The Carnegie Counselor

THE CARNEGIE INVESTMENT COUNSEL NEWSLETTER

FOURTH QUARTER 2013

Boring is Better

On the final day of the year, the Wall Street Journal's headline article stated, "Winners of 2013: Boring Investors." The content of the article made the case that investing in quality U.S. stocks resulted in the best gains for last year.

For some reason they seemed to be exasperated that being an investor in well-run, growing companies worked so well. They even went so far to state "the smart way to play the markets has been to follow the dumb money." Since our investment style is to make investments in leading companies or funds and not attempt to out-think the markets, our disciplined approach is considered boring. Considering the results, and more importantly, our clients, we'd rather be boring than excitingly below average.

Over the past thirty years, with the growth of the consultant's role in advising institutional investors, a clarion call has gone out promoting complex diversification in all asset classes, including illiquid niches. While this might be logical for the California State Teachers Retirement System or the Yale Endowment with hundreds of billions of dollars to invest and an investment horizon for generations, this isn't the situation for most investors. With the advent of exchange traded funds and specialized mutual funds, it is very easy to slice and dice the market and allow smaller investors to participate in asset classes historically out of reach. With a click of a button you can own shares in a Nuclear Energy Fund, Timber ETF, Egypt ETF, Junior Gold Miners ETF, Rare Earth ETF, or if you prefer, the mortgages of homes in Las Vegas and office towers in Miami. If you are particularly smitten with your knowledge of interest rates, it is possible to bet against the best minds of Wall Street and their trading machines by buying the Double Inverse Treasury ETF, a junk bond fund or currency futures.

Carnegie

40 YEARS

1974-2014

Celebrating 40 Years

Carnegie's roots began in 1974 as a division of brokerage firm Prescott, Ball & Turben. 2014 marks Carnegie's 40th year providing unbiased investment advice. We look forward to celebrating this milestone and sincerely thank all of our clients and partners for continuing to entrust Carnegie as your investment adviser.

Your Carnegie Team

While it is easy to get enamored with a new tool in the tool box, not every job requires a battery-powered caulk gun. Sometimes an old-fashioned hammer and level are sufficient. Since we've been building portfolios before most of these new trading tools were invented, we know how to build the basic foundation of a diversified portfolio. We are not adverse to a better tool to fill a particular gap in an account where needed. However, adding an asset class can also add risk to a portfolio, which we've learned is often times better avoided. Making investments in foreign currencies or precious metals are merely bets with a trader who likely has more information. Since we serve very few clients with the stomach for that kind of risk, it isn't in our tool box.

Perhaps it might appear simplistic to own shares of great companies like DuPont, Boeing, Mastercard, Google, Blackrock, Walt Disney, Nike, Cedar Fair, Charles Schwab and McKesson; although individually, each of their share values increased by over 50% last year. When earnings are rising and money is flowing into U.S. equities, stocks will advance in price. Positioning client capital to participate in this advance is our job. Whether using mutual funds, exchange traded funds or stocks, we'll use the correct tool reflective of the client situation. Last year was a great time to own solid companies and hold onto them. While it might appear dumb to buy and hold, our average turnover last year (amount of buying and selling as a percentage of assets managed) was at the lowest point since 2006.

The article in the WSJ actually stated, "So-called dumb-money strategies, which involve buying and holding a plain-vanilla portfolio of U.S. Stocks, did much better than the more complex approaches employed by hedge funds and other institutional investors." It specifically mentioned that hedge funds fared poorly last year as did tactical timers of the market. They didn't mention that this trend has held true for the last four years. Basically, if you held yourself out to be smarter than the market, you likely lost. We are not smarter than the market, so you had a good year and participated well in the market advance. We'll do our best to not get too smart in 2014.

> "Everything intelligent is so boring."
> -Leo Tolstoy, from *Anna Karenina*

Did you know...

- The S&P 500 stock index hit an all-time high 44 times last year.
- The stock market's YTD returns were never negative in 2013.
- Carnegie provides financial planning services including Retirement Planning and Education Funding and can assist with the coordination of your Estate Planning.

Contact us for more information.

For more info, contact:
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