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THE TEMPO VANTAGE

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Good Things Come to Those Who Wait

One of the nice things about the stock market is that you never have to wait very long to be rewarded for patience. The first quarter of 2016 was one of those times.

The first six weeks of the year was one of the worst starts ever for stocks. From January 1 to February 11 the S&P 500 was down -10.5%. And large cap U.S. equities was one of the better performing sectors! The NASDAQ, small cap stocks and international stocks were down -15%, -16% and -12.5%, respectively.

Happily no Tempo clients panicked. And you were rewarded. From February 12 to March 31 the S&P 500 came all the way back and other sectors pared losses significantly. For the quarter the returns were: S&P 500 +0.7%, NASDAQ -2.8%, small cap stocks -1.9%, and international stocks -3%. Certainly nothing to write home about, unless you consider where stocks were on February 11th.

Why the big swings in stock prices? Good question!

As we entered the year the Federal Reserve (The Fed) had embarked upon the long awaited systematic raising of interest rates. And the prospect for as many as four rate increases in 2016 had the market spooked. Thus the initial decline.

But weakness continued in the rest of the world and The Fed backed away from an aggressive plan to raise rates in favor of a more cautious approach. Suddenly we had (and still have) the prospect that interest rates could stay low for longer than we had expected.

This had three effects. First is that interest rates came back down (i.e. higher bond prices). Second is that equities rose. And third is that the dollar weakened.

Will these recent trends continue? In the short run they might. But longer term they will not. The U.S. economy is ahead of the rest of the world in recovery and we will continue to be ahead of the rest of the world when it comes to raising interest rates. When that happens interest rates will rise and the dollar will strengthen. It is inevitable.

Tempo Financial Advisors' 1st Quarter Investment Performance

Tempo Lifestyle Program clients experienced modest losses in the first quarter that ranged from slightly down to down about -1%. These results trailed our benchmarks by anywhere from 0.2% to about 0.6%. Not a disaster, but not our most shining moment either.

The question is why?

As I wrote in the 4Q 2015 Vantage Newsletter "Lifestyle portfolios are currently positioned to benefit from a strong dollar and rising interest rates." As you now know that is counter to where the markets were heading in 1Q 2016.

Another factor is our overweight position in healthcare. Due to both the continued fallout from the Turing Pharmaceuticals issue (see the 3Q 2015 Tempo Vantage) as well as the potential consequences of the Presidential election, healthcare stocks under-performed in the first quarter.

In a nutshell, many of the themes in our portfolio that had been helping us for the past year or two were suddenly working against us.

Given the above I am pleased that we were able to stay within hailing distance of our benchmarks.

The relative under-performance in healthcare stocks is overblown. And if I am right and higher interest rates and a stronger dollar are inevitable then we will eventually be rewarded. Remember, good things come to those who wait.

The Tempo Dynamic Income and Tempo Dynamic Growth Programs were both up by +0.6% in the first quarter.

Relatively speaking this was a better outcome for Dynamic Growth. As you know most equity categories were negative in the first quarter. Our return of +0.6% was a little better than one of our benchmarks and a little worse than the other.

The 0.6% return for Dynamic Income, on the other hand, trailed benchmarks by about 1%. This is mostly due to the fact that we were not exposed to long term bonds, which did well once the Fed changed course.

Dynamic Growth and Dynamic Income accounts have been rebalanced for the second quarter. In both cases our models have positioned accounts about as conservative as they ever get. If the market struggles we will do well. If the market soars we will trail.

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