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**TAGStone CAPITAL INC**



## SECOND QUARTER MARKET OVERVIEW

Stocks treaded water during Second Quarter 2015, with most major market indices finishing the period about where they began.

The S&P 500 index of large, U.S. stocks eked out a 0.28% gain for the second quarter, while the Russell 2000 index of small, U.S. stocks gained 0.42%. Both indices set record highs during the quarter before losing ground in late June.

Despite increasing concerns about Greece's potential default on its sovereign debt, international stocks managed to finish the quarter in the black as well. The MSCI EAFE index of large stocks in Europe and Asia gained 0.62% for the quarter. Emerging market stocks, as measured by the Dow Jones Emerging Markets index, posted a slight gain for the quarter of 0.69%.

Bonds were also impacted in the second quarter by the prospect of higher interest rates, with the Barclays U.S. Aggregate Bond index declining 1.68%. Meanwhile, the Barclays Municipal Bond index declined 0.89%.



# The All-Weather, All-Road Portfolio:

**Owners of all-purpose motor vehicles often appreciate their cars most when they leave smooth city freeways for rough gravel country roads. In investment, highly diversified portfolios can provide similar reassurance.**

In blue skies and open highways, flimsy city sedans might cruise along just as well as sturdier sports utility vehicles. But the real test occurs when the road and weather conditions deteriorate.

That's why people who travel through different terrains often invest in an SUV that can accommodate a range of environments, but without sacrificing too much in fuel economy, efficiency, and performance.

Structuring an appropriate portfolio involves similar decisions. You need an allocation that can withstand a range of investment climates while being mindful of fees and taxes.

When certain sectors or stocks are performing strongly, it can be tempting to chase returns in one area. But if the underlying conditions deteriorate, you can end up like a motorist with a flat tire on a desert road without a spare.

### EQUITY INDICES

| | Jun. '15 | 2nd Qtr. | YTD |
|---|---|---|---|
| S&P 500 Total Return (Large-Cap Stocks) | -1.94% | 0.28% | 1.23% |
| Russell 2000 Total Return (Small-Cap Stocks) | 0.75% | 0.42% | 4.75% |
| MSCI EAFE (Developed International Stocks) | -2.83% | 0.62% | 5.52% |
| MSCI Emerging Markets (International Emerging Stocks) | -2.60% | 0.69% | 2.95% |

### FIXED INCOME INDICES

| | Jun. '15 | 2nd Qtr. | YTD |
|---|---|---|---|
| Barclays U.S. Aggregate (Broad Domestic Bonds) | -1.09% | -1.68% | -0.10% |
| Barclays 1-5 Yr. Credit (Short-Term Domestic Bonds) | -0.37% | -0.11% | 1.04% |
| Barclays 5-10 Yr. Credit (Intermediate-Term Domestic Bonds) | -1.70% | -2.06% | 0.53% |
| Barclays U.S. TIPS (Treasury Inflation Protected Securities) | -0.97% | -1.06% | 0.34% |
| Citi World Gov't 1-5 Yr. Hedged (Short-Term Global Bonds) | -0.15% | -0.11% | 0.51% |

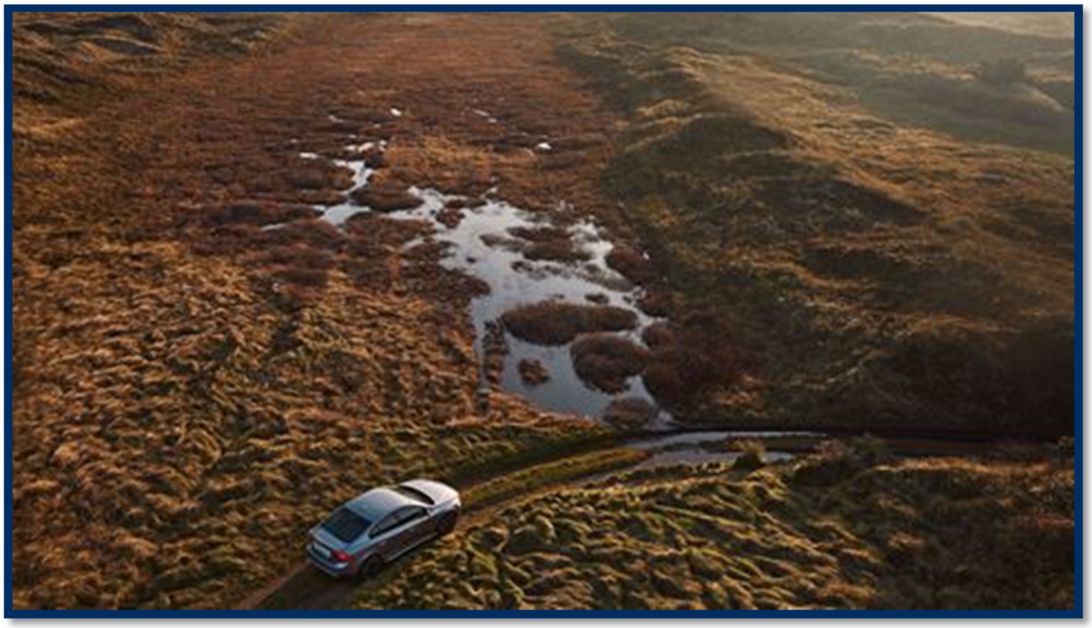
Likewise, when the market performs badly, the temptation might be to hunker down completely. But if the investment skies brighten and the roads improve, you risk missing out on better returns elsewhere.

One common solution is to shift strategies according to the climate. But this is a tough, and potentially costly, challenge. It is the equivalent of keeping two cars in the garage when you only need one. You’re paying double the insurance, registration, and upkeep costs.

An alternative is to build a single, diversified portfolio. That means spreading risk in a way that helps your portfolio capture what global markets have to offer, while reducing unnecessary risks. In any one period, some parts of the portfolio will do well. Others will do poorly, although you can’t predict which. That is the point of diversification.

It is important to remember that you can never completely remove risk in any investment. Even a well-diversified portfolio is not bulletproof. We saw that in 2008–09, when there were broad losses in markets.

But you can still work to minimize risks you don’t need to take. These include unduly exposing your portfolio to the influences of individual stocks, sectors, or countries—or relying on the luck of the draw.



An example is those people who made big bets on technology stocks in the late 1990s. These concentrated bets might pay off for a little while, but it is hard to build a consistent strategy out of them. And those fads aren’t free. It’s hard to get your timing right, and it can be costly if you’re buying and selling in a hurry.

By contrast, owning a diversified portfolio is like having an all-weather, all-roads, fuel-efficient vehicle in your garage. This way you’re smoothing out some of the bumps in the road and taking out the guesswork.

Because you can never be sure which markets will outperform from year to year, diversification can help increase the consistency of the outcomes and help you capture what the global markets have to offer.

Add discipline and efficient implementation to the mix, and you may get a structured low-cost, tax-efficient solution.

Just as expert engineers can design fuel-efficient vehicles for all conditions, astute financial advisors know how to construct globally diversified portfolios to help you capture what the markets offer in an efficient way, while reducing the influence of random forces.

There will be rough roads ahead, for sure. But with the right investment vehicle, the ride can be a more comfortable one.

## The Seven Roles of an Advisor:

What is the benefit of a financial advisor? One view is that advisors have unique insights into market direction that give their clients an advantage. But of the many roles a professional advisor should play, soothsayer is not one of them.

The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an advisor, broker, analyst, or financial journalist.

Some folks may still think an advisor's role is to deliver market-beating returns year after year. Generally, those are the same people who believe good advice equates to making accurate forecasts.

But in reality, the value a professional advisor brings is not dependent on the state of markets. Indeed, their value can be even more evident when volatility and emotions are running high.

Effective advisors play multiple and nuanced roles with their clients. None of these roles involve making forecasts about markets or economies. Indeed, there are at least seven hats an advisor can wear to help clients without ever once having to look into a crystal ball:

1. **The Expert:** Investors need advisors who can provide client-centered expertise in assessing the state of their finances and developing risk-aware strategies to help them meet their goals.

2. **The Independent Voice:** The global financial turmoil of recent years demonstrated the value of an independent and objective voice in a world full of product pushers and salespeople.

3. **The Listener:** A good advisor will listen to clients' fears, tease out the issues driving those feelings, and provide practical, long-term answers.

4. **The Teacher:** Getting beyond the fear-and-flight phase often is just a matter of teaching investors about risk and return, diversification, the role of asset allocation, and the virtue of discipline.

5. **The Architect:** Once these lessons are understood, the advisor becomes an architect, building a long-term wealth management strategy that matches each person's risk appetites and lifetime goals.

6. **The Coach:** Even when the strategy is in place, doubts and fears inevitably arise. At this point, the advisor becomes a coach, reinforcing first principles and keeping the client on track.

7. **The Guardian:** Beyond these experiences is a long-term role for the advisor as a kind of lighthouse keeper, scanning the horizon for issues that may affect the client and keeping them informed.

These are just seven valuable roles an advisor can play in understanding and responding to clients' whole-of-life needs, which are a world away from the old notions of selling product off the shelf or making forecasts. Knowing the advisor is independent—and not plugging product—can lead to better understanding and advice.

However you characterize these various roles, good financial advice ultimately is defined by the patient building of a long-term relationship founded on the values of trust, independence, and knowledge of each individual.

## Staying the Course:

Though many stock indices still hover near historical highs, volatility now seems to be the order of the day in capital markets. The potential of rising interest rates and Greece's possible exit from the Eurozone economy will no doubt give short-term traders itchy fingers in the months ahead. Long-term investors, however, should have a different perspective. While there will always be periodic events that temporarily roil the markets, long-term stock investing is about participating in the ongoing growth and innovation of companies around the world.

The benefit of that participation has historically been long-term gains in the range of 9% to 10% for stock investors. (Indeed, despite all the shocks to the market in the past two decades, the S&P 500's twenty-year return presently stands at 8.91%.) The trade-off is that stock investors must endure periods of short-term volatility along the way and avoid the temptation to try to time the market. Such futile efforts usually provided all of the volatility and none of the benefit that comes with being a stock investor.

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*Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.*

*Data sources for returns and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources we believe to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis nonfactual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis do not agree.*

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