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Money Matter\$



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Are we witnessing a stock – or bond – market bubble?

by Adam Sommers

I've had more than one conversation over the past few months with people wondering if the stock market is creating another bubble just waiting to pop. There are many reasons to believe it. We've gone nearly three years without a 10% correction. **The Shiller P/E ratio has only been this high in 1929, 1999, and 2007, on the eves of major market crashes.** The Dow and S&P 500 just hit major milestone levels of 17,000 and 2,000, respectively. **The S&P 500 has averaged returns of more than 22% over the past three years.** How can we not be in a bubble?

The biggest reason I think the stock market—in general—is not grossly overvalued is because of interest rates. There are—as there have always been—pockets of craziness (e.g. Netflix). I will caution that I think **the market is not undervalued** at today's levels. But given 10-year U.S. treasury bonds yield 2.5%, there are not a lot of alternatives to stocks and real estate when reaching for “decent” returns on your money.

We live in a world awash in fiat money printed by the central banks and treasury departments of the developed world via “Code Red” quantitative easing programs, and deficit spending. The \$3.5 trillion that the United States Federal Reserve has magically printed into circulation since 2009 has to be invested somewhere; and **no investor in their right mind** would loan the Spanish govern-

ment money for ten years, only to be paid less than the 2.5% that the U.S. government would pay on similar terms.

My theory is that as long as global interest rates on 10-year developed market government bonds stay below 3%, I will have a hard time considering stocks generally overvalued until the forward P/E ratio (currently 16) of the S&P 500 pushes above 24. **That leaves room for an additional advance of 50% in stocks.**

Given the low interest rate environment, **I'm more inclined to postulate that we're in the midst of a bond bubble.** With yields on corporate bonds seemingly unable to push lower, I feel prices of corporate bonds have peaked. If you're satisfied with 2% yields on 5-year A-rated bonds, you can buy bonds today. **I'd rather take measured risks in other areas to attempt to beat 2% over the next five years.**

Over the past year, we've been shifting assets from client bond allocations to more “alternative” income sources like real estate investment trusts, oil and gas infrastructure MLPs, and option income strategies—while maintaining a steady dose of stocks in client equity allocations.

“This time is different” is a scary phrase to use, **but until interest rates rise, I think it is.**



ETF Extra – SPDR S&P Dividend ETF—(SDY)

SPDR S&P Dividend ETF is a rules-based fund that attempts to balance dividend growth with dividend yield. This fund requires its constituents to have raised their dividend for 20 consecutive years, which is a high hurdle that essentially keeps out low-quality companies. It then weights these stocks by their indicated annual dividend yield, which gives the portfolio a value tilt. SDY's high-quality portfolio makes it an appropriate holding for most investors, and TD Ameritrade offers this fund commission-free on the institutional platform used by advisors like SFM.

SDY's Notable Statistics

Current price/share:	\$74.97
Wtd. Avg. Dividend Yield:	2.32 %
Total Assets in the Fund:	\$12.7 Bil.
Expense Ratio:	0.35 %
Five Year Annualized Return:	16.2 %

One-Year Returns

Dow Jones Industrial 30

Average: 12.6 %

S&P 500 Large Company

Stock Index: 17.3 %

Russell Small Company Stock

Index: 2.7 %

SPDR Gold Index

(GLD): -6.7 %

iShares Aggregate Bond

Index: 4.1 %

US Equity High Volatility

Put-Write ETF (1 year ROR): 1.1 %

SFM's “NAKED ALPHA FUND”:

13.8 %



Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
22%	VYM	Vanguard High Dividend Stock ETF	2.73%	22.6%	22.5%	9.8%
18%	VO	Vanguard Mid Cap Stock ETF	1.07%	22.5%	22.3%	13.9%
20%	SDY	SPDRs S&P Dividend ETF	2.26%	19.4%	19.7%	10.5%
20%	VIG	Vanguard Dividend Appreciation ETF	1.91%	17.5%	18.4%	10.9%
20%	IVV	iShares S&P 500 ETF	1.75%	23.7%	22.1%	11.6%

INCOME-oriented portfolio—average current yield: 2.6%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
27%	SDY	SPDRs S&P Dividend ETF	2.32%	19.4%	19.7%	10.5%
23%	VT	Vanguard Total World Stock ETF	2.26%	19.4%	15.7%	13.6%
31%	VYM	Vanguard High Dividend Yield Stock ETF	2.73%	22.6%	22.5%	9.8%
19%	VEU	Vanguard International Stock ETF	3.10%	16.0%	10.8%	16.0%



Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	GSZAX	Goldman Sachs Strategic Income Fund	2.46%	3.5%	6.0%	3.6%
21%	OOSYX	Oppenheimer Senior Floating Rate Note Fund	4.62%	4.6%	7.0%	2.1%
20%	BSV	Vanguard Short-Term Bond ETF	1.15%	2.1%	1.1%	1.1%
19%	BND	Vanguard Total Bond Market ETF	2.55%	6.5%	2.4%	2.7%
20%	BASIX	BlackRock Strategic Income Fund	2.07%	6.1%	4.9%	2.5%

INCOME-oriented portfolio—average current yield: 5.8%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
19%	SJNK	SPDRs Short-Term High Yield Bond ETF	5.25%	5.0%	NA	1.1%
19%	JNK	SPDRs High Yield Bond ETF	5.76%	10.0%	9.1%	7.3%
20%	CSI	Cutwater Select Income Closed-End Fund (CEF)	5.42%	18.7%	7.3%	4.5%
26%	OOSYX	Oppenheimer Senior Floating Rate Note Fund	4.62%	4.5%	6.9%	2.1%
16%	CHY	Calamos Convertible & High Yield Bond CEF	8.22%	29.9%	16.7%	8.3%



Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
23%	UMRAX	KKM U.S. Equity Armor Fund	1.40%	NA	NA	8.4%
18%	RWO	SPDR Global Real Estate ETF	2.96%	23.2%	14.0%	15.3%
17%	PAUDX	PIMCO All-Asset, All-Authority Fund	4.90%	8.9%	4.4%	9.0%
22%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.18%	23.1%	16.3%	9.0%
20%	VNQ	Vanguard U.S. Real Estate ETF	2.97%	27.1%	16.4%	16.0%

INCOME-oriented portfolio—average current yield: 6.9%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	PFF	iShares Preferred Stock ETF	6.68%	12.7%	8.3%	7.2%
23%	HVPW	U.S. Equity High Volatility Put Write ETF	9.00%	4.0%	NA	3.9%
21%	MDEIX	M.D. Sass Equity Income Plus Fund	8.97%	14.7%	NA	7.4%
16%	CVY	Guggenheim Multi-Asset Income ETF	4.73%	16.6%	15.5%	11.0%
20%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.18%	23.1%	16.3%	9.0%