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THE TEMPO VANTAGE

January 2015

Beware the Headline

Despite some volatility along the way the fourth quarter of 2014 turned out to be a fairly good time to be an investor - at least for domestic equities. For the quarter the S&P 500 made +4.9% and small cap stocks did even better at +9.8%.

The news was not as good on the global front as international stocks fell -3.2%.

Bonds were more of a mixed bag for the quarter. While the average intermediate term bond fund was up +1.1%, other bond categories were not as successful. Inflation-linked bonds, high yield bonds, and bank loan bonds were all down (-0.8%, -1.6%, and -0.7, respectively).

The returns for the year as a whole mimicked the fourth quarter: domestic equities did well (S&P 500 +13.7%, small cap +5.7%), foreign equities did poorly (-5.0%), and bonds were mediocre (intermediate bonds +5.7%, inflation-linked bonds +1.8%, high yield bonds +1.1%, bank loan bonds +0.6%).

I've written in the past how the media tends to be sensational and provocative. Those who follow the headlines and advice do so at their own peril and at the risk of their portfolios.

Below is a list of actual headlines from the Wall Street Journal:

10/8/2014 U.S. Stocks are Sunk by Europe Fears
10/8/2014 Dollar's Surge Imperils Corporate Earnings
10/9/2014 Fed Wary on Global Growth, Strong Dollar
10/13/2014 Global Slowdown Threatens Recovery
10/15/2014 Global Oil Glut Sends Prices Plunging
10/16/2014 Deflation Risk Feeds Global Fears
10/16/2014 Traders Fight to Keep Clients' Fears in Check
10/25/2014 Investors Resume Rush for Stocks, but Fear Lurks
10/31/2014 U.S. Extends Solid Growth, Sidestepping Global Tumult

As the late, great Paul Harvey would say, here is the rest of the story.

In the midst of all the bad news, stocks bottomed on 10/15/2014. But the negative headlines continued for two more weeks. By the time the Wall Street Journal declared that the U.S. was extending solid growth (10/31/2014) the S&P was up 8.3%.

Imagine if you had acted on the advice of The Wall Street Journal. You would have missed the entire gain for the fourth quarter. In fact you would have turned a +4.9% return for the S&P 500 into a -3.4% loss!

I don't mean to pick on the Wall Street Journal. Select any business publication or TV broadcast and you'll find the same reporting. These outlets are not in the business of offering sound financial advice. They want to maximize their circulations and viewership.

Tempo Financial Advisors' 4th Quarter Investment Performance

Tempo's investment programs all performed about where you would expect in the mixed bag that was 2014. The good news is that all programs generated positive returns, which is always goal #1.

The **Tempo Dynamic Income Program** returned 0.4% for the quarter and 3.4% for the year. From an absolute return perspective these are nothing to crow about. From a relative perspective, though, this is quite good considering we beat 3 of the 4 bond categories mentioned above both for the quarter and year. Overall it is fair to say that Dynamic Income was our least successful program in 2014 from an absolute return perspective and the most successful from a relative return perspective.

The **Tempo Dynamic Growth Program** gained 1.9% for the quarter and 5.0% for the year. Both these figures are spot on with the blended benchmark we commonly use. I certainly would have preferred to beat the benchmark (and I'm sure you would as well), but at the end of the day I don't mind matching it in a modestly positive year.

Returns for the **Tempo Lifestyle Program** for the fourth quarter ranged from 2.5% for conservative accounts to 3.7% for aggressive accounts. For the year the returns were 4.7% and 6.9%, respectively. The good news is that returns for the fourth quarter were a bit ahead of our blended benchmark. The bad news is that the returns for the year were a bit behind the blended benchmark.

Within Lifestyle we certainly had a few notable successes and failures in 2014. On the plus side were our tactical overweight position in healthcare and our dollar-hedged (against a strong dollar) foreign holdings.

On the negative side was our stance relative to bonds. As you know from reading past issues of the Vantage, we believe that interest rates will eventually rise and have positioned accounts accordingly. But rates have remained remarkably low and our stance has hurt performance in the short run.

Company News

Have you taken advantage of Tempo's ability to analyze your specific Social Security situation and to show you how you can maximization lifetime receipts? Those who have report that it was it eye opening and very useful. Contact me today for this free analysis.

Wishing you a happy, healthy, and prosperous 2015.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Daniel J. Traub