Fagan Financial Report

Registered Investment Advisors

VOLUME 18, ISSUE 2 SECOND QUARTER 2013

INVESTMENTS * FINANCIAL PLANNING * RETIREMENT PLANNING

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Current assets under management approx. $190 million

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TO OUR CLIENTS

As interest rates continue to meander around multi-decade lows (the 10-year U.S. Treasury Note currently yields approximately 1.75%), investors have been forced to shoulder more risk in a **MAD SCRAMBLE FOR YIELD**. Indeed, many fixed income devotees have been forced to consider equity based alternatives as well as riskier bond solutions in order to help them reach their objectives. This is further evidenced by the end of the five year drought in which investors had drained money out of equities and into bond funds. Now, the reverse is occurring as money is flowing back to equities/equity funds and out of cash and investment grade bonds/bond funds.

Although this predicament delights mortgage applicants as young real estate buyers (and older ones for that matter) have saved hundreds of dollars per month in debt service and thousands of dollars in annual interest, it frustrates fixed income investors as more conservative investors with maturing Certificates of Deposit search for yield. Frustratingly, they are finding yields at or below 1%, which after inflation and taxes generate a negative real return.

In order to protect the purchasing power of our retired clients and/or to help those that have yet to reach their financial objectives, given the level of agreed upon risk and volatility that the client is willing to assume, we at Fagan Associates have found some attractive investments for growth and or growth & income.

These include “junk” or high yield bonds, the very words which strike fear into the hearts of many investors and conjure up images of default. For this reason, we have limited investor exposure to no more than 15% of the account value and also utilize Exchange Traded Funds (ETFs) as well as open-end mutual funds. By utilizing this strategy, we are able to increase diversification, spreading out the risk of an individual issue. In addition to the higher coupon that high-yield bonds pay, investors have reaped a bit of appreciation in the value of the underlying securities as the economy has slowly improved. Some names that might appear in your portfolio include the Ridgeworth High Income (STHTX) , Northeast Investors Trust (NTHEX) and SPDR High Yield Bond ETF (SJNK).

As we have noted quarter after quarter after quarter, dividend paying stocks provide solid current yields. Many far exceed that of the U.S. Treasury noted above along with the potential for a total return (yield +/- appreciation/depreciation) far above that of the pace of inflation. Despite the fact that many investors are still fighting the last bear market battle, those that are willing to accept some risk can create a portfolio of individual securities, including some shares of the SPDR Dividend ETF (SDY), Conoco Phillips (COP), Emerson Electric (EMR), General Electric (GE), Johnson & Johnson (JNJ) and Verizon (VZ). That said, it is prudent to diversify by sector so as to avoid the implosion that might occur in any one industry. The above referenced SDY exchange traded fund emphasizes dividend payers and includes some of the names mentioned above.

Despite all of the above, don’t abandon cash or shorter-term CDs as despite their low or lack of yield, they can be an appropriate choice for some investors or to be utilized as a parking place or as a risk free alternative. Generally speaking, more than twenty percent of an investment account on a longer-term basis is most likely too much.

The first quarter rewarded equity investors with a return that they have not witnessed since 1998 and despite some proclamations by the talking heads to the contrary, fixed income investors also were rewarded for their patience. That said, as we progress through the current calendar year both equity and fixed income investors can expect some churning at these levels as the economy continues to improve. At this time, we believe that although stocks could correct at any time, any such pullback would be mild (less than ten percent) and should be bought.

PROTECTING YOUR INVESTMENT ACCOUNTS FROM FRAUD

As professionals, each coming up on our thirtieth year in the financial/securities industry, it is disheartening to periodically hear of embezzlement, fraud or some other criminal activity destroying first and foremost the wealth of an individual or a business and secondly the reputation of this industry. That said, like any business, there are those that scheme to take advantage of the unwary and sometimes find at least temporary success. Keep in mind that the VAST majority of men and women practicing in this industry are honest, trustworthy, hardworking individuals. However, as the old saying goes, it take just one bad apple to ruin the whole barrel. However, given the recent conviction of a local investment firm, we thought it timely to write an article, hoping to identify some steps the reader might take to prevent bad things from happening to them.

Step Number One – your monthly statement (or quarterly, if applicable) as well as tax information should come directly from the custodian and not from the advisor. Some examples of custodians are Charles Schwab & Company, Wells Fargo, JP Morgan Chase and Merrill Lynch. If you are receiving this information ONLY from the advisor, this is a red flag.

Step Number Two – the custodian should be different from the broker. Make certain they are not one and the same. As an example Bernard L. Madoff and Bernard L. Madoff Investment Securities were one and the same. Once again, a red flag.

Step Number Three – Generally speaking, invest only in easy to liquidate, transparent, marketable and publicly traded securities. As a general rule, do not invest in private placements or securities whose price you cannot look up online to determine the market value. Do not invest in penny stocks unless you are speculating (like going to Las Vegas). This is not the path to wealth, but to financial ruin.

Step Number Four – Periodically check your account online. This website should be provided and maintained by the custodian, not the advisor. Once again, this provides a firewall that protects your assets. The value will most likely rise and fall with the markets. However, at least you know what is stated on the website as your value is the actual value. Similarly, investments do rise and fall in value. Be wary of those whose value remains static.

Step Number Five – Always make checks payable to the custodian. Never make a check payable to the advisor. Enough said.

Step Number Six – Check for discrepancies. The statement from the custodian should reconcile with that from the advisor. Errors could be genuine or perhaps something less than genuine.

Step Number Six – Be careful of pushy salespeople or those promising high investment returns. We agree with a paragraph in a pamphlet prepared for FINRA (Financial Industry Regulatory Authority, Inc.) by Lightbulb Press that notes "if you're trying to get rich quick, there's probably someone out there who'd be happy to sell you a scheme that sounds like the answer to your dreams. Making a killing on a 'hot' investment is not key to a successful strategy."

SEND US YOUR EMAIL ADDRESS

Here's an idea – send your e-mail address to us at www.investment@faganassociates.com. By doing so, you will solve a couple of potential issues. The first, we will have an additional way to contact you and keep you informed as to what is going on at Fagan Associates and two, upon your approval, Charles Schwab & Company can set you up with electronic access to your account(s) thereby saving a world of paper and probably a couple of trees.

As always, feel free to telephone Chris, Dennis, Mary or Aaron at (518) 279-1044 or at (800) 273-6026.

FOOD FOR THOUGHT

With the stock market at record highs as measured by the Dow Jones Industrial and Transport Averages as well as the Russell 2000, and the S&P 500 flirting with record highs, we thought it would be a good time to post some thoughts that are currently running through our collective minds.

The stock market has more than doubled from the bottom of the bear market during the first quarter of 2009 and even over the past year has run up nearly twenty percent from its mid-2012 Election Year lows. With this in mind, think back and try to remember what you were feeling at those bottoms. Were you sticking with your investment plan or bailing out of stocks? Did and do you have an investment plan in order to respond appropriately to market movements or do you respond emotionally, out of fear or greed? If the answer is the latter, take some time to develop a plan of action to help you reach your financial goals.

Are you still spending more time researching the best $35 microwave to purchase rather than how and with whom to invest your life savings? Once again, if the answer is the former, take some time and get familiar with the investment world. Buy some books. Read the daily, weekly and monthly periodicals. You don't need to become an expert. You just need to become familiar with the industry's dos and don'ts, many of which we have published over the past several years in our column in *The Record*.

You don't need to be a hero. Investments should be made in moderation. It is boring, but history will once again prove that it works. Don't invest more than a small portion of your money in speculative securities and always ask yourself, "what if this doesn't work out, what happens to my account?" Too often investors see only the upside to a purchase and not the downside. There are two sides to a trade and believe it or not, investments don't always go up in value. Prepare for negative as well as positive outcomes.

Do you realize that when interest rates rise as they most surely will do over the next few years, the value of bonds decline in value? The reason is simple. Who would pay full value for a ten-year U.S. Treasury note currently yielding approximately 2.00% if in a year from now those same notes are paying 3.00%? Nobody.

More people will run out of the theatre if somebody yells "fire in the lobby" rather than "popcorn in the lobby." Be careful you don't listen to all of the doomsayers out there and remember our advice above, everything in moderation. If you think the markets are going to pull back a bit, raise ten to twenty percent cash. If you are bullish, put some of that cash to work. However, very rarely is it wise to go "all in" or all to cash.

Many investors have too much information and not enough knowledge. Too many investors have their fingers on the proverbial trigger (computer keys in this case). Perhaps it is better to let someone else handle your portfolio.

Why do some investment companies outsource their customer service to distant lands? Get to know your investment advisor. That way, when the market pulls back as it surely will, you'll be able to meet with them to make certain that your plan is still valid.

Historically the stock market begins its climb during the latter part of a Presidential Election Year (June, 2012) and tops out for a while during the first month of the third quarter of the post-Presidential Election Year (July, 2013). Are you ready for it? Do you have a plan just in case things play out this way?
If so, congratulations. If not, get to it.

23 Years
Serving the Investors of the Capital Region

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CORPORATE EARNINGS SEASON ABOUT TO KICK OFF

An interview with Gary Ran from Telemus Capital Partners appeared some time ago in Barron's, a popular financial weekly, who noted that during market turmoil it was "hard for investors to stay focused in times like this, just when you need it the most, because there seems to be so much information But information isn't knowledge."

Do you mean that all the information that is thrown at us over the internet doesn't amount to the knowledge necessary to manage our own portfolios? In our opinion, if it is combined with the appropriate educational background, knowledge of how businesses operate, an ability to decipher financial data and the jargon that goes along with it, a temperament that is conducive to dealing with turmoil and experience, it certainly does. Otherwise, it may not. The problem arises when an investor discovers that they do not have one or more of these qualities only after it is too late.

For example, let's say that after coming home from work the day of the "Flash Crash" on August 23, 2011, you turned on your computer and logged on to the internet to check out how the stock market did that day. You would have discovered that the Standard & Poor's 500, the most widely followed stock index, had rebounded nearly 40 points. However, over the past month it had declined from 1,345 to that closing day value of 1,162 for a decline of 13.60%, a drop that resulted in a loss of $34,000 on your portfolio of $250,000.

What do you do? Perhaps you look for some perspective from a trusted source, CNBC and log onto their website. You scroll down to an article entitled "Its 'Only Just Begun,' S&P Fair Value 800-900: Analyst." You read on and discover that Bob Janjuah, co-head of cross-asset allocation strategy at Nomura Securities, stated in a research note that the bear market "process has only just begun. It will not be a straight line down, but the secular (bearish) trend for risk assets is, to me, now clear and, with hindsight, this bear leg began in Q2 2011."

Furthermore, Mr. Janjuah notes that "in this world, and using the S&P 500 purely as a risk proxy, I see 'fair value' for the S&P down in the 800/900 area. I think we will see these levels trade in the next 12/15 months. And we may even undershoot to levels last seen at the lows of Q1 2009."

You quickly do a mental calculation and conclude that this implies another 22.00% decline at best and nearly 43.00% at worst. After picking yourself up off the floor, you immediately call your advisor and sell everything.

Was that the right action to take? Forget about whether or not it has been profitable (and as of this past Friday it has not), was it the correct move? In our opinion the answer is no. It is not the timing of the stock market but rather the time in the market that has historically resulted in investors reaching their goals.

In addition, generally speaking, many investors tend to focus too much on the day-to-day fluctuations in the stock market and not enough on their goals and objectives. Finally, some investors mistakenly make "all or nothing" moves. They are either "all in or all out" depending upon the latest news report, earnings hit or miss, political event or analyst comment. Our recommendation when it comes to investing is similar to life, everything in moderation. Work at the margins. If you are feeling a little skittish about the direction of stocks, raise a little cash. If you are feeling bullish about the direction of stocks, then put some of that cash to work.

23 Years
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Largest Holdings Regardless of Asset Class Ranked by Market Value as of March 31st, 2013.					
Percent of Total Assets Managed	Company Name	Symbol	As of Mar 31st, 2013	As of Feb 28th, 2013	As of Jan 31st, 2013
10.57%	Cash & Equivalents		1	1	1
3.91%	SPDR Dividend ETF	SDY	2	2	2
3.01%	PIMCO Diversified Income	PDVDX	3	3	4
2.81%	Loomis Sayles Bond Fund	LSBRX	4	4	5
2.47%	MetWest Tot Ret Bond Fund	MWTRX	5	5	6
2.41%	Payden GNMA Fund	PYGNX	6	6	3
2.41%	DoubleLineTotal Return	DLTNX	7	7	8
2.20%	General Electric	GE	8	8	10
2.14%	Apple Computer	AAPL	9	9	7
2.06%	PIMCO Total Return	PTTDX	10	10	9
1.87%	Celgene Corporation	CELG	11	13	16
1.85%	Conoco Phillips	COP	12	12	12
1.71%	Visa, Inc.	V	13	16	15
1.65%	Altria Group, Inc.	MO	14	15	14
1.64%	Ridgeworth High Income	STHTX	15	14	13
1.60%	MasterCard, Inc.	MA	16	17	17
1.57%	Nike, Inc.	NKE	17	11	11
1.31%	iShares Barclays TIP Bond	TIP	18	18	18
1.24%	Gilead Sciences, Inc.	GILD	19	21	22
1.22%	JP Morgan Chase	JPM	20	19	19
1.14%	Google, Inc.	GOOG	21	20	20
1.15%	Verizon Communications	VZ	22	22	24
1.01%	Exxon Mobil	XOM	23	23	21
0.93%	Pfizer, Inc.	PFE	24	25	27
0.93%	McDonalds Corp.	MCD	25	34	29
0.92%	Las Vegas Sands	LVS	26	29	23
0.85%	Permanent Portfolio	PRPFX	29	24	25

Portfolio Concentration: Top 25 holdings represent 54.80% of the Assets Managed at Fagan Associates as of March 31st, 2013.

Largest Mutual Fund Holdings as of March 31st, 2013.		
Domestic Equity Funds	International Equity Funds	Hybrid/Fixed Income/ Muni Fund/ETF
Parnassus Equity Income Fund	Oakmark Global Select	PIMCO Diversified Income Fund
Schwab 1000 Fund	Harbor International Fund	Loomis Sayles Bond Fund
Dow Jones U.S. Broad Mkt Index	Tweedy Browne Global Value fund	MetWest Total Return Fund
Oakmark Fund	Vanguard International Growth	Payden GNMA Fund
Scout MidCap Fund	TR Price International Stock Fund	Double Line Total Return Fund

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Additional information including management fees and expenses is provided on our Form ADV Part 2. The actual return and value of an account fluctuate and, at any time, the account may be worth more or less than the amount invested. Bond Investments are affected by interest rate changes and the credit-worthiness of the issues held in the portfolio. A rise in interest rates will cause a decrease in the value of fixed income positions. **Past performance results are not indicative of future results.**
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•A Recap of the financial markets, including company specific and economic news.

•"The Record Review" – an outline of our column that appears in the Troy Record every Sunday.

• "Widely Helds" – a look at the price action and news releases from the most widely held stocks.

•A spotlight on one or some of our **mutual fund holdings or EFT holdings.**

•A look at the upcoming week, including economic data and earnings reports.

•Monthly notable changes to our investment portfolios after the close of the prior month.

* Periodic interviews with other industry professionals, including mutual fund managers, insurance professionals, accountants & attorneys.

* Periodic interviews with local men and woman making news that affects our lives.

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