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CJM Wealth Advisers, Ltd.

Reflections

By Kim A. McLeland, CFP®, ChFC

In early May, as I write this, the Dow Jones Industrial Average is around 18,250. Looking at that has made me reflect a bit. My thought goes back to a time when the closing price on the index was closer to 900. No that is not a mis-print. But it wasn't yesterday either.

On March 1, 1977 the closing price for the Dow was 944.73 and at the end of the month it was 921.21. For all practical purposes that is 17,000 less than as I write this. I chose March 1977 because that is the month I started in the business.

So what was it like then? Well, as I recall, the Dow Jones Industrial Average had hit 1,000 in 1966 but then hit a lot of "turbulence" and didn't reach that level again until sometime in 1982. The war in Vietnam had come to an end in a fashion that neither the United States nor the South Vietnamese government had found satisfactory. The fighting was over but the cost would be paid by people for many years.

Inflation was high and would get worse. Interest rates would stay moderate for another couple of years until Paul Volcker was appointed to head the Federal Reserve and set out to end the inflationary spiral. Short-term interest rates rose dramatically.

Many people liked seeing the dividend yield on their money market funds because the funds were paying double digit returns. In this time period, some were very happy to buy 2 ½ year US Treasury obligations that paid 15% but few were willing to buy the 30 year Treasury bonds that paid 12.5%. And, mortgage rates were as high as 14% plus and business loans were around 21%. In this period, some enjoyed saver's heaven while others suffered borrower's hell.

As the actions of the Fed began to be felt the economy started on a more than 30 year decline in interest rates. Times had changed. And, yes the rise of the Dow Jones Industrial average towards that 17,000 to 18,000 range began. But no one could see that back then. And, we have had a number of ups and downs in the stock market since then.

At the same time, we experienced the start of the computer revolution in the business world. Before this point, large companies definitely had computers – they were big "main frames" that operated largely in climate controlled facilities. In the early 1980s small business got computers as well. ►

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◄ These were the "personal" computers. My first computer was a "portable". It was made by Compaq and really was a "portable" only for a gorilla. They would come to change the way we did things in a dramatic fashion.

We had the 6 o'clock and the 11 o'clock news. No one had an e-mail address. And all telephones plugged into a jack.

Since that time, we have seen a tremendous improvement in the standard of living for many people around the world. This has been slow to reach every place that we would hope it would. But, you get a hint of the change that has taken place if you see a picture of a rice farmer in Asia speaking on a cell phone or a Masai warrior herding cattle with his spear in one hand and a cell phone in the other. I have seen both these pictures (thank you National Geographic). In the 1970s you had to make an appointment with the overseas operator, well in advance, to call someone in another country. By the early 2000s such a call could be placed by anyone on their cell phone and they could connect with someone on the other side of the world without having to wait appreciably longer than it would have taken to connect a local call.

The composition of the stocks in the Dow Jones average and the Standard & Poor 500 has changed several times. The most recent example that sticks out to me is AT&T being replaced in the Dow Jones by Apple, a company that did not exist in March 1977.

The economy has changed greatly over these years that the stock market has risen to its present level. And, both have had many ups and downs. My suspicion is that we will see similar volatility in the future. And, I know that we will always enjoy the "ups" more than the "downs" but we will get both. As long as we have creativity demonstrated in terms of new products and services and people can afford to buy and make use of these new products we will enjoy continued progress. But it will not occur at a constant rate.

Right now, we are in a "sweet spot" in terms of technology. New products are being created that require us to learn relatively little to make use of them and help us do what we have to do. (Think of smart phones, tablets, and perhaps new types of smart watches.) And, very often, it is brand new companies that are creating these products and improving the lives of those who can use them productively.

So as we go forward we may well sometimes feel that we are riding a roller coaster and may feel quite uncomfortable as we ride down the steep incline. But, the momentum we gain going down is critical to making it easier to climb to the next height. We will likely be challenged to remember that at some point in the coming years. This is not a forecast of an impending drop in the stock markets. It is simply an observation that drops do come and as scary as they may be, it is possible to recover from those drops and see the markets rise even higher. ●

Kevin's Corner:
Research Takes a Road Trip

By Kevin E. Donovan, CFA
Portfolio Research Director

Financial analysts tend to sit at our desks most of the workday looking at computer screens trying to research the best options available to help improve clients' investment portfolios. Every once in a while, though, we do get to go out and spend a day or two at conferences run by the major mutual fund companies to learn about their views on the economy, the markets and the various asset classes we invest in to get an idea of how they see the world.

In early May, I attended a two-day conference run by Fidelity Investments. Two managers of funds we use were among the presenters, along with several other strategists covering U.S. and international stocks, different segments of fixed income and the broad economy. Here are some of the highlights:

• Fidelity's overall view is that we should expect more volatility in all markets after a remarkably long period of relative stability. Before 2008, a 5% drop in the stock market wasn't all that unusual or dramatic. Now, a 5% drop has investors questioning if the market is crashing like it did in 2008. Expect a rocky road, not a fall off of a cliff.

• The dollar strengthening is now behind us, but the strong dollar will likely stay these levels for quite some time, adding to the case for international investing. Average American investors only have 6% of their investments in international stocks even though 62% of the best-performing stocks over the past 10 years have been in non-U.S. companies.

• Will Danoff, long-time portfolio manager of Fidelity Contrafund, talked about his process for selecting stocks and his focus on finding superior management teams. He meets with several companies per week and talked about what he liked for some of his top holdings including Visa, Illumina, Alibaba, Boeing and Johnson & Johnson.

• Joanna Bewick of Fidelity Strategic Income Fund laid out the case for investing in bonds even though the Federal Reserve will likely raise interest rates in the next several months. She sees opportunity in U.S. high yield bonds, which tend to outperform when rates rise slowly in an improving economy, and in international bonds of countries whose central banks are still lowering interest rates (bond prices rise when rates decline).

Fidelity's views on all of this are not the only factors we take into consideration when making our investment decisions. We take all views and our own into account and discuss them in detail at our regular Wednesday morning planner meetings and our quarterly investment committee meetings when we make asset allocations for the financial well-being of our clients.

These meetings are valuable to us (and to you) so that we can learn what the best financial minds in the world think is important and how they expect the markets to react. Getting out of the office is a good way to break out of the routine and expose us to other views, broaden our outlook and hopefully make us look at things from an unexpected point of view in order to serve you better. ●

CJM News: Some Serious Shredding

A big "THANK YOU" to everyone who made it to our shredding event on Friday the 8th. The amount of paper that you were able to dispose of was impressive - we came very close to 2,000 pounds. This took a lot of time and effort on your part to sort through papers, filling bags and boxes, and loading it all into your vehicles. Here are some interesting statistics (provided by the EPA) on how we impacted our planet:

Shredding 1 Ton of Paper Saves

• 17 trees • 3.3 cubic yards of landfill • 360 gallons of water
• 100 gallons of gasoline • 60 pounds of pollutants • 10,400 kilowatts of electricity

We also learned that the shredding company treats the paper to sell as raw materials to paper towel and toilet paper manufacturers to give it another life before becoming trash.

We look forward to holding a similar event next year. We'll, of course, give everyone ample notice.

Since 1978, CJM Wealth Advisers, Ltd. has been working with affluent individuals, families and business owners to address financial concerns no matter how acute or broad they may be. With a collective focus on helping our clients live the life they want, we understand that financial planning needs to be done with a purpose in mind. Otherwise, what is the use of planning at all?

What is your purpose? Is it to…

…create a retirement income stream to last a lifetime?

…minimize investment risk and maximize return?

…prudently plan a legacy for your heirs?

…carefully position a business for a future sale?

We offer our clients real solutions by being objective and approachable while delivering excellent client service.

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