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THE TEMPO VANTAGE

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A Race to the Bottom

The markets in 2015 are in need of an identity. Thus far neither the bulls nor the bears can make a claim.

There were 61 trading days in the first quarter. Of those the S&P 500 was down 35 days and up 26 days. In fact there were only two times during the quarter that the S&P gained for more than two consecutive days. Despite this the S&P 500 did manage to eke out a fractional gain for the quarter (+0.4% before dividends). Not much of a trend either way.

The bond market was also somewhat directionless. Of the 61 days, prices were higher (i.e. interest rates lower) on 34 days and lower (higher interest rates) on 27 days. And while gains in the bond market were somewhat better than for stocks, they were still modest (BarCap Aggregate Bond Index +1.5%).

Why no clear direction? A great question and one I will answer. Bear with me as I weave my response through a little story.

Have you ever watched a show called *American Pickers* on the History Channel? On the show are two self proclaimed "antique archaeologists" who buy old items they think are valuable in the belief they can then sell them for a profit. Invariably they are in a collector's house, find something they are interested in buying, and ask the owner, "what would you have to have for something like this?" Their wording drives me a little crazy. Something like this? How about exactly this!?

The point is that in their world they have an excellent reference point for the value of everything they buy. A 1946 Harley Davidson Knucklehead motorcycle with all the original parts and paint? No problem. A 1930 cast iron toy fire engine manufactured by Hubley? Sure.

We are not so lucky in the investment world.

It is true that a lot of times we can search for periods in history where some of the metrics line up with the current environment for clues as to what the future might bring. But the metrics don't always line up very well. Now is one of those times.

We are coming out of a period where virtually the entire world was in a recession. While the United States is recovering fairly well, others continue to teeter on the brink of recession (The Europe Union and Japan). But what makes this period unique is currency wars.

The United States was first to adopt extremely accommodative monetary policies to stem the recession tide. And it worked. More recently others have followed.

In fact you could easily call this a global race to the bottom. Bottom in this case means the lowest interest rates. Lower interest rates lead to lower borrowing costs, make riskier assets (i.e. stocks) more attractive, promote a weak currency, and make a country's goods less expensive around the world. If you are the only country doing it that is one thing. But the whole developed world is doing it.

The question on everyone's mind is: what will be the result of these easy money policies? The fear is that a period of extremely low interest rates, left unchecked, will lead to a period of high inflation. Although inflation in the U.S. is still low, The Fed is trying to determine just the right time and amount to raise interest rates to stem excess future inflation but not stifle growth today. And eventually the rest of the world will have to deal with this same question.

In the meantime we are in uncharted territory. Will we get it right? Will the rest of the world? There is no way of knowing. Either way, I suspect that since the rest of the world lags the U.S., and the U.S. has not yet begun to raise interest rates, we are years away from an answer.

Tempo Financial Advisors' 1st Quarter Investment Performance

I love it when I can say two things about Tempo's performance: All programs experienced positive results and all programs beat their respective benchmarks. I can say both these things about the first quarter of 2015.

Let's start with the **Tempo Dynamic Income Program**. Our return of 1.9% for the quarter was better than both the BarCap Aggregate Bond Index and the Conservative Allocation Benchmark (1.3%). We accomplished this through positions in longer term bonds (both corporate and government) and real estate investment trusts (REITs) that performed well.

The only position we owned that held back performance was our allocation to managed futures funds. (Interestingly, managed futures was one of our best holdings in the fourth quarter of 2014.) But, as we have discussed in the past, diversification is all about buying uncorrelated assets. There were days in the first quarter when everything else was down except for managed futures, and there is a value to that.

If you know anyone who is lamenting their inability to get a decent rate on their CDs you may want to tell them about the Tempo Dynamic Income Program. It earned 4.2% over the last year, 5% (average annual return) over the last two years, and 6.3% (average annual return) over the past 3 years. I doubt they can get these returns from a CD!

The **Tempo Dynamic Growth Program** also did well in terms of absolute returns and returns relative to benchmarks. Our return for the first quarter of 2015 was 2.2%. This is better than both our blended benchmark (+1.5%) as well as moderate allocation funds (+1.8%). Our positions in large cap growth U.S. equities, healthcare, and REITs all performed better than average and bolstered our returns.

As always we will be rebalancing Dynamic Income and Dynamic Growth accounts early in the second quarter. It's too soon to say for sure how our positions will evolve, but I would expect relatively modest changes to our positions at this juncture.

Last up is the **Tempo Lifestyle Program**. Our returns for the quarter were between 2.4% for conservative accounts and 3.2% for more aggressive accounts. These returns were about 1% better than our benchmarks. We can attribute this to a few factors.

First is diversification. Mid cap U.S. equities, small cap U.S. equities, and international equities all outperformed the S&P 500. This is the opposite of what happened last year when these categories all underperformed the S&P 500. There are continual periods of under and over performance between the various market segments. While we may alter their relative weighting within Lifestyle accounts we never entirely eliminate any of them.

The second reason is the relative outperformance of our strategic overweight positions in healthcare, technology, and Japan equities.

And the third reason is that we continue to hedge some of our foreign holdings (both equity and bond) against what has been a persistently strong period for the U.S. dollar. These hedged positions added between 3% and 5% to returns for the quarter as compared to un-hedged funds in the same categories.

Company News

I am running out of playful ways to announce that I have once again been honored with the **Five Star Wealth Manager Award**. After all this is the fifth time I have been so honored - thanks to you! I pledge to do my best to come up with a new announcement each time. Really this never gets old, at least for me. This year I was inspired by Brittany Spears to help with the announcement.

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