Fagan Financial Report

Registered Investment Advisor

VOLUME 20, ISSUE 2 SECOND QUARTER 2015

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TO OUR CLIENTS

Investors in the U.S. stock market seem to have a classic case of what we define as "bubble-phobia," loosely defined as "fear that this bull market will collapse in a similar fashion to ones in the not so distant past." These symptoms can afflict both the experienced professional as well as individual investors and include a failure to commit an appropriate percentage of assets to stocks based upon a fear that the current bull environment is unsustainable. This "bubble-phobia" can further manifest itself in a lack of action by the investor thereby keeping said investor out of the stock market and reducing one to being reactive rather than proactive.

Our prescription for the above referenced malady is simple – set up disciplines and follow those disciplines. One way or another, decisions are made. Either you make them, or through procrastination, they are made for you.

To help ease your case of "bubble-phobia," we point to several reasons why the stock market is not in a bubble. First and foremost, investors can should feel comfortable that relative stock valuations are reasonable. With the S&P 500 trading at just under 2,100 along with projected 2015 earnings of approximately $120, the Price-to-Earnings (P/E) Ratio, a common tool used for valuation, stands at 17.5, somewhat in line with the normal historical range.

Corporate profits benefit from a stable interest rate environment, one which makes for a healthy business climate. With interest rates at multi-decade lows and with a Federal Reserve reluctant to upset the apple cart by substantially raising rates, this accommodative environment should continue into the foreseeable future.

At this time, rampant inflation appears not to be an issue. Due to the slack in the economy, both the Consumer and Producer Prices Indices, key measures of inflation, are subdued. With oil trading somewhere around $55 per barrel, the pressure on manufacturers and service providers to raise prices appears to have ebbed.

The leading stocks over the past few months have been quality companies with sound earnings and foreseeable growth in corporate profits. They have not been speculative companies. Historically, a market led by the "blue chip" companies, usually has not reached its peak. It is when it is led by the speculative companies, those that retail investors like, the market has historically topped out.

We have begun to moderately shift some assets overseas. We believe that the substantial underperformance of international stocks as compared to those domiciled in the United States is over and a regression to the mean is likely.

Finally, retail investors have not fully embraced this rally. As long as "bubble-phobia" continues to persist, there is most likely room left to run. At this point in time, stocks are still climbing that venerable wall of worry. If history is any guide, after a brief, relatively shallow pullback, we look forward to a choppy but upwardly moving stock market over the balance of 2015.

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THE FED LOSES PATIENCE

Let us first state that for a long time the Federal Reserve has had its own language, known as "Fedspeak," a dialect which according to noted Princeton Economist Alan Blinder employs vague and wordy statements meant to be interpreted several different ways. The intended effect was to minimize the reaction of the financial markets to their remarks. Over the past couple of decades the Fed has successfully attempted to become less vague in their policy statements. Alan Greenspan was vague, Ben Bernanke a little less so and today many can almost understand current Federal Reserve Chair Janet Yellen.

The Open Market Committee of the Federal Reserve (FOMC), the body that determines the direction of interest rates and one that is Chaired by Ms. Yellen recently concluded its regularly scheduled two-day meeting, March 18th. Voting members decided to keep the target level at which member banks loan excess reserves to each other at between 0% and 0.25%. This rate, known as the Federal Funds rate, has been at this historically low level since the Fed, under then Chair Ben Bernanke, lowered it from a target of between 0.75% and 1.00% on December 16, 2008, more than six years ago, in order to stimulate economic growth. In fact, the Fed has not raised this rate in nearly nine years. Also referred to as easy or accommodative, the current policy was set in place to combat the recessionary spiral the economy was tumbling into during the Fall of 2008 as the housing crisis set in. Furthermore, most would consider the current level unsustainable and at rates that imply extreme economic duress.

The focus on the word "patient" began back in December and then became more pronounced this past February when, during her Semiannual Monetary Policy Report to the Congress, Ms. Yellen stated that "the FOMC's assessment that it can be patient in beginning to normalize policy means that the Committee considers it unlikely that economic conditions will warrant an increase in the target range for the federal funds rate for at least the next couple of FOMC meetings." The markets interpreted this as stating that should the word "patient" be removed from its policy statement that it would mean a hike in the federal funds rate would follow over the next meeting or two.

Indeed, following the meeting that, the Fed did remove the word "patient" from its policy statement. However, in classic Fed fashion and one that appeased the bulls on Wall Street Yellen stated that "just because we removed the word 'patient' from the statement doesn't mean that we are going to be 'impatient.'" Yellen went on to note that "it's still the case that we consider it unlikely that economic conditions will warrant an increase in the target range at the April meeting. Such an increase could be warranted at any later meeting depending on how the economy evolves."

Finally, within its policy statement released following this meeting it was noted that "the committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective."

The above is of note due to the dual mandate that the Fed pursues. As amended by Congress in 1977 the Federal Reserve Act stating that "the Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the economy and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates."

The Fed has obviously set the wheels in motion to perhaps raise interest rates over the next twelve months. However, with most other central banks around the world cutting rates or embarking on some sort of stimulus program, with the dollar strengthening, with oil prices plummeting and with inflation around half the intended target we view any hike in rates, should it occur, to be merely symbolic. Also, due to the magnitude and length of the last recession we view it highly unlikely that the Fed will embark on any program that would imperil the modest recovery we are experiencing.

INVESTING 101

Experience is very underrated by those that do not have any! Needless to say, these past few years have been a time that provided many lessons to those of us that have been in the financial services business a long time (too long to mention) as well as those that are still wet behind the ears. There is an old saying on Wall Street that goes as follows, "investors make money during bull markets and learn during bear markets." That said, we thought now might be a good time to reflect on some of the lessons we have learned over the past few years.

An investor buys perceived potential and sells a lack thereof. What did you do when the stock you bought ran up to ludicrous levels? Or, what did you do when the stock you purchase began to tumble as the potential for future growth declined? Have strict buy and sell disciplines. The most important lesson that we have learned from past bear markets is that a sell discipline is more important than a buy discipline. Don't chase hot stocks. Look for stocks with solid, long-term growth potential.

When investing, don't look to get the final ten percent of a stock's move upward or believe that you can buy within ten percent of the bottom. Rather look to capture that middle eighty percent. Regarding the domestic stock market, we believe that at current levels there remains opportunity.

"Stay on the offensive. Always look for good ideas and push out the mediocre ones. If every week you find a couple good things and say, 'stock number thirty-one in the portfolio is okay, but these are better. Sell number thirty-one." (Peter Lynch, legendary manager of the Fidelity Magellan Fund). Don't fall in love with a particular stock or sector! Continually challenge your ideas among yourself as well as your peers. Change when it is appropriate. Don't carry negative baggage around!

We know that it is impossible to be right all of the time. We just want to be right over time. Recognize that there are many times when you may be wrong! Remember, a .300 hitter is in the hall of fame. However, that batter gets out seventy percent of the time. The key is when you make a mistake, sell and move on.

"I did so by never becoming too confident in having made the right decision." (Former Treasury Secretary Robert Rubin, upon his retirement and in response to the question of how he lasted so long) As mentioned above, always challenge your ideas. Be concerned with the downside. The upside will take care of itself.

"I work in a humbling business. That's what Wall Street is all about. If you are afraid to be humbled by the market, stop reading and go buy a bond." (Market Analyst, James Cramer). Self-explanatory.

"Try not to react too much to the market because the market is reacting to things you don't want to react to. Keep your eyes on the horizon and ask yourself, 'which stocks will I be kicking myself over if I don't own those stocks five year from now" (Kevin Landis, Fund Manager, First Hand Technology Value Fund). We believe that those stocks you will be kicking yourself five years from now if you don't own operate in the technology, health care financial services and energy industries.

"Once a bull market gets under way, and once you reach the point where everybody has made money no matter what system he or she followed, a crowd is attracted into the game that is responding not to interest rates and profits but simply to the fact that it seems a mistake to be out of stocks. In effect, the people superimpose an 'I can't miss the party' factor on top of the fundamental factors that drive the market." (Warren Buffett, C.E.O., Berkshire Hathaway). That said, at the end of a bear market, stocks are held by their rightful owners. Fundamentals rule. Never again be suckered into buying a stock just because it is going up. Do the research. Know your holdings.

"An investor doesn't pull up his turnips every day to find out if they are growing." (U.S. Treasury Secretary, Paul O'Neill). What do you do? Do you check your portfolio every day over the internet? If so, relax and let some time pass! If you purchased a security for the long haul, don't check on it every minute. Remember, "a watched pot never boils."

We hope these little tidbits of information brings into perspective how you view your investments. Perhaps you have fallen into some of the traps noted above. If so, don't carry around that baggage. Make an investment plan now.

SELECTING AN APPROPRIATE MUTUAL FUND FOR YOUR GOALS & OBJECTIVES

There is an old saying in the investment community that the average investor spends more time researching what toaster to buy than what mutual fund to invest in. With this in mind, we thought that it would be a good idea to identify some issues that should affect your investment decision regarding a specific mutual fund. Please keep in mind that by no means is this a complete list of considerations, but just some that an investor should be aware of.

Whether investing in mutual funds or individual securities, an investor must first identify their investment objectives, including the intended time horizon until reaching those objectives as well as the risk and volatility they are willing to assume along the way. Furthermore, an investor must decide whether they are going to require help when selecting specific investments. However, please keep in mind that even if you are going to require advice, that does not eliminate the responsibility of the investor in determining how their advisor is compensated and what charges, if any, will be levied by the mutual fund. An additional piece of investigatory work that an investor must do prior to putting their hard earned money to work is to review the prior returns of the specific mutual fund, keeping in mind the risk that the fund has taken in order to achieve those returns and then applying an appropriate benchmark to determine the relative returns; always keeping in mind that historical investment returns are not indicative of future investment results. Finally, prior to investing an individual should have enough cash on the sidelines for emergencies such as home repairs, short-term unemployment or health issues.

The first consideration we noted was to make certain that the investment objective of the mutual fund matched that of the investor's. Prior to investing, it is imperative to determine the percentage of the fund that can, by prospectus, be invested in stocks, bonds, cash or other instruments. Generally speaking, the higher the percentage in stocks, the more volatile the fund. An investor who invests into a fund with more than 75% of its assets in the stock market is implying that he has a time horizon or ten or more years and is willing to accept the volatility along the way. An investor who chooses a fund with 50%-75% in the stock market is implying that he has a time horizon or five to ten years and is somewhat concerned with volatility and preservation of capital. Finally, an investor who chooses a fund with less than 50% is implying that preservation of the majority of their capital is a primary concern and that capital appreciation is secondary.

Volatility of a fund can be measured in several different ways, with the two most common being beta and standard deviation, both of which can be found on the internet or in the prospectus of the mutual fund. Simply put, the beta of the fund tells an investor how sensitive a fund is, in response to the movement of the stock market. The stock market always has a beta of 1.00 so if the beta of the mutual fund you are researching has a beta of 1.25 it means that the fund is 25% more volatile than the overall stock market. Therefore, it is safe to assume that if the stock market goes up 10%, you can expect 25% more gains from your fund. However, the opposite also holds true. Should the stock market fall 10%, one could expect a decline 25% greater than that. Standard deviation also measures the volatility of the fund in that it helps determine how often the fund has wild swings. According to Morningstar, a leading researcher of mutual funds, "approximately 68% of the time, the total returns of any given fund are expected to differ from its mean total return by more than plus or minus the standard deviation figure." In plain English, referring to standard deviation, the higher the number, the rockier the ride will be.

Regarding the cost of purchasing or selling a mutual fund, an investor must keep in mind that nobody works for free. Ask what the commissions are to get into a fund or what the surrender charges are to get out. That said, mutual funds are doing a great job disguising commissions so be especially suspicious if your commission based advisor replies that there aren't any charges.

Finally, when reviewing past returns, as mentioned above, it pays to keep in mind the risk the fund has historically assumed to achieve their returns. It is important to look at the absolute total returns, but more important to look at the returns relative to an appropriate benchmark such as the S&P 500 or Morgan-Stanley Composite Index for the European, Australian and Far-East (MSCI/EAFE) markets. This number will tell you how the fund fared against its peers.

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Largest Holdings (Equities & Fixed Income)
Ranked by Market Value as of March 31st, 2015.

Percent of Total Assets Managed	Company Name	Symbol	As of Mar 31, 2015	As of Feb 28, 2015	As of Jan 31, 2015
5.05%	DoubleLineTotal Return	DLTNX	1	1	1
3.32%	Apple Computer	AAPL	2	2	2
2.97%	MetWest Tot Ret Bond Fund	MWTRX	3	4	3
2.85%	Loomis Sayles Bond Fund	LSBRX	4	3	5
2.34%	Nike, Inc.	NKE	5	6	7
2.31%	Gilead Sciences, Inc.	GILD	6	5	6
1.95%	SPDR Dividend ETF	SDY	7	7	4
1.89%	Celgene Corporation	CELG	8	8	8
1.69%	Baird Core+ Bond Fund	BCOSX	9	12	9
1.65%	MasterCard, Inc.	MA	10	9	11
1.54%	Conoco Phillips	COP	11	10	10
1.52%	General Electric	GE	12	11	12
1.48%	Visa, Inc.	V	13	13	13
1.45%	Income Fund of America	IFAFX	14	14	15
1.43%	Payden GNMA Fund	PYGNX	15	15	14
1.35%	JP Morgan Chase	JPM	16	16	16
1.28%	Starbucks Corp	SBUX	17	17	17
1.25%	Lowes Companies	LOW	18	19	19
1.18%	Bank of America	BAC	19	18	18
1.05%	Hartford Financial Services	HIG	20	21	22
1.03%	Google, Inc.	GOOGL	21	20	21
0.96%	PS Buyback Achievers	PKW	22	23	N/A
0.93%	Harley Davidson	HOG	23	22	23
0.92%	Parnassus Equity Income	PRBLX	24	24	24
0.90%	Ambarella, Inc.	AMBA	25	33	30
0.81%	Hain Celestial Group	HAIN	27	25	28
0.78%	Skyworks Solutions	SWKS	28	27	25
0.70%	Express Scripts Co.	ESRX	34	32	20
	Cash & Equivalents		11.19%	11.07%	12.47%

Portfolio Concentration: Top 25 holdings represent 44.29% of the Assets Managed at Fagan Associates as of March 31st, 2015.

Largest Mutual Fund Holdings as of March 31st, 2015

Domestic Equity Funds	International Equity Funds	Balance/Fixed Income/ Muni Fund/ETF
Parnassus Equity Income Fund	Oakmark International Fund	Double Line Total Return Fund
DJ US Broad Market ETF	Oakmark Global Select Fund	MetWest Total Return Fund
Schwab 1000 Fund	Harbor International Fund	Loomis Sayles Bond Fund
Oakmark Fund	Schwab International Equity ETF	Baird Core Plus Bond Fund
Scout MidCap Fund	Tweedy Browne Global Value Fund	Income Fund of America

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•"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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