TEMPO
Financial Advisors, LLC

550 Cochituate Road, Suite 25 ■ Framingham, MA 01701
Tel 508.655.7827 ■ Fax 508.655.7829
www.TempoAdvisors.com

THE TEMPO VANTAGE

July 2015

Grexit - What is it and Does it Matter?

The stock and bond markets are leading very different existences right now. Historical evidence has taught us that stocks are riskier than bonds. Risk means more variation in returns - higher highs and lower lows. Lately that axiom has been turned on its head.

In the second quarter stocks were more stable and bonds more volatile. Consider that in the second quarter stocks experienced seven days where prices moved more than 1% (either up or down). Long term bonds experienced 25 such days. The average daily absolute return for stocks was 0.5%. For long term bonds it was 0.9%.

The riskiness of bonds also showed up in terms of higher highs and lower lows - mostly lower lows. Long term U.S. treasuries declined (prices lower, yields higher) by over -9%. Stocks, in contrast, were essentially unchanged.

It seems fairly clear that the rise in yields was due to expectations that the Fed will raise rates sooner rather than later.

But any intermediate/long term expectations that we may have for the stock and bond markets have been overshadowed in the short run by what is going on in Greece and the Eurozone.

What is Grexit and what does it mean for us? Grexit is the combination of Greek and Exit and refers to the chance that Greece is forced to exit the European common currency (the Euro).

On June 30 Greece was officially in default on its bailout loans and has since failed to accept a new agreement to extend those loans.

The first thing we must realize is that Greece is very small, not only on a global scale, but even within the Eurozone. If reaction to Greece were based solely on its contribution to the world economy this would be a non-event.

So why is this important and what are the potential outcomes?

The most important aspect of Greece is not so much Greece itself but the implications for the rest of the Eurozone.

If Greece is forced out of the Euro, the European Central Bank (ECB) would be sending a clear message to the rest of Europe, especially weaker countries (Spain, Portugal), that countries can't flout the rules and expect unending financial support. Greece would return to the Drachma, could devalue its currency, and the stage would be set for a recovery. The rest of Europe could move on as well. While some fear this outcome I view it as positive.

The other resolution would have Greece remaining on the Euro. This could be good or bad.

It would be good if Greece and the ECB agree on reasonable terms to continue the loans that are generally within the ECB guidelines. Again, the message is sent - play within the rules.

It would be bad if the ECB were to cave and offer a sweetheart deal out of desperation just to keep Greece in the Euro. The message here to weaker countries is don't worry about the rules, we'll bail you out. This outcome has more serious implications for the stability of the European Union.

Regardless of the resolution the most important thing is that we get beyond this. The uncertainly, more than anything else, is holding us back.

Tempo Financial Advisors' 2nd Quarter Investment Performance

Tempo's performance in the second quarter was mixed.

The bright spot for the quarter was the **Tempo Lifestyle Program.** Recall that most equity categories were flat and most bond categories were down. In fact a portfolio consisting of 60% S&P500 and 40% BarCap Aggregate Bonds would have been down -0.5%. With this as a backdrop I am pleased to report that Tempo Lifestyle accounts were flat to up +0.5%.

We owe our success to being overweight in a few equity categories (healthcare and financial) that out-performed as well as to our stance relative to bonds. We have no exposure to long term bonds, and in fact we own a short position in this area. Last year the short position hurt our performance. This year it has helped. Whereas long term bonds lost -9% in the second quarter, our short position, which moves the opposite direction, gained +11%.

Our **Dynamic Income and Dynamic Growth Programs** were not as successful. Not only did bonds struggle in the second quarter, but so did most other income oriented investments.

As you might gather from its name the **Tempo Dynamic Income Program** is all about income oriented products. The best we could have hoped for in this environment was a loss between -1% and -2%. Instead we dropped -4%. Not as bad as long term bonds but certainly worse that we've come to expect from Dynamic Income.

The first few days of the third quarter has seen a modest uptick in Dynamic Income accounts as the situation in Greece as well as a sharp decline in Chinese equities has spurred a rally in bonds.

Tempo Dynamic Growth accounts also struggled in 2Q, losing -2.4%. The culprits, as they were for Dynamic Income, were bonds and managed futures. Dynamic Growth did better due to its exposure to equities. Not only did equities hold up better, but they also reduced the exposure to bonds and managed futures (as compared to Dynamic Income).

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