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THE TEMPO VANTAGE

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Déjà Vu All Over Again [1]

The more things change the more they stay the same. At this time last year we were talking about how strong the market was despite the fact that no one expected it to be so. And every quarter since 2011 there has been some mention of the debt ceiling, sequestration, and the inability of our elected officials to get anything accomplished. This is exactly where we find ourselves today.

The third quarter was a terrific time for stock investors with the S&P 500 up 5.2%.

In fact 2013 as a whole is shaping up quite nicely. Year-to-date the S&P 500 is up 19.8%. And the gains have been across the board. Small cap stocks (+28.7%) international stocks (+16.1%), and most sectors (tech +13.4%, financial +22.9%, healthcare 28.5%) have performed quite well in 2013.

Of course we can attribute this wonderful performance to the constant stream of good news we hear every day. For example there is the… er, and there is the… ummmm, and don't forget about the …? Come to think of it was there any good news?

It is human nature to focus on the negative, of which there is plenty: the situation in Syria, rising interest rates, and the government running out of money. With these as the backdrop it is easy to forget what is really important to the stock market: companies are making money, people are shopping, the economy is improving, and unemployment continues to fall (albeit at a slow pace).

In the short term all that good news could be rendered moot should our politicians fail to act responsibly.

For bond investors the news is mixed. On the negative side yields were rising (prices down) from the start of the quarter through early September. And that means losses. The good news is that after Bernanke announced that the $85 billion monthly bond buying program would continue the market turned around. As a result of this back and forth action most bond indices showed fractionally positive returns for the third quarter. Year-to-date, however, returns are still in the red.

As clients and other people who learn I am an investment advisor ask me many of the same

1. Yogi Berra

questions, I thought I would answer them in this convenient Frequently Asked Questions (FAQ) format:

- What will happen if the Government shuts down?

By the time you read this the Government has already shut down. But that doesn't mean the entire government. People will still receive their mail and their Social Security, Medicare, and Medicaid payments. But don't plan on going to any public parks until this is resolved.

From a market perspective, history has shown that the market actually does fairly well in the 12 months following a government shutdown.

- What will happen if the Government can't agree on raising the debt limit?

Treasury Secretary Lew estimates that the Government only has enough money to get us through October 17th. The closer we get to that date without resolution, the more volatile the markets will become. And we can imagine much of that volatility will be to the down side.

- What should I do if it appears the debt ceiling won't be raised by October 17th?

If history is a guide then the debt ceiling will either be raised in eleventh hour negotiations or shortly after the October 17th deadline. While there could be some negative market action leading up to a deal I expect an equally swift and positive reaction once a deal is reached.

Your best course of action is to hold steady. Usually the people that get hurt in these situations are those who over-react.

- Once the Government agrees to a new debt limit can I forget about this?

Hardly. With our increasingly partisan elected officials any solution that is reached will likely be short term and the problem will be back before we know it. Perhaps the reason the markets haven't reacted more negatively is that we have seen this all too often.

Tempo Financial Advisors' 3rd Quarter Investment Performance

I think of performance two ways: Absolute and Relative.

Absolute performance, which most people care about, is "did we make money?"

Relative performance compares our returns to relevant benchmarks. Here we could lose money but if we lose less than the benchmark we are (at least somewhat) pleased.

I am delighted to report that in both absolute and relative terms all Tempo strategies did quite well in the third quarter.

Let's start with the **Tempo Lifestyle Program**. Conservative, moderate and aggressive accounts earned approximately 6%, 7%, and 8% respectively in the third quarter. Clearly we had positive absolute returns. But how can it be that all accounts, even conservative accounts that may have as little as 60% equities, out-performed the S&P 500 (which is 100% equity)?

As you may know we generally maintain positions across all market capitalizations and around the globe even when it seems that the S&P 500 is the place to be. But more often than not something is doing better than the S&P 500. And so it was in the third quarter. Mid cap, small cap and international stocks were up 7.5%, 10.7% and 10.6%, respectively. In addition our strategic over-weight positions in healthcare (+6.8%) and technology (+6.6%) boosted returns.

The **Tempo Dynamic Income Program** continues to impress despite the bear market for income investors. For the quarter Dynamic Income was up 3.2%. Absolute return – check! The BarCap Aggregate Bond Index (the most commonly used bond benchmark) was up +0.6%. Relative performance – check!

I am even happier with the year-to-date relative performance. The Tempo Dynamic Income Program is up +2.7% whereas the BarCap Aggregate Bond Index is down -1.9%. This highlights that we have the ability to make money even in a down market. I attribute this to the dynamic nature of our strategy and to the diverse selection of income products to which we have access.

Let's not forget about the **Tempo Dynamic Growth Program**. The third quarter return of 4.4% was certainly positive on an absolute basis. This captured 85% of the S&P 500 return, which is much higher than our historical average "capture rate" of 53% for quarters in which the S&P 500 gained more than 5%. Finally it was well ahead of the benchmark return of 2.9%. The benchmark in this case is a portfolio consisting of 50% S&P 500 and 50% BarCap Aggregate Bond index. This is the benchmark because 50% is the maximum allowable equity exposure within the Dynamic Growth Program.

Company News

While Tempo's 5th Anniversary was on June 20 we postponed the actual celebration until the fall to avoid scheduling conflicts over the summer. We held a client appreciation on October 4th at the Needham Golf Club. A good time was had by all (I hope!) as we enjoyed good food and a terrific performance by singer/songwriter Zoe Lewis.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Daniel J. Traub