had been with an investment firm I know REALLY well.

Like I usually do, I ran a technical analysis on their existing portfolio to see if there was anything we could keep. I also ran a fundamental scan to see what their experience had been.

What I found wasn't surprising. The equity portion of their holdings had 4% committed to mid-cap growth, 4% to mid-cap value and 4% in a mid-cap blend.

In 2006, the same company had a four, four and four mix. In 2009, when market conditions had changed a lot, it was four, four and four.

Two months ago; still four, four and four.

I'm picking on mid-caps because they don't get much attention. We are talking about American companies between two and ten billion dollars in value. They aren't big industry leaders and they aren't sexy internet apps. They're momma-bear stocks.

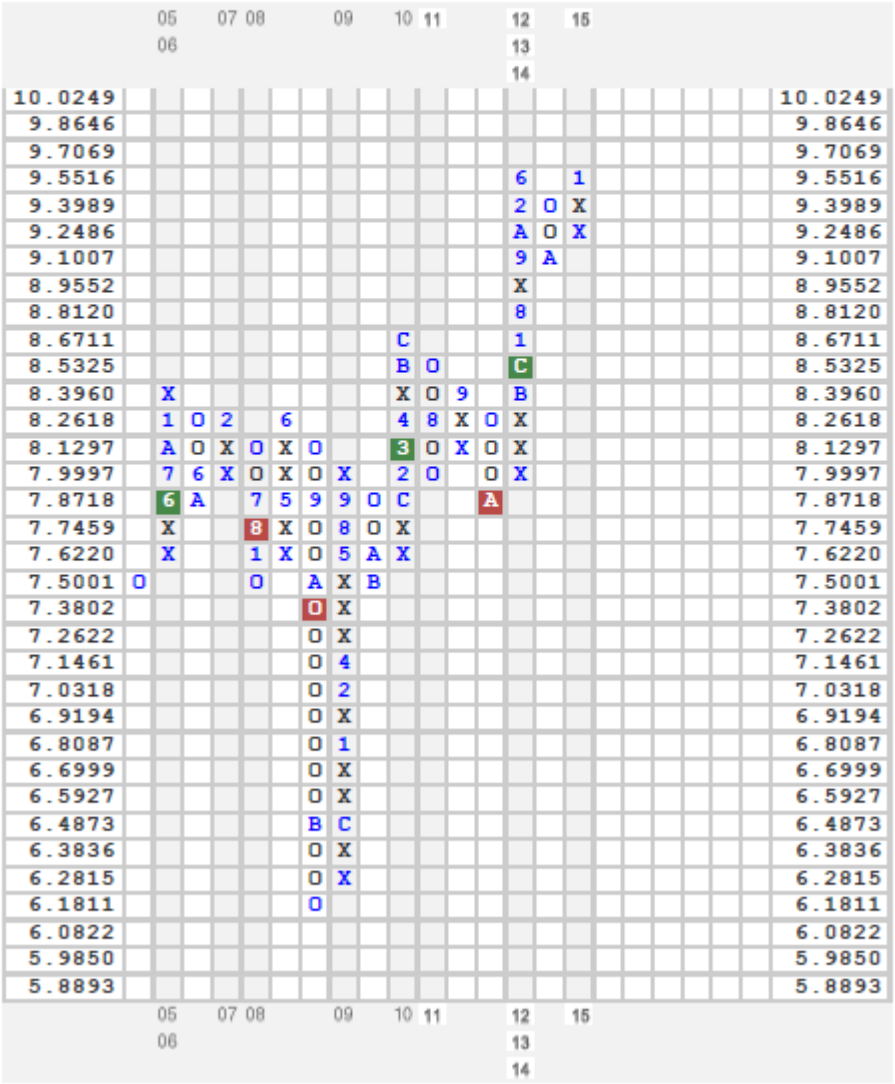
We spend a lot of time looking at how different market-caps and styles affect performance. Let me show you some of our homework.

Russell Midcap Index (RMCC) vs Dow Jones (DJIA)

As of 4/10/15 **RS Calc:** 9.659

Chart generated with a 1.625% scale with a box reversal for 10 year(s).

Performance



This is a chart that divides the price of the Russell Mid-cap Index by the price of the Dow Jones Industrial Average. I won't bore you with the how's and why's but when the Dow is stronger, the chart goes down. That's what happened in the financial meltdown when Mid-caps lost 21% versus the Dow. Since 2009, mid-caps have outperformed the Dow by 65%.

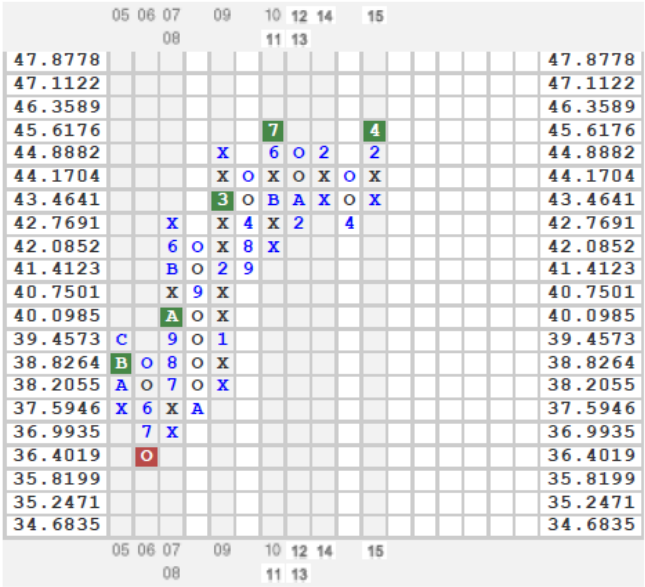
This little dip here is the dent the Blue Chips put in the overall trend. Maybe this is the beginning of a shift in strength but for now, mid-caps still have the momentum.

Russell Midcap Growth IX (RMCCG) vs Russell Midcap Value IX (RMCCV)

As of 4/10/15 **RS Calc:** 45.858

Chart generated with a 1.625% scale with a box reversal for 10 year(s).

Performance



Drilling down a little deeper, this next chart takes the Mid-cap Index and splits it between Growth Stocks and Value Stocks.

For the last ten years, mid-cap growth has done 25% better than the same-sized value stocks. On this chart, Growth has been in command the whole time with generally higher highs and higher lows. The green squares are called buy signals and we've had four in a row.

The charts I just showed you aren't secret. If I can look them up, anybody can. Please keep in mind that these charts only compare two things at a time. A Buy Signal isn't a buy recommendation. They could both be losing money. We use hundreds of these to get a bigger picture.

Some of our NEWER readers might be wondering; if mid-cap growth stocks have been thrashing the blue chips for the last six years, why does MY advisor only have 4% of my money there?

It's a good question. It's a really good question.

I can't speak to all situations but generally speaking, investment services where you hire a firm to make all the portfolio decisions are based on risk management – not performance or goals. The manager's job is to create a mix of assets that have done well together within a range of volatility – ups and downs.

They allocate money to the individual sub-managers like our mid-cap specialists but they can't stretch that risk budget without permission. They don't have to get out of the way when things look bad either.

The job of managing the managers belongs to the advisor. It is his or her job to build a strategy. In a perfect world, they are supposed to evaluate your situation, market conditions and how the manager is doing to keep you on track.

That's where I think these things break down for a lot of investors. Six years is a long time to not notice a major trend. In your portfolio meeting you look at the performance, talk about golf or the grandkids but the subject of realigning the assets doesn't come up.

This really gets to the heart of what we do.

I consider it my responsibility to suggest asset allocation strategies to my clients based on risks and opportunities right now. The big, strategic holdings don't change often but they do change. Clients expect me to tell them when they do.

This really isn't about mid-caps. Not many managers get fired because they don't have enough momma-bear stocks. But what about weighing US stocks versus foreign or bonds

… or whether you ought to own any stocks at all.

I'm not always right and I don't bet the farm. My investment philosophy is to try to have more money rising than falling.

Right now we continue to favor small and middle-sized US companies over large companies. US stocks are number one out of six categories in our model.

Foreign Stocks went to second in our weightings on April 16th. They've done this before but this looks like it has more staying power. I'd like to see a couple confirmation signals but this is one of those big shifts I just mentioned. International stocks, for the most part, still haven't recovered from the 2011 correction the way the US did. If they start to catch-up, that is welcome news. That applies to both developed and emerging markets.

Bonds just fell to third place. I fought my own research here but I really wasn't comfortable taking aggressive positions at these high prices. I also don't want to second guess the FED or FED speculators trying to squeeze the last drop of yield.

Cash, foreign currencies and commodities hold the bottom three places. Oil is appealing but I don't like the idea of trying to catch a falling sword. Both oil and gold showed signs of strength late last year but it didn't last. We'll leave those alone for now.

OFFICE NEWS

I do have a little housekeeping.

Since the last newsletter I've put up a couple podcasts. One is a conversation with Bob Wansker who is my life-insurance advisor. Bob really knows this market and I hope you will have

a look on the news page if you are evaluating coverage or just what to see what has changed since you got your policy.

The other is an offer to evaluate people's 401(k) accounts using our portfolio discipline. I've been doing this for clients for years and they keep telling me to take it on the road. It is the same sort of evaluation you just saw with the mid-caps except we compare all of the investment choices on the same page.

This podcast is specifically for retirement plans but the analysis works the same for any investment where you have a limited range of choices. A lot of insurance and bank products have the same format.

It's free with no obligation, doesn't take very long, and I'm the only one I know around here who does anything like it. If you know someone who is confused with his or her 401(k) investment choices, I hope you will forward the link. You can find that on the WHAT WE DO page.

Thanks again for watching and enjoy this beautiful spring!

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