



the Lonely Bull

October 2014

a market *perspective* by Riverplace Capital

Number 65

THIRD QUARTER

Challenging and choppy; that is what the stock market had to offer this past quarter.

Pandora’s Box of fears was opened and out flew the Ukrainian crisis, Iraq, Syria and ISIL, European economic slowing, China slowing, the potential for higher interest rates among them; almost too many to count.

In the meantime, the U.S. economy showed signs of accelerating. In fact, it appears that it has achieved a higher growth rate as a result of stronger manufacturing, auto sales, consumer strength, increasing energy independence, and an improving housing market. The second quarter GDP growth rate bounced back to 4.6% from the weather affected first quarter. The third quarter should be strong with estimates of 3% growth and more. The fourth quarter looks promising for similar growth as well.

Employment also continues to improve. The economy is now regularly posting more than 200,000 new jobs monthly. The one lagging factor is wage growth, but don’t be surprised if that also accelerates over the next year. So with fundamentals seemingly still improving, why do we have all the volatility?

Investors are trying to look around corners and predict when this market advance will come to an end. Even though the evidence is extremely weak, the still sharp memories of the 2008 financial crisis are fresh. Investors simply do not want to be caught long again and sell at the slightest of concerns. However, the fundamentals will win out. Once an investor sells, what alternatives and competing values does he have? Not many is the answer and what was just sold still offers good value. [So where do we go from here?](#)



“Great fortunes in the stock market are earned over long periods of time.”

— Anonymous



TALK WITH US

As of the beginning of this quarter (October, 2014) we are providing direct account access through the Riverplace Capital web-site, www.riverplacecapital.com. You may review your Riverplace Capital account(s) at your custodian if they are either Charles Schwab or Pershing.

You may also see your account through a service that we are providing to you; e-Money. E-Money is an aggregator that will allow you to not only see your Riverplace Capital accounts, but others that you may have including bank accounts, credit lines etc. In short, it is a tool for you to review your entire financial picture in one place.

The inclusion of other accounts, outside of those managed by us, is up to you and requires some set-up. We will help you with this. Once set-up, e-money will automatically update all your accounts by direct links with other custodians and vendors. Everything will be listed

on your account access page available through our web-site.

In addition, the e-money service allows you to store a digital image of important documents in an electronic lock box. Leaving your heirs or emergency back-ups one place where they can see and manage your finances. This can provide peace of mind to you.

E-money also provides tools so you can get answers to a variety of financial questions. We can do this for you too, but having all the information in one place is what makes this possible.

This new service is free to you. We want to keep you informed and help you achieve your financial goals. As always, we will help you set-up the initial access to your Riverplace Capital account(s) and then link other accounts should you desire, **Talk with Us.** ♦



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FORECAST

ECONOMY

Evidence is mounting that the economy is now growing at about a 3% annual rate; faster than the past few years. This rate is fast enough to continue to pull new workers into the workforce. It will eventually lead to wage growth. Wage growth will lead to a stronger consumer, leading to an even stronger economy.

This economic recovery is a long way from being finished. The fact that it has endured for over five years does nothing to signal its end. The fact that the recovery was rather slow, so far, does speak to its longevity. Recoveries either end because of excesses that develop or the Federal Reserve ends them with high interest rates in order to bring inflation under control.

So far there are no excesses that rise to the level of being able to end this recovery. The Federal Reserve will raise rates, but it will have to raise them significantly just to return them to normal. They are a long way from needing to slow this economy.

EQUITIES

U.S. stocks should be higher by year-end. Fundamentals usually win out over fear, but sometimes it takes time. Another factor is the opportunity cost. If one sells stocks, many of which pay good dividends and still have good prospects for growth, what are the alternatives? Interest rates are still low and barely pay a return over the inflation rate. Real estate is still not performing well enough to attract lots of new capital. Commodities are a tiny market and not viable for most investors. So, what is left is the stock market. Sells have to go back to being buys.

Selling, then within a short period of time buying back into the market rarely yields good results. It is usually disastrous and chews up capital more surely than being patient with high quality securities. Remember the old adage, “Traders die broke”. Great fortunes in the stock market are earned over long periods of time.

FIXED INCOME

The Federal Reserve is managing interest rates. They will go up when the Fed wants them to move up. We, along with many others, have tried to relate the economy to where rates ought to be. They should be higher, but the Fed does not want them there yet.

Is the Federal Reserve behind the curve based on the economic strength we are seeing; probably, but it may have other considerations related to our trading partners. Our monetary policies may be governed by considerations that go

beyond our own borders. Nevertheless, the Fed has signaled that by mid-year 2015, it will begin normalizing rates.

Even though the market fears higher interest rates, it is generally good news signaling that the economy is healthy and normal demand for money is setting rates. ♦

INVESTMENT STRATEGY

EQUITIES

We are staying the course. Stocks still offer good value and we are finding plenty of opportunities. There is little sign of the types of excess that would lead to the end of this cycle. Certainly, trading excesses have emerged in various sectors, but the market has corrected these as a matter of course.

The stock market has actually been undergoing rolling corrections. That is a process where one sector is sold off, but others come to the fore and the averages do not change very much. The increased volatility in late September is an indication that this process may be coming to an end, not just beginning. If that is the case, the fourth quarter could be quite good.

We believe the economic acceleration we are seeing will benefit those companies that are business cycle sensitive. Therefore, our emphasis remains with these firms. In short, we are looking for earnings growth and want to own those companies that are most likely to experience it.

FIXED INCOME

Until rates move higher, we remain defensive toward fixed income investments. We believe there is little to gain and much to be lost in this sector. So until the Federal Reserve allows rates to normalize, we will either stay in cash or invest only in short-term fixed income securities.

Our income strategy has taken the opportunity to own high dividend paying companies. These have provided excellent income while simultaneously offering growth opportunities. So far these companies have appreciated and produced capital gains in addition to their dividend returns. When interest rates climb to be an attractive alternative, we will start including bonds in our income strategy.

WEALTH MANAGEMENT

Our asset allocation portfolios focus on value for large and midcap securities. Growth is secondary. Significantly under-represented are small-cap stocks as we believe these are expensive and no longer offer good potential for appreciation.

We track all the various sectors and subsectors so we can make appropriate allocations. We try to anticipate where capital will get the best returns with the least risk. ♦

MAJOR INDICIES

as of 09/30/2014

Large Cap Stocks (S&P 500)	6.7%
Dow Jones Industrial Average	2.8%
Mid Cap Stocks (S&P 400)	2.1%
NASDAQ Composite	7.6%
Small Cap Stocks (Russell 2000)	-5.3%
MSCI EAFE	1.53%
Barclay Aggregated Credit Index	5.92%
Inflation	1.7%

Equity indices are nine-month returns excluding dividends

NOTICES

Check out our new web site. It offers a lot more information for you including a blog with recent updates. We look forward to your feedback. www.riverplacecapital.com

Riverplace Capital offers our clients free financial planning. We believe strongly in the value of planning as it helps document goals and objectives, and provides a benchmark to measure progress. Planning helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212.

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