Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

First Quarter 2015 Market Commentary

Here is an excerpt from our last quarter commentary:

Have some "dry powder" because the volatility in the markets will never go away. Days of plenty cause us to forget the days of despair and vice-versa. The only problem with cash is that you do not get paid for holding it in the portfolio. That is simply a new variable to incorporate into the overall portfolio management. With inflation non-existent it's not as big a problem as when inflation was running at 3-4% annually. The choice for cash will be an individual decision but it helps smooth out some volatility and gives an investor the opportunity to "buy the dips" when they ultimately occur.

In a few of our communications earlier in the year, we indicated that great years such as 2013 can be followed by good years, and 2014 can be considered as a good year. While a few weeks into the fourth quarter may have placed that theory in doubt, investors remained focused on corporate earnings, while inflation and a stabilization of the employment market kept 2014 in the positive. Heading into 2015, therefore, the annual renewable question is "what about next year"?

Sage Advice

On February 26, 2015, Irving Kahn passed away at the age of 109. He was the world's oldest professional investor, the most senior student of the father of financial analysis, Benjamin Graham, and until his death the chairman emeritus of Kahn Brothers Group, a New York-based investment adviser that now manages $1 billion in assets. Mr. Kahn joins other legends in longevity such as Roy Neuberger, who died in 2010 at the age of 107, and Seth Glickenhaus who finally hung up his shield back in 2012 at the age of 98.

Why are we interested in the longevity of these great guys? Because we hope to emulate their success in the business that truly values growing older, and guys like Mr. Kahn did not much care about the short-term. We don't play much golf so watching the markets and managing client assets are a very appealing attraction for us. It's in our DNA and we cannot imagine life without being involved in the capital formation of this great country. Besides, the longer we commit to this business, which has no retirement age, the longer we have to validate our approach to asset allocation.

While reading the Wall Street Journal article on the passing of Mr. Kahn, we thought the following "nuggets of knowledge" should be shared:

- The gambling nature of Wall Street has little or no interest in the serious, underlying nature of the business;
- Always know more about the stock I'm buying than the man who's selling
- You gain much more by slow investing and concentrating on what you know, than on fast investing, which is nothing more than gambling.

Two years ago, Mr. Kahn told an interviewer that there was "no secret" to longevity and that "millions of people die every year of something they could cure themselves: Lack of wisdom and lack of ability to control their impulses."

We simply cannot improve upon this sage advice. More people would be wise to understand this simple advice and apply it to investing. Investing is a marathon and not a sprint. In today's hyperactive trade mentality world it is reassuring to know that some "old school" principles are still alive and well even if a most ardent student has now passed. We will be pleased to carry Mr. Kahn's ideas and principles forward for the next investing generation.

DOMESTIC EQUITY STATISTICS

Index	Returns for the Quarter	YTD
S&P 600 Small Cap	3.62%	3.62%
NASDAQ Composite	3.48%	3.48%
Dow Jones Industrial Average	-0.26%	-0.26%
S&P 500 Index	0.44%	0.44%

(Returns are without dividends. Period Ending 3/31/2015. Source: Morningstar and spindices.com)

Company	Percentage Weight	Year to Date 2015
S&P 500		0.95%
Energy	8.0%	-2.85%
Materials	3.2%	0.99%
Industrials	10.4%	0.86%
Consumer Discretionary	12.6%	4.80%
Consumer Staples	9.7%	0.99%
Health Care	14.9%	6.53%
Financials	16.2%	-2.05%
Technology	19.7%	0.57%
Telecommunications	2.3%	1.54%
Utilities	3.0%	-5.17%

Source: Standard and Poor's (www.spindices.com)

Style Return Box for the First Quarter 2015

	VALUE	CORE	GROWTH
LARGE	-0.72%	0.94%	2.43%
MID	2.79%	5.32%	7.49%
SMALL	1.24%	3.85%	6.55%

Information provided in the above chart represents the quarterly returns of the S&P indexes of iShares Class of funds NAV returns.

INTERNATIONAL

With the European Central Bank cranking the printing presses to the tune of $60 billion Euro's to buy bonds every month, it should come as no surprise that Europe and the international markets had a great quarter. The MSCI EAFE index was up 4.85%, while the MSCI Emerging Markets index was up 2.01%, both easily outdistancing the S&P 500 and Dow averages. This demonstrates again that diversification in a portfolio is critical to capturing fickle movements in different parts of the equity world.

It has been a long time since the international markets were able to outperform the domestic United States markets. Over the past 10 years the United States has handily outpaced the international markets, so it should be no surprise that with a boost from the ECB that the overseas markets are looking better. We believe the turnaround is justified on the basis on the stimulus, however, we remain cautious on the lasting effects of the stimulus.

We are looking for profits to expand for international companies while the Euro declines (or the strength of the dollar against most currencies, take your pick) and Central Bankers print money. This makes their goods and services cost less to buy relative to U.S. products. That's the mainline thinking, yet companies such as Apple continue to produce good profits despite the higher cost of a dollar denominated product. So do not dismiss the continued earning power of U.S. companies with good brand and market cache. It is simply time that Europe and some other parts of the world take the lead in increased earnings potential, and with $60 billion Euros per month to help it along, we think the international space will produce reasonable returns over the next 12 months.

FIXED INCOME

Without question the most misaligned asset class has been fixed income. For years we have heard the call for their doom due to rising interest rates. Investors who bailed on this sector have missed some impressive returns over the past five years. While past performance is no guarantee of future returns, we do know that fixed income will have headwinds whenever the Fed decides to raise rates. But until then do not give up on this particular asset class as fixed income will continue to be an essential part of an overall portfolio allocation.

We do know this, however, that the doom-and-gloom prediction for bonds due to interest rate hikes is over-blown if history is any measure. Referring back to 1994, the last time the Federal Reserve hiked rates for a prolonged period of time, (six times to be exact), and one can determine the extent of the impact on bonds. Long dated bond funds of higher credits were down 7.04% as measured by the Vanguard Long-Term Treasury fund. Long dated muni bonds were down 4.54% as measured by the Vanguard PA Long-Term Tax-Exempt. And the highest quality short-term bond funds were down 0.08% as measured by the Vanguard Short-Term Investment Grade bond fund.

So there is "life" in bonds when the Fed starts raising rates. The nuance is to manage the fixed income allocation maturity and credit quality. We have and continue to maintain short overall fixed income durations in our portfolios.

EQUITIES

The biggest investor focus has been on international and energy stocks. The former having been beaten down so much over the years that, with the help of the European Central Bank, became very attractive as of late. The latter continue to suffer from the drop in oil prices as a glut of the product sloshes around the world. We suggest investments in the international marketplace but do not "fall in love with it." We have mentioned in previous reviews that Europe especially is vulnerable because of three troubling trends:

- Onerous taxation
- Onerous regulation
- Low population replacement

We still continue to favor domestic U.S. stocks in a diversified portfolio. While it has recently been painful to be in the dividend-paying category in the face of the Fed decisions, you get a nice yield to wait out the process of inevitable interest rate hikes (they have been coming for six years!). As the volatility in the market continues, defensive sectors such as utilities and consumer staples provide additional yield support in rough patches.

Finally, as a hedge to the international market, the mid and small cap sectors play a vital role in the diversification of a portfolio. Most small and mid-cap names do not have a lot of direct

international exposure. They do not have to necessarily worry about currency conversions and the impact to their profits. The base of industries owned in this sector are suppliers or manufacturers of goods and service consumed here in the United States. Many of the smaller insurance companies, regional banks and manufacturers exist in this space.

IN SUMMARY

The waiting game for the Federal Reserve to make up their minds about interest rates continues to dominate how to invest assets into a diversified portfolio. Let us be honest, the Fed finds itself in a tough spot because the rest of the world's bankers are cutting interest rates, pushing the dollar higher. This makes exporting for U.S. based companies more of a challenge. Not impossible, mind you, just more challenging as the currency conversion factors into purchase decisions. Also, think about the balance sheet of the Fed. As they raise interest rates they will reduce the value of their own portfolio. They will also raise the cost of borrowing for the debt carried by the United States.

We stated in our last quarterly commentary that the Fed should "rip the band-aide off" and get whatever pain (real or perceived) they might inflict over with. That being said: We still believe they are pinned to low rates for the balance of 2015. We suggest the Fed be a friend to the retired investor and give them some return on their cash and let them be able to allocate some money back to shorter, safer bond funds. We think being six years removed from the financial crisis is long enough. Get off the zero-rate-interest-policy, hike them 25 basis points and let the market run its course. Low rates are causing perverse investments among those that can least afford to lose money: The elderly and retired.

Finally, 2015 marks the beginning of a six year positive streak in the markets. The S&P 500 has not posted a negative return since the market low in March of 2009. It's probably unrealistic to think we can continue to post positive returns forever. Eventually we will experience a pullback in the equity markets. To prepare for that time we suggest letting a cash cushion accumulate despite the non-existent returns paid on that capital. It does not feel good when your cash isn't earning anything, but you will appreciate it all the more when it anchors the value of your portfolio in a downturn.

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