KAYINVESTMENTS

SEC REGISTERED INVESTMENT ADVISOR

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No man's life, liberty, or property are safe while the legislature is in session.

~ Mark Twain

An interesting study was done measuring something called the “Congressional Effect”. Two portfolios were compared from 1897 to 2000. They each started with exactly $1.00. One portfolio stayed invested in the Dow Jones average only when Congress was in session. The other stayed invested only when Congress was NOT in session. The NOT In-Session portfolio grew to $216.10 while the In-Session portfolio grew to only $2.00. If you want to read further, follow this link: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=687211.

With the problems in Washington, I receive a lot of phone calls about what to expect from the markets. 2013 has been a rewarding year but there are reasons to be concerned, even as we enjoy the run up. The stock market’s rise correlates almost perfectly to the Federal Reserve pumping money into the economy. It may not run much deeper than that. This is in the range of $1 trillion per year, an astounding circumstance. Any hint of interruption results in the markets threatening to reverse direction or even crater. This is unsettling because the Fed simply cannot continue to pump indefinitely. At a certain point the debt overwhelms.

So does this mean the music is about to stop? Before deciding it’s time to head for the exits, remember that the markets continue to surprise. If the markets like the outcome on the debt ceiling negations, it could be game on again for the rest of the year. I’ve found that my personal track record for predicting what’s around the corner is not very good. So if the future looks worrisome then what does one do? My belief is that the best course of action is to position your account appropriately for risk without regard for near term events. Risk can occur at any time and it’s best to adopt a personal “all weather” portfolio.

We’re funding the accounts with some combination of stock funds, bond funds and “alternative” funds – depending on your risk posture. These are intended to act as diversifiers – meaning one may rise when another one falls. As discussed in our last newsletter, the bond market crashed this year due to the run-up in interest rates in May-June. Our bond funds are down a very small amount year to date, but given the lukewarm economy and the new Fed leadership, I believe interest rates are likely to be stable at these levels. One of our funds was featured in the Wall St Journal last week. You may read about it here: http://online.wsj.com/article/SB10001424052702303759604579093733913935994.html?mod=rss_Investing. The alternative funds exist to provide a way to make money if the markets tank. Nothing is assured but the ATACX fund is up over 11% YTD while the AMFQX is up 5.5% YTD. Please remember that these funds are just not going to be able to outperform the stock market, or any good stock mutual fund, when it’s in a steep climb. In summary, our strategy continues to be to diversify among what I judge to be top 20th percentile funds, so that when the markets eventually slow down or tank, our funds may be able to make money and/or lose less. Our stock funds have done exceedingly well.

If you would like to discuss your risk/reward orientation or any changes that may be appropriate, please contact me at the below.

Regards,

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