The Carnegie Counselor

THE CARNEGIE INVESTMENT COUNSEL NEWSLETTER THIRD QUARTER 2013

# Exposing Axioms

With a history reaching back nearly forty years, our firm has had the pleasure to labor through many market cycles. Along the way, we have honed our skills by learning from mistakes and avoiding emotional decisions.

This is a humbling profession since we are graded on a quarterly basis and there is almost always a stock that performed better than those in our portfolios. This is also a business that runs rampant with theories, adages and axioms suggesting a great investor can be made by following a few easy steps. If only it were so, then everyone would be wealthy. Certain theories, however, *can be taken to the bank* while others are pure conjecture.

The latest theory that made the rounds on Wall Street this summer even had an ominous sound to it, *The Hindenburg Omen*. This threatening scheme was so rare, yet so foreboding, it nearly always proved accurate that a serious market crash was foreboding. The details of the charade are actually boring, but if five random numerical events occurred, and they did, then within forty days the stock market always crashed-except, of course, not this time. It is always much more interesting to forecast a crash than to suggest the market will advance higher. This is the same rationale the nightly news doesn't report the safe landing of every plane at the airport; however, if a plane misses the runway, we now have headline news.

Every year we encounter the *sell in May and go away* theory. While it is true the volume of stocks trading hands does reduce during the summer months, it does not always result in the performance of stocks going down when the days are long. There are years the market slides in the summer; however, over the last two years it has been a good period to be an investor. We know of no investor who has ever actually followed this theory, but we expect this theory to continue to be popular with the media. The volume of transactions are actually nearly a third lower from five years

## Carnegie Welcomes Kyle Kopeky

Kyle Kopeky joins Carnegie as Client Service Manager. Kyle has extensive industry experience and has held positions as a Senior Associate and Office Manager for two family office and advisory firms. In these roles she has handled client administrative needs, custodian interfacing, back office support and general office oversight. Kyle is a longtime Cleveland native and resident of Chagrin Falls, Ohio. She is active in her community, serving as past president of University School Parents Association, volunteering at the Cleveland Botanical Garden, and a board member of the Chagrin Valley Little Theatre. Kyle likes to sail, ski, skeet shoot and play tennis.

ago, but the stock market has eclipsed the 2007 market highs, so volume and share prices are not mutually exclusive.

There are investment axioms we consider golden and support the disciplines used in managing client capital. All year long the most quoted government entity has to be the Federal Reserve Bank. This powerful independent entity is posed with the daunting task of supporting full employment and limiting inflation. Their ability to drive interest rates and control the money supply has produced the adage, *don't fight the Fed*. This assumes that if the Federal Reserve wants to push interest rates up or down, they will. Many a bond manager has lost this battle and we certainly won't put client assets in the path against Federal Reserve policy. After signaling since May that the Federal Reserve might taper their $85 billion per month bond buying, the Fed decided to keep the spigots open and sent bond prices higher. We entered the year expecting interest rates would commence their ascent, and now that they have, we've further reduced the maturity of the bonds we buy on your behalf to shorten the impact of rising interest rates over the next few years.

We also positioned portfolios going into this year believing stocks would have a solid year; however, we didn't expect the S&P 500 to be up over 19 percent after three quarters. This harkens the saying, *nobody goes broke when taking profits*, so don't be surprised if we take some of the gains off the table before year-end. We always endeavor to *buy low and sell high*, and for certain areas of the market it is clear that *stocks have gotten ahead of themselves*, so we'll *sell into the greed and buy on the fear*. For instance, the Consumer Discretionary sector stocks are up 28% for the year, which is far better than the spending growth of American consumers.

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We don't always believe, *as goes January, so goes the year*, but we do know that *you don't marry your stocks*. Similar to the overall economy, this is a year where the discrepancy between winners and losers has expanded. This creates a *stock pickers market* since *not all boats are rising with the tide*. Many companies are performing well, and nearly all of your stocks have higher earnings this year than last year. If there is a *Santa Claus rally* this year, it will be the result of solid spending during the holiday season. Of course, *if Santa Claus should fail to call, bears may come to Broad & Wall*. Since the old joke that *economists have predicted five of the last three recessions* is mostly true, we'll work diligently so your portfolio can be adaptable and remain productive to meet your financial goals.


## Did you know...

If you are over 70 1/2, you can make a Qualified Charitable Donation directly from your IRA and exclude the amount from your gross income (up to $100,000)? The distribution can count towards your RMD but must be paid directly to a qualified charity and be completed before 12/31/2013. Call us or talk to your CPA for more information.

For more info, contact:
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