SECOND QUARTER
JUNE 30, 2014

DEIGHAN
WEALTH ADVISORS



*20 Years*

**Deighan Wealth Advisors
1994-2014**

## MARKET COMMENTARY

Like a great, green starburst lighting up the sky, the Dow burst through 17,000 just in time for the Fourth of July. The event marked a new high for the storied index that tracks the results of thirty US stocks, closing well above the US stock market highs of 2008. Should we be celebrating, or preparing for the inevitable decline that follows a market "melt up"? Those who have read our newsletter year after year have anticipated that our answer will be a doleful: "Neither!" Let us surprise you! We think a toast of gratitude is in order. The fact that the US stock market has risen steadily to a new high in less than six years following a precipitous free fall is a good thing. It is a well earned success. Corporations large and small had to come to terms with a very challenging environment, and most went back to basics, first retrenching and then slowly rebuilding their inventories as the end consumers rebuilt their ability to buy their products. Of course the haunting question is: Are these market levels sustainable? In the short-term, we think so. People like to chase trends both positive and negative; on that steam alone the stock market may continue its upward path awhile. However, over the longer stretch, the sustainability of the market level will depend upon corporate earnings. The next round of earnings will be telling, but we are cautiously optimistic that they will be sound given the improvements in the US economy.

Taking a look at the domestic economy, the most recent numbers were pretty bland with the US showing a slightly lower annual growth rate for the first quarter of 2014 than the previous two quarters at 2.68%. However, as much as we might like to forget it, we had a horrendous winter in 2013-2014. Now, many are looking for a much improved GDP growth rate of 4%, a better demonstration of underlying support for stronger corporate earnings. The harsh winter probably hit the early 2014 jobs numbers too, but on July 3rd the number was up dramatically reporting 288,000 jobs added. In truth, there is more to the story here. Some reports say that educators had to work far later in June than normal and that may have inflated the jobs number somewhat. Additionally, all is not rosy for jobs seekers. Many part time workers still want full time work, and many remain underemployed compared to their aspirations and educational backgrounds. This underutilization of our human resources is part of what economists call "economic slack." And while it is certainly disappointing and harmful to those comprising the statistic, economic slack suggests we have more room to grow before growth peaks out and wage inflation marches in.

In other words, while slack may mean we have more healing to do, it also may mean that inflation will be in check awhile longer, because the real fuel for inflation is widespread wage inflation. Wage inflation is the component that really catches the eye of the Fed. If wage inflation is not occurring, the Fed is more likely to just continue its measured march to remove the crutch of quantitative easing. Forecasts have been for the Fed's borrowing program to end mid-year 2015. However, the recent jobs number may speed things up to the end of the first quarter 2015, and, if the economy consumes its slack and starts to heat up, the next response will be interest rate hikes. If the Fed initiates interest rate increases, the good times will slow for a bit. In our last newsletter, we mentioned 1994 when the Fed increased rates five times over the course of a year negatively

*"WAGE INFLATION IS THE COMPONENT THAT REALLY CATCHES THE EYE OF THE FED."*

impacting both bond and stock prices. It was as if an overzealous greenhouse owner decided to attack a leggy petunia with an aggressive shear back. All the flowers hit the floor, but it set the stage for new and stronger growth that lead all the way to 2000.

The best scenario for a stronger economy would be for low rates to continue for a while longer allowing businesses and homeowners alike to borrow favorably. Corporate merger and acquisition activity has increased recently and it would be nice if this could continue as well. The residential real estate market has certainly had its ups and downs, but transactions have increased and prices are starting to pick up a bit.

*"SWINGING FOR THE FENCES, OTHERWISE KNOWN AS MARKET TIMING, IS A BAD STRATEGY"*

On the international front, China's slowing growth has stabilized, and fears of a steep decline have abated somewhat. In India, the new election has increased hopes of economic reform. Europe is still having some trouble dragging along the weaker EU members, but the European Central Bank has cut rates to negative territory to stimulate its economy. Europe remains dependant on oil and gas from the wildcard Russia. Fortunately, Europe's energy demands are lower in spring and summer, and there are some indications that economic sanctions may be calming Russia's territorial challenges. Additionally, Ukraine elected a pro-European candidate for President and protests were contained. Despite the troubles worldwide, the MSCI All Country World Index showed a robust return of 5.2% for the quarter giving the index a gain of 6.5% for the year with most countries contributing positively to the returns.

In sum, sure, let's raise a glass to slowly working our way out of one of the worst financial crises in memory. While we are always cautious in our optimism, there are reasons to believe that things may continue in a positive direction for a while. Certainly, a shock to the system could have negative market ramifications. Terrorism, acts of war, a medical epidemic, or an unknown explosive hidden in the balance sheet of a major financial institution could all be problematic. Those threats are always with us. Probably, as outlined above, the most tangible real worry is experiencing too much of a good thing. Too much success too fast could lead us again into sloppy business practices and permanent wage inflation. Then, the Fed would have to actively cast out a sea anchor by raising interest rates, and while retirees may at first blush cheer for the higher investment rates, their happiness will be short lived as their real rate of return will be wiped out by inflation. We hope we march along with the tortoise and resist the dash of the hare.

So, here is the part you knew was coming: With the US stock market hitting new highs, we recently fielded a call from a thoughtful client who asked, "I've been thinking about these stock market levels with the Dow approaching 17,000. Should I make my charitable gifts of appreciated securities early this year? Do you think that would be a good idea? You know, just in case?" Our answer was clear, "Certainly! It is a great idea. Just make it clear to the charities that this is your 2014 gift so they won't expect something at year end too." Does this mean we think the end of the bull market is near? No, it does not. However, we re-balance accounts in good times and in bad, harvesting and redeploying gains. Similarly, clients who have specific plans to make gifts with appreciated securities might as well make those gifts when their securities have clearly appreciated. On the other hand, investors look at things differently. We recently received an email from a participant in a retirement plan that went like this: "I am in my mid-sixties, and will be retiring at the end of the year. I have invested my account in the Aggressive Portfolio, but think I should now move my assets to a fixed rate before retirement. How should I best do this?" We were quick to respond to the inquiry with words of caution. Swinging for the fences, otherwise known as market timing, is a bad strategy. Study after study shows it doesn't work. Portfolios should be carefully diversified reflecting the investor's time horizon, risk tolerance, and reward expectations. This is why we have developed tools to help our clients determine the most appropriate mix of investments for them. A retirement plan participant with a short time horizon before retirement is probably assuming far too much market risk investing in an aggressive portfolio. At the same time, going all the way to the other extreme upon entering the retirement phase of life, especially at a time when interest rates are near historical lows, is also risky. The risk in this case is living to age 93 on a fixed low rate while inflation ravages the purchasing power of the payout. Therefore, although sometimes we do feel like a broken record, we must carry on with our message of moderation and balance. The right balance of growth and defensive securities through thoughtful diversification works, and investment discipline is essential to raising the likelihood of realizing your goals. We care very much about all of our clients. Since our mission revolves around helping clients by managing their investments so they can live their best lives, we hope you agree that good advice bears heartfelt repeating.

Best wishes for a warm, healthy, happy summer!

## INVESTMENT CHANGES

The following investment changes were made in the most recent quarter. Depending on your portfolio holdings and Investment Policy Statement, these changes may or may not be applicable.

Removed
Target Corp.
Ticker: TGT

A number of factors contributed to our decision to remove Target, but among the reasons are the recent data security breach and the company's clumsy response, the fact that their merchandise doesn't appear to resonate with customers as it has in the past, and their "cheap chic" message seems to have disappeared along with any other energetic marketing efforts. We still like Target, but think that they aren't as young and nimble as they once were, and seem to be struggling to find their way as a mature company. Recent defection of top-level management, stagnant to declining customer traffic and continued operating margin erosion lead us to believe that there are better opportunities available to fill the Consumer Discretionary space in client portfolios.

Added
TJX Companies, Inc.
Ticker: TJX

This leading global off-price retailer has replaced TGT in the majority of client portfolios that hold individual stocks. TJX is the parent company of Marmaxx in the US, which includes Marshalls and TJ Maxx stores. Home furnishings chain, Home Goods, is also US based. TJX has a strong presence in Canada, the UK, and now in continental Europe – an expansion that is currently in its infancy. We think that TJX's value proposition of offering fashionable brands at discounted prices is attractive to a wide demographic of today's consumers. The prospect of significant expansion into continental Europe, the company's solid financials, and the current valuation of the shares make them an attractive addition to client portfolios.

Added
Baron Growth Fund
Symbol: BGRFX

We've known and respected portfolio manager Ron Baron's work for many years, and some clients may recall that we held Baron Asset Fund many years ago in portfolios. Baron Growth Fund is a diversified stock fund that seeks to identify attractive small-sized companies. Baron's four main investment criteria for investment selection are: (1) significant opportunity for growth, (2) sustainable competitive advantage, (3) strong management, and (4) attractive valuation. The managers take a long-term ownership perspective in their exhaustive research, and may hold investments as they become larger – which tends to classify the fund more as a mid-sized company stock fund. Baron Growth has a strong long-term track record, consistently out-performing peers and comparable indices. In most portfolios, we have replaced or substantially reduced the mid-sized equity index fund or ETF in favor of Baron Growth Fund.

Added
Calvert Global Water Fund
Symbol: CFWAX

This fund is focused entirely on the water industry, investing at least 80% of its assets in equities of US and non-US companies significantly engaged in water related services or technologies. We like the fact that it offers the hedging characteristics of other natural resource funds. Water as an investment has its own unique opportunities as well, given that global water infrastructure needs will require trillions of dollars in investment globally in just the next two decades. This fund, along with GLFOX (described below) has replaced most or all of the diversified commodities funds and ETFs in client portfolios.

# SOUNDBYTES

Maine Community Foundation recognized and thanked Jean Deighan for her nine years of service at their annual meeting in May. She served the maximum number of terms allowed and had to retire from the Board, but continues as a member of the MCF Investment Committee.

Lucie Estabrook and Jenifer Wilson attended a two-day training seminar in NYC for MoneyGuide Pro financial planning software.

Jenifer Wilson concluded an action-packed year as President of the Bangor Rotary Club. During the year, the club made a five-year commitment to donate $100,000 to Sarah's House (Cancer Hospitality House of Maine), and for the first time in nearly 70 years hosted the Rotary District 7790 Conference in Bangor.

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## INVESTMENT CHANGES
(*continued*)

Added
Lazard Global Listed Infrastructure
Symbol: GLFOX

This fund is an actively managed portfolio that invests in infrastructure companies including ports, toll roads, airports, railroads, and communications. GLFOX's portfolio managers focus primarily on "preferred infrastructure" companies – those that own physical infrastructure assets meeting specific criteria such as predictable revenues, profitability, and longevity. We think that global infrastructure is an attractive asset class with low correlation to global stocks and bonds. This fund, along with CFWAX has replaced most or all of the diversified commodities funds and ETFs in client portfolios.

### Disclaimer

Past performance is no guarantee of future results. The information contained herein is obtained from sources believed to be reliable, but its accuracy or completeness is not guaranteed. This commentary is for informational purposes only and is not a solicitation, or a recommendation, that any particular investor should purchase or sell any particular security. All opinions are subject to change without notice.

## WELCOME, TYLER HOXIE!

We are very pleased to announce that Tyler Hoxie accepted an employment offer from Deighan Wealth Advisors in May of 2014. Tyler joined us following a three month internship here at Deighan Wealth Advisors during his last semester at the University of Maine. He graduated in early May with his Bachelor of Science degree in Business Administration with concentration in Finance, and a Political Science Minor. When we offered the permanent position to Tyler on the Monday following his graduation, we were delighted when he declared, "Yes! It is the best graduation present ever!"

Before attending the University of Maine, Tyler was appointed and sponsored by Senator Olympia Snowe to represent Maine at the U.S. Senate Page School in Washington, DC, where he served as a Senate Page. However, he was unafraid to take less glamorous jobs as well, working all the way through his four years at U Maine. Tyler's former manager at McDonalds described him as "the most reliable employee I have ever had, someone I could trust to open or close the business. I could always count on him to rise to whatever the occasion required." Tyler has been an active community volunteer and looks forward to additional opportunities to share his knowledge and skills.

Tyler's day-to-day activities at the firm include account administration, operations, advisor support, and contributing to the firm's investment process. He is currently studying for the Series 65 Investment Advisor Representative exam which he will be taking soon. Please join us in welcoming Tyler Hoxie to Deighan Wealth Advisors.

## SAVE THE DATE

Our Seasons of Maine Art Exhibit will open to friends and clients on Thursday, September 18, at 4PM. This year, Bangor artist Nina Jerome will join artists who have formerly shown at the Seasons of Maine event. Nina was our 2013 holiday card artist and we are very excited to show her work.

As always, this is an art show and party, but the art will be for sale directly through the artists. Our firm will again contribute an amount equal to 10% of each painting sold to the Maine Community Foundation's Penobscot County Committee to distribute to an arts organization in the Greater Bangor area. Don't miss the amazing art, great food, drink, and fellowship! We hope to see you there.

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