July Conference Call Transcript
Wednesday July 9, 2014
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Jim: Thank you Lisa and everyone for dialing in, I was just aware that the fabulous finish to the world cup game tonight just preceded our call. So I hope that we get callers to dial in having seen that sort of conclusion.

I respectfully point out that it is officially summer here in Richmond, humid most of the day and hotter than most people want it to be. Thank goodness for all the other seasons that helps us get through the year.

I remember the year my family and I moved to Richmond; people said to us, "Richmond, it's so hot in the summer." I pointed out that it was hot everywhere in the summer, so if you tonight are experiencing what we have, I feel your heat.

Meanwhile, the markets continue to stay heated and mostly in a positive way which brings tonight's topic to conversation, "Why do financial markets go up when the world seems to be going down?" The answer is actually another question, "Why shouldn't they?"

I'll return to that in a moment, but first these comments from Bernie about summer and vacation travel recommendations and advice and important information about college funding tools and technology to help in assessing future costs.

Bernie: Thank you, Jim.

I hope that everyone is having a great summer and able to enjoy some out- door events. I know several of you like me haven't taken their summer vacation yet, but are gearing up for it. In thinking about vacations, I looked up, in one of our planning tools, the word "travel" to see if there were any articles that might be helpful to folks. There were several articles that came up during my search. I read the following ones: Planning for Travel and Insurance to Consider When Traveling.

- Planning for Travel highlights items like: paying for, health insurance, money, itinerary
- Insurance to consider discusses: Health Insurance, Travel Insurance, and Car Insurance (it may be possible to reduce costs while gone if you are gone a long time).

I'll send a link in our transcript for these articles or you can call or e/mail me directly for the information. Another great resource is AAA if you are looking for tips around travel and planning.

Here are the links to the articles referenced above if you are interested:

- Planning for Travel
- Travel Insurance
- Health Insurance for Travelers
- Car Insurance

I know that some of you during the summer may also be taking your kids or grandkids to look at colleges that they might like to attend in the future. I know this is what I'll be doing next summer, which is hard to believe. It is even harder to believe that Tameika's oldest will be going away to college this year. Anyway, one of the questions that we often get is "How Much Will College Cost?" One of the items that has been developed and added to college websites (since I attended college many years ago) is what is called a College Net Pricing Calculator.

I would encourage you to use this and do some comparisons as you begin to narrow your search down with your college bound children. If you aren't familiar with this let me know and I'll send you a quick video that walks you thru what it is and how it can be helpful to you when trying to compare the cost of different colleges. I will also put a link to this in the transcript re-cap.

To view the video on the College Net Pricing Calculator, please click the link below:

- College Net Price Calculators

My final item tonight, is a save the date. We are looking to hold our 3rd Annual Picnic and Shred Event at Lewis Ginter Park on October 11th in VA. Please mark your calendar and look for details via e/mail from Jim. Everyone is welcome, so for our non-VA clients if you are passing thru the area or have friends or family that are close by feel free to get us their contact information and we would be happy to extend an invitation.

I think that I've taken up enough of the call time, I'll now turn the call over to Jim to get the latest on interest rates and the current state of the markets.

Jim: Too often, as investors, we get caught up in thinking that if the economy is bad, the markets should be bad. What happens is that every once in a blue moon these two ARE aligned and we are fooled into thinking that is what should happen all the time. It's not.

Take no better example that the highly regarded real estate index developed by MSCI, a NY based provider of market indexes, which increased almost 70% from 2009 to the middle of 2012. In that 3 ½ year period, please tell me that real estate was in favor. . . . You can't, because it wasn't. But why did real estate investments go up?

In fact most of the time, market values are out of sync based on how we think they should be. One of the reasons is that we have feelings and the markets, of course don't. Well not exactly, since market prices are demonstrative illustrations of investor feelings about investments putting their money where their feelings are. There is just more money chasing investments up than are chasing them down.

That's economics 101—there are more buyers than sellers—and for those of you who follow our work, I am sure that resonates with you the way it does with me. Put another way, you could have 100,000 investors selling an investment but if 1000 investors HAD MORE MONEY and were buying the same investment, the price would go up. Sentiment based on the number of investors would be negative, while the sentiment based on dollars would be positive.

As you can see, it is what the VOLUME OF MONEY is that matters, not the NUMBER OF PEOPLE who feel a certain way.

Pricing is determined by the VOLUME OF MONEY, not the NUMBER OF INVESTORS who may feel or be acting in a certain way.

What helps support this is that safe investments normally found in government bonds and especially money market are low, nearly as low as in the late 1940's and early 1950's. Because of that, investors are willing to seek out stock investments that may pay more than those rates, but accept the risk that comes with stock, forgoing the safety found in bonds, which pay much less.

By the way, in researching rates for tonight's call, I was shocked to re-visit the 1945-46 period where rates were low but inflation approached 25%, only to fall to 3% deflation in 1947-48, only to rise to 10% inflation in 1950-1951. Talk about volatility.

But that was before the 1951 Treasury-Federal Reserve Accord, which brought to a close an extraordinary time in the monetary and financial history of the United States. That's because in the early years of World War II, the Federal Reserve pegged interest rates low, so that the government could finance the war cheaply.

It didn't matter that inflation was high, which today would bring higher rates in the treasury markets, the Fed was mandating rates to be low for their purposes, for the economic purpose of running the government. Any similarity to how the Fed has mandated rates low today appears coincidental.

What's the state of the markets today? Let's look at that. Demand is winning in the war of supply and demand. More stocks are rising instead of falling, currently 69 % of the stocks on the New York Stock Exchange are rising, and 31% are falling. While more buyers than sellers are in the market (DOLLAR VOLUME-WISE.)

When that number approaches 70% of all NYSE stocks, that tends to be the higher end of the range, which typically runs from 30% to 70%. Therefore, this dynamic creates some pause or reason to be careful, but it does not mean that we do not invest. We continue to look for a direction change of about 6% before we would get more cautious.

Simply put, that is our barometer, our indicator of current sentiments which suggests keeping a positive vision for now. Until things change. And that's when we change, but not yet.

Interest rates? We follow those too. When rates are low, we suggest seeking advice about re-financing or using the mortgage market to assist in buying real estate. It's also a good time to be negotiating favorable rates with credit card companies.

When rates rise, as they appear to be doing again, this makes any existing fixed income investment worth less, creates some confusion on how consumers can best finance life's expenses, makes it more costly for businesses to manage their borrowing and can have a dollar for dollar negative impact on earnings and the bottom line of a corporation. It can also change the direction of the housing market to less positive by reducing the number of new home owners applying for and obtaining mortgages.

Interest rates currently look poised to move higher in the work we do and we still suggest that at some point in the future as a consumer in a more inflationary world we will grapple with higher rates in all the major fronts listed above.

Lastly, before I open for questions, I want to welcome a number of new clients to our practice and to this call. It is to you that I say this: It is indeed a most flattering event when the client who referred you to us did so. It is without question the highest compliment me and my team can be paid.

It is our goal to continue to provide the same client service, asset management and access to important investment information and professionals that brought you to us.

Recently, someone asked me how they should describe us to a friend of theirs. While we build, manage, monitor and help transfer wealth, it's how we do this that matters. We have:

- A comprehensive and personalized client service model. *We don't forget you once you come to us.*
- An investment ownership process that is understandable and completely transparent. *We'll teach you anything we do for you at any time.*
- A meaningful way in closing the loops, crossing the "T's" and dotting the "I's" of wealth, life and estate matters. *We won't let you leave behind things you should have done before you departed.*

To you I say THANK YOU.

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