



# HALF-TIME 2015

155 Bovet Road, 1<sup>st</sup> Conference Room, San Mateo, CA  
Tuesday, July 21<sup>st</sup> at 5:30 pm



# IMPORTANT INFORMATION



## Half-Time Report

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All Important Information performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Risk Considerations: The economic forecasts set forth in this presentation may not develop as predicted and there can be no guarantee the strategies promoted will be successful. Stock investing involves risk including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.





“To expect the unexpected shows a thoroughly modern intellect.”

*--Oscar Wilde, Irish author and playwright*

Where We've Been | Where We Are | Where We May Be Going

# Big Changes in 2015



Who delivered their last monologue as  
co-hosts of the Golden Globes?

1

Amy Poehler  
and Tina Fey

2

James Franco  
and Anne Hathaway

3

Kristin Chenoweth  
and Alan Cumming

4

Jon Stewart  
and Stephen Colbert

# Big Changes in 2015

Amy Poehler and Tina Fey delivered their last monologue as co-hosts of the Golden Globes.

"Tonight we celebrate all the great television shows we know and love as well as all the movies that North Korea was OK with."

TINA FEY



"The biggest story in Hollywood this year was when North Korea threatened an attack if Sony released *The Interview*, forcing us all to pretend we wanted to see it."

AMY  
POEHLER

# Big Changes in 2015



Which popular television series is signing off after a final season?

1

Parks  
and Recreation

2

Mad Men

3

The Late Show with  
David Letterman

4

All of the above



# Big Changes in 2015



All of the above. 2015 is the final season for Parks and Recreation, Mad Men, and The Late Show with David Letterman.

# Big Changes in 2015



**What rule changes did the NCAA approve for men's basketball?**

**1**

**60-second  
shot clock**

**2**

**More time outs**

**3**

**The arc underneath  
the basket will extend  
4 feet instead of 3 feet**

**4**

**None of the above**

# Big Changes in 2015



The arc underneath the basket will extend 4 feet instead of 3 feet.

Also, there will be a 30-second shot clock and fewer time outs.

The NCAA wants to increase scoring, speed up play, and reduce collisions beneath the basket.



# Where We've Been

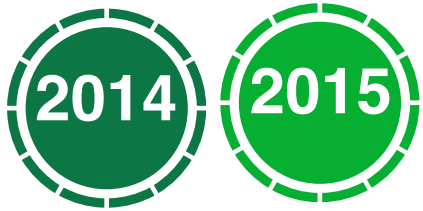
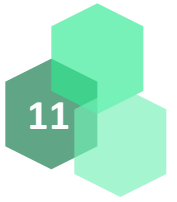
Deflategate: The New England Patriots were fined \$1 million and docked two draft picks.





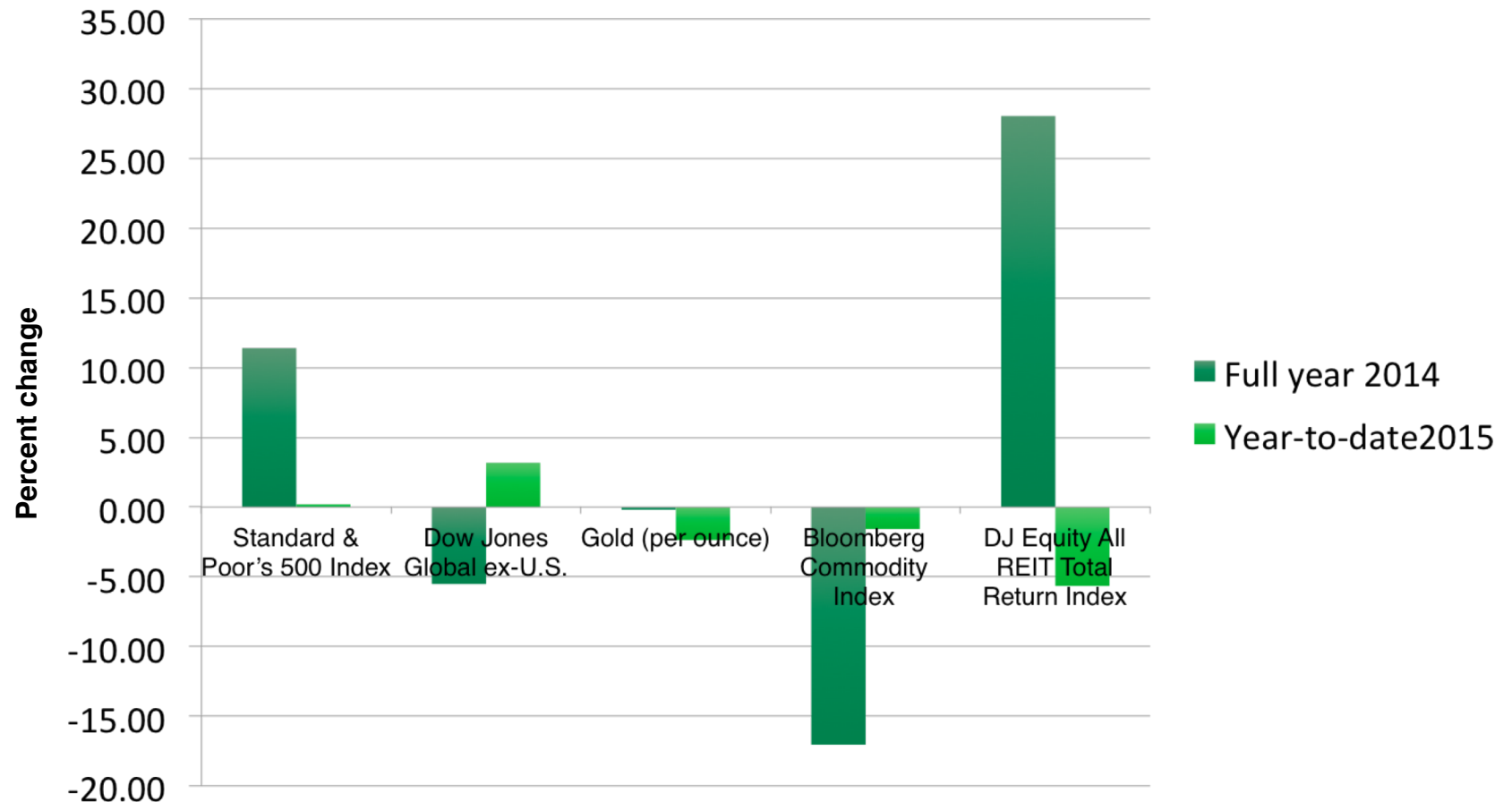
Where We've Been

# Market Performance To-Date, 2015



As of June 30, 2014 and  
June 30, 2015

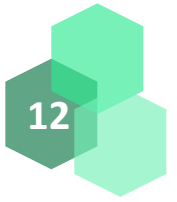
Source: Yahoo! Finance



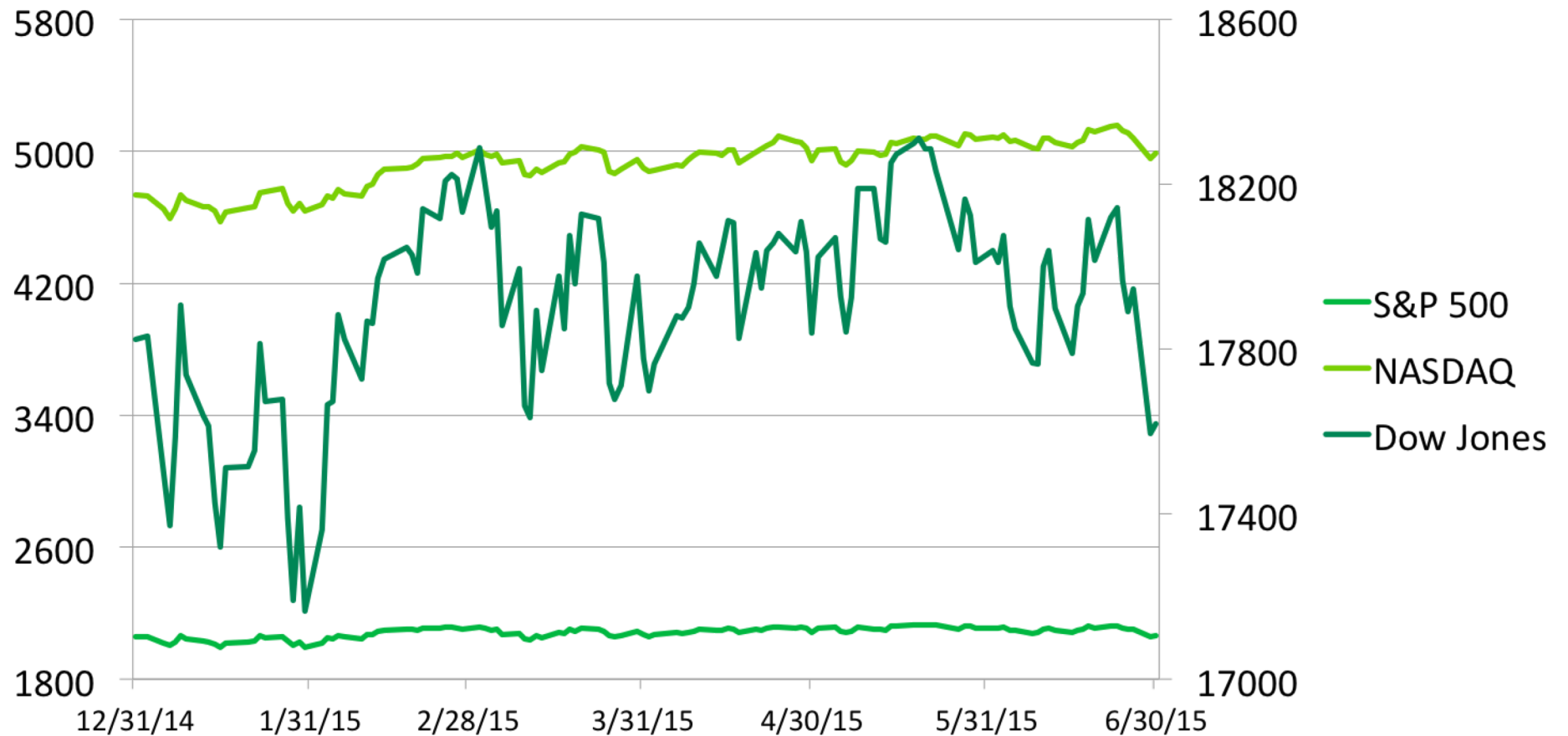
All indices are unmanaged index and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Where We've Been

# Market Performance To-Date, 2015



(S&P 500 and NASDAQ on the left/ Dow Jones on the right)

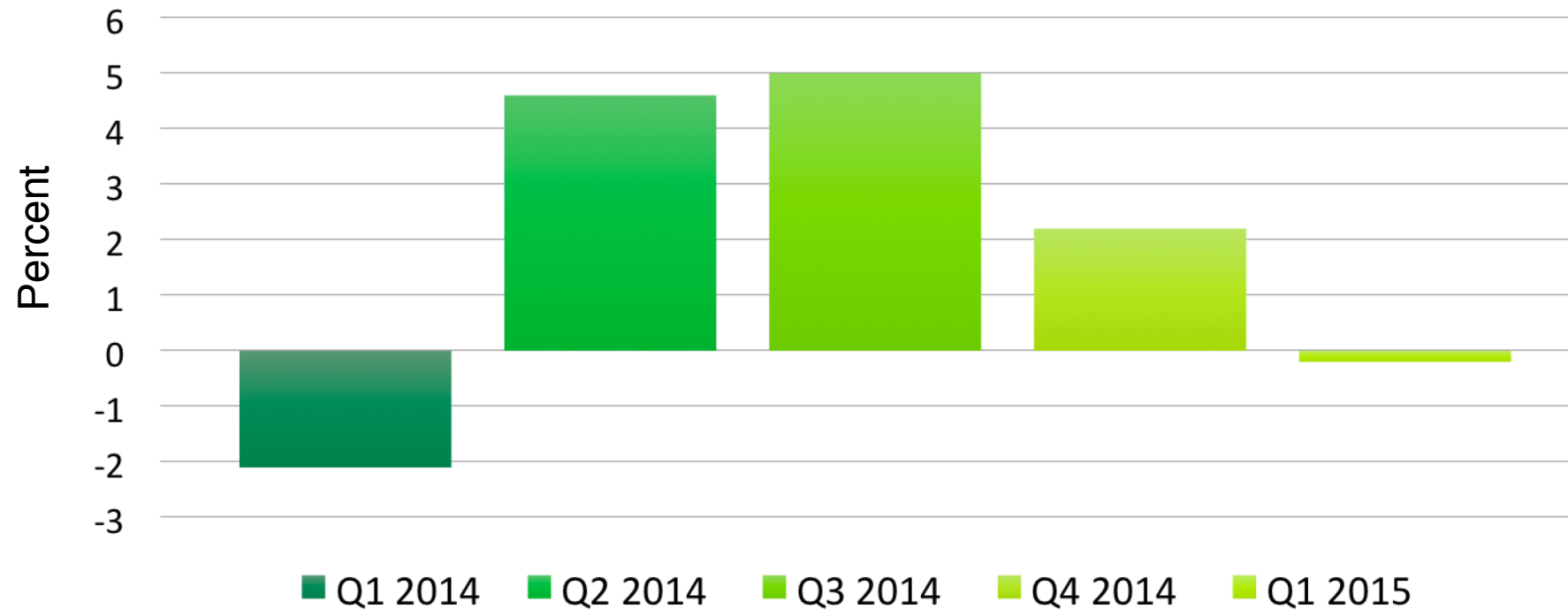


Source: Yahoo! Finance

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# On the Home Front

## Economic growth slowed in the United States

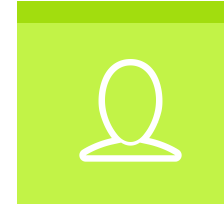


Where We've Been

# Chalk Up Slower Growth to:



Lower oil prices



Slower  
consumer spending



U.S. dollar gains



Slow wage growth



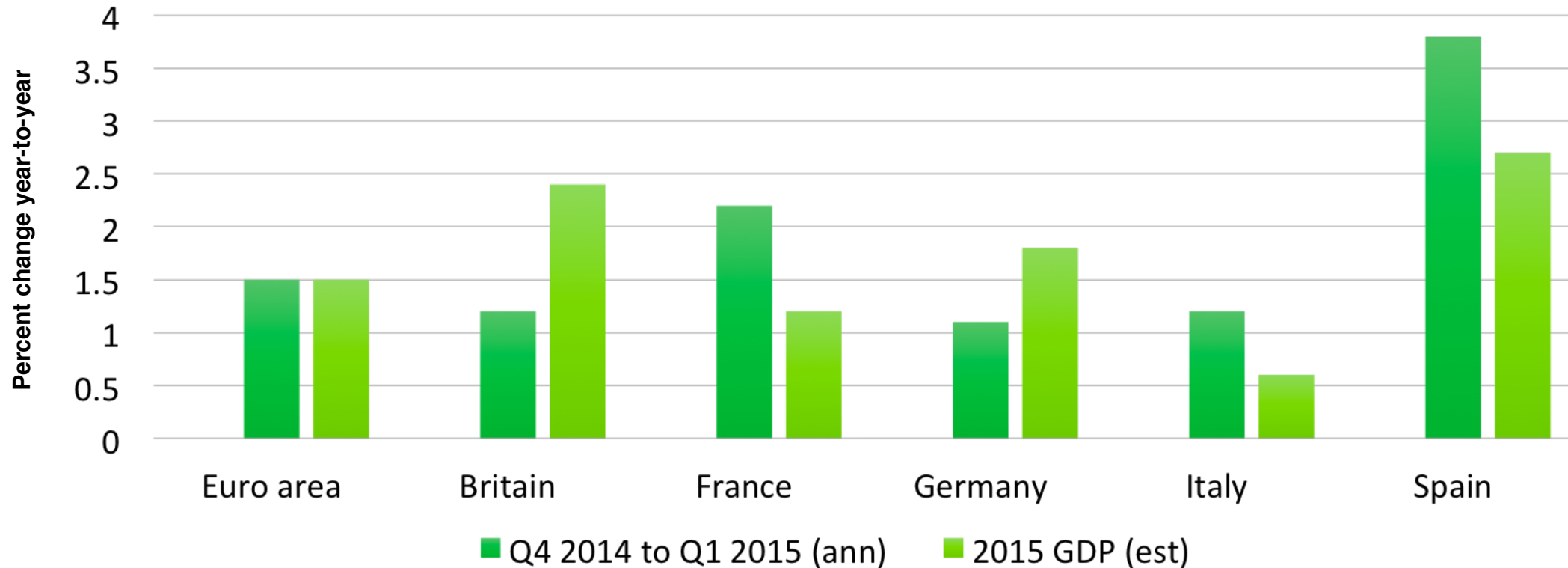
Decline in exports



# Market Performance To-Date, 2015



## Economic growth accelerated



# The ECB Initiates QE

The European Central Bank (ECB) initiated a round of quantitative easing (QE).



The euro area began showing signs of economic recovery

The euro lost value and became more competitive with the U.S. dollar

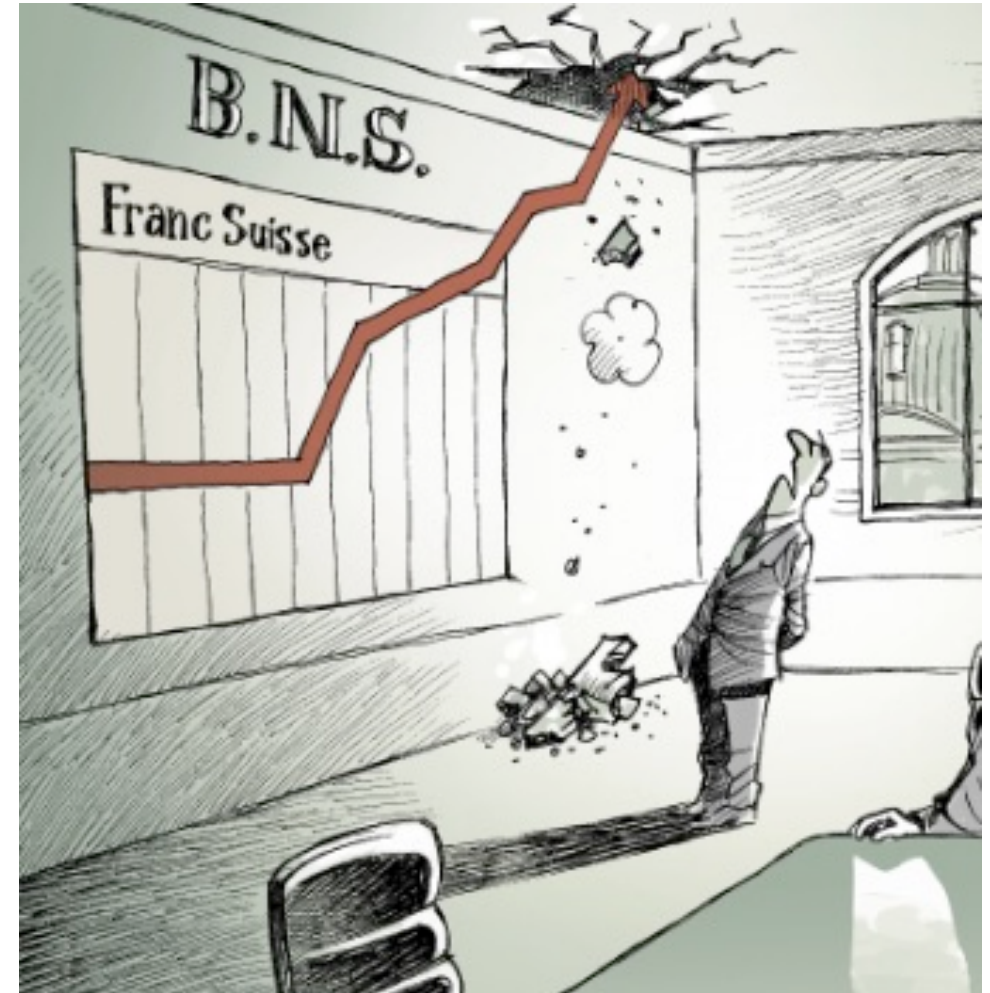
Eurozone exports increased

European consumers spent the low-oil-price windfall

# Swiss National Bank (SNB): Oops!

“Currencies don't normally move that far on a daily basis — 2 to 3% is a big shift. The exception is when a country on a fixed exchange rate suffers devaluation; then a 20-30% fall is a possibility. But a 20-30% plus upward move is almost unprecedented. That, however, is what happened to the Swiss franc on January 15<sup>th</sup>...”

--*The Economist*, January 15, 2015



Where We've Been

# Actions Have Consequences

The SNB's actions caused:

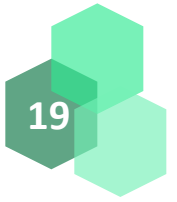
- The Swiss franc to gain about 30% against the euro
- Many world stock markets to slump before recovering
- The Swiss stock market to lose about 10%
- Some currency brokers to become insolvent
- Central European loans and mortgages (denominated in Swiss francs) susceptible to default
- West Ham United to lose its shirt sponsor





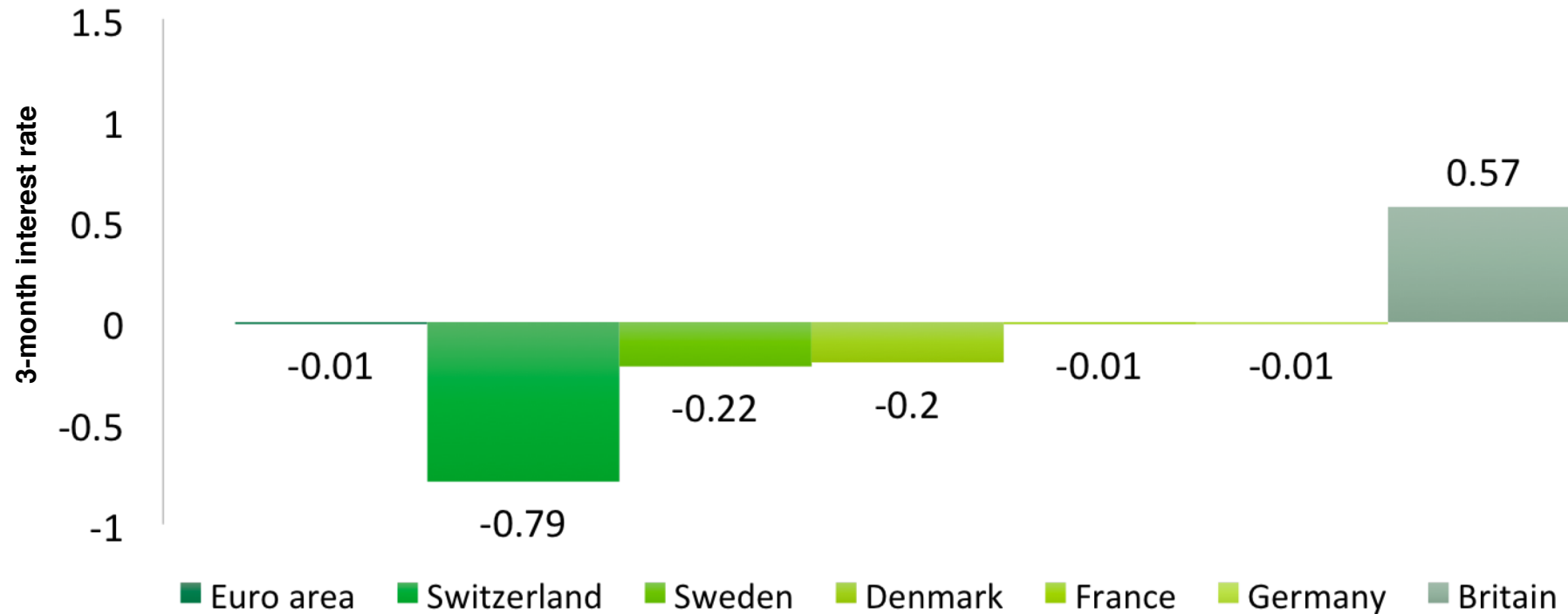
Where We've Been

# The Euro Area Was Full of Surprises



## How Low Can Interest Rates Go?

3-month interest rates



# Every Borrower's Dream

**Imagine the bank paying you for taking a loan!**

“Ms. Christiansen, a 36-year-old entrepreneur [in Denmark], had been approved for a small-business loan...her interest rate...was -0.0172 percent — less than zero. While there would be fees to pay, the bank would also pay interest to her. It was just a little over \$1 a month, but still.

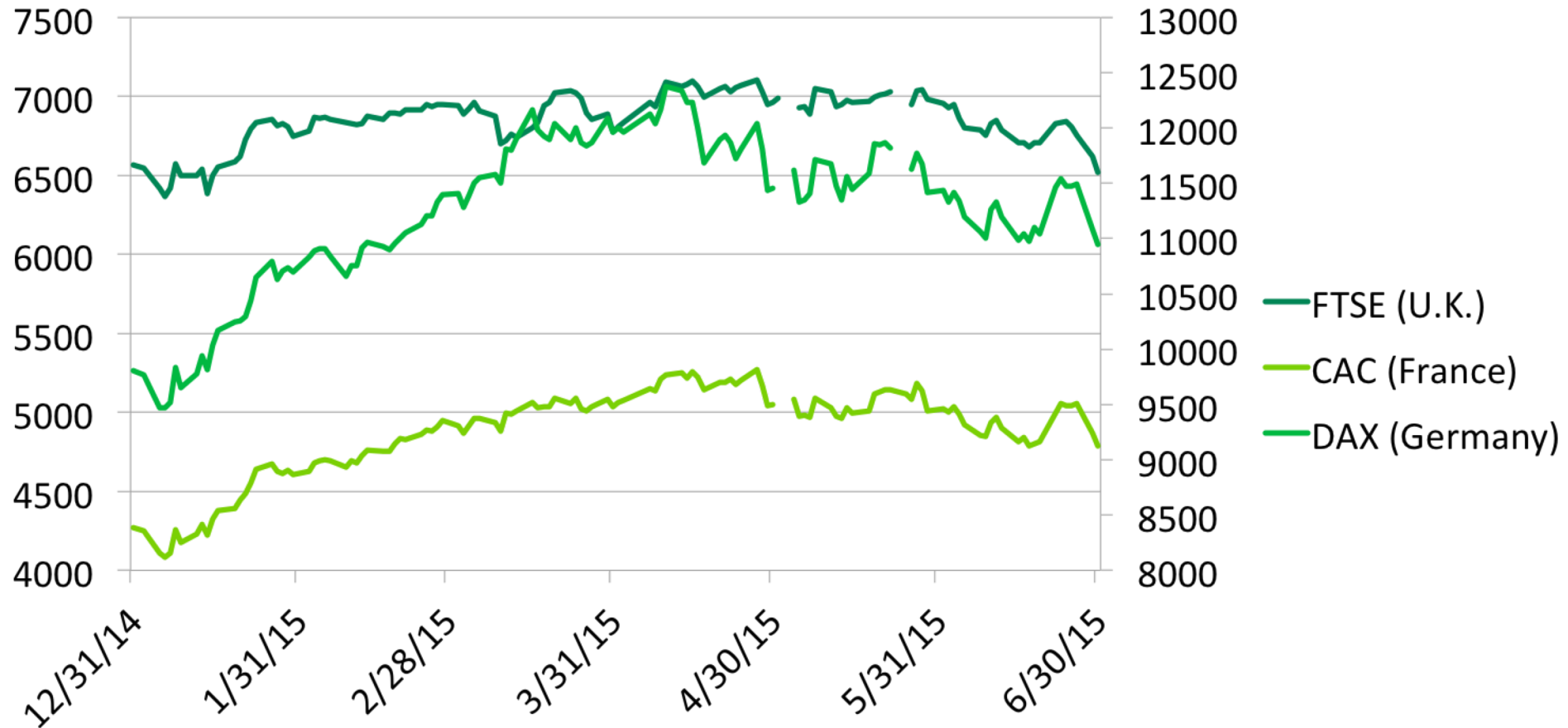
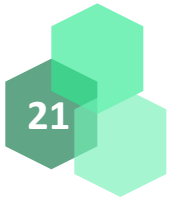
These are strange times for European borrowers, as if a wormhole has opened up to a parallel universe where the usual rules of financial gravity are suspended.”

*--The New York Times, February 27, 2015*



Where We've Been

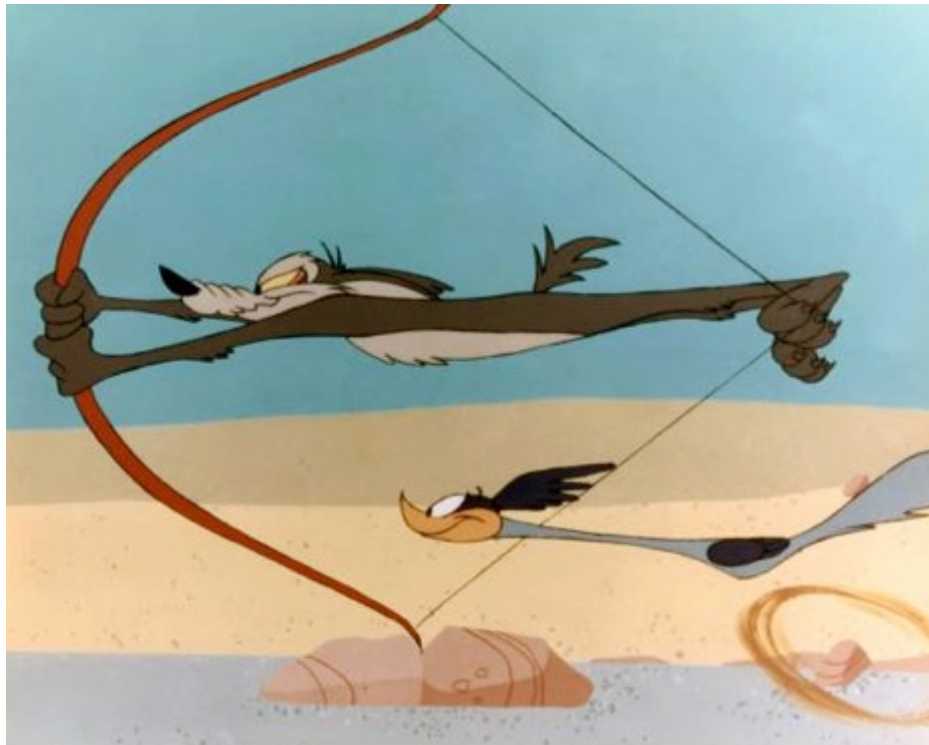
# Many Euro Area Stock Markets Gained



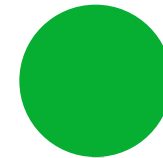
Source: Yahoo! Finance

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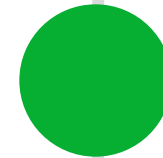
# BOJ Tried QE Again



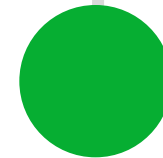
The Bank of Japan (BOJ) initiated a new round of QE late in 2014. Its goal was to push inflation to 2%.



The effort was foiled by low oil prices, which pushed inflation to about zero



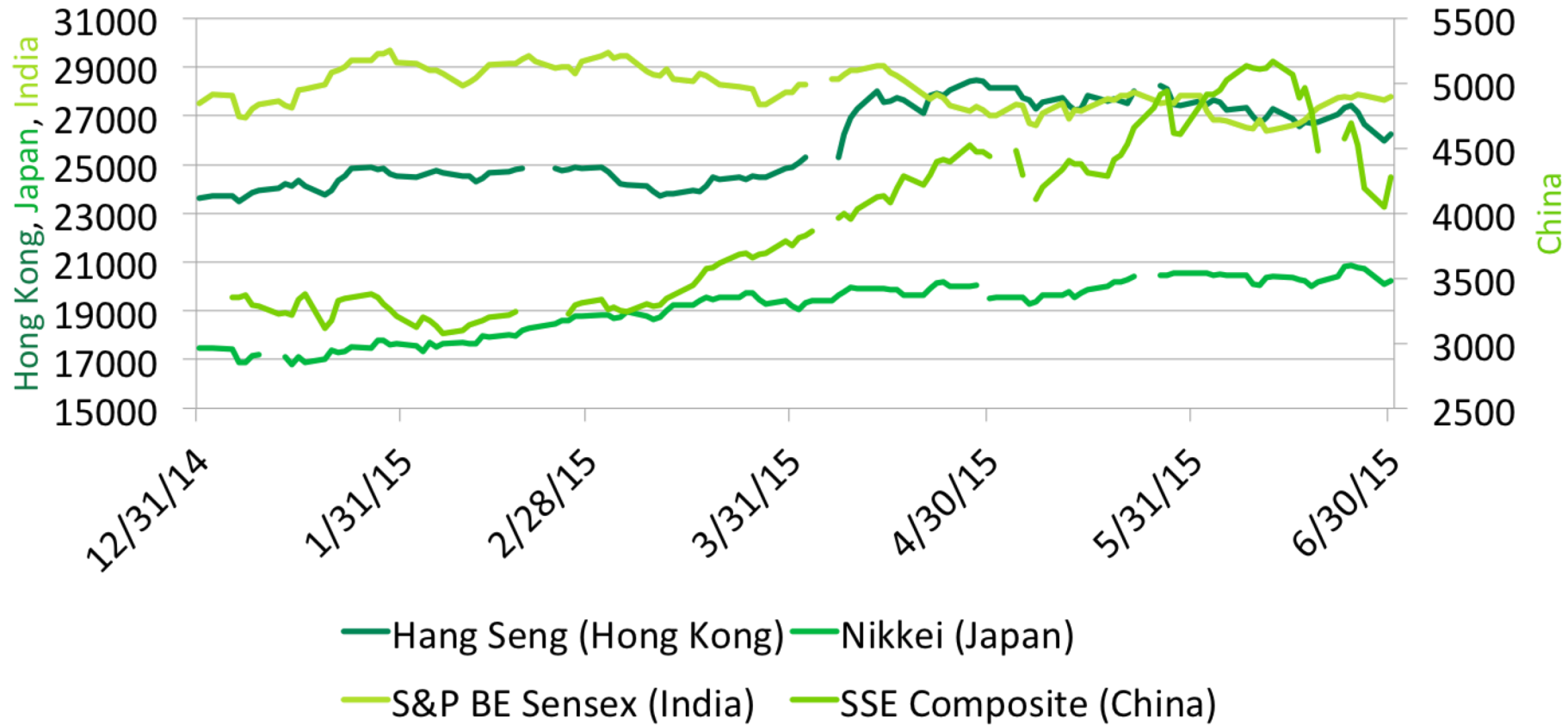
The value of the yen has been stable during 2015



Experts say, given enough time, low oil prices and a weaker yen could help Japan's economy

Where We've Been

# Japan's QE Helped Stocks



Sources: Yahoo! Finance, Google Finance

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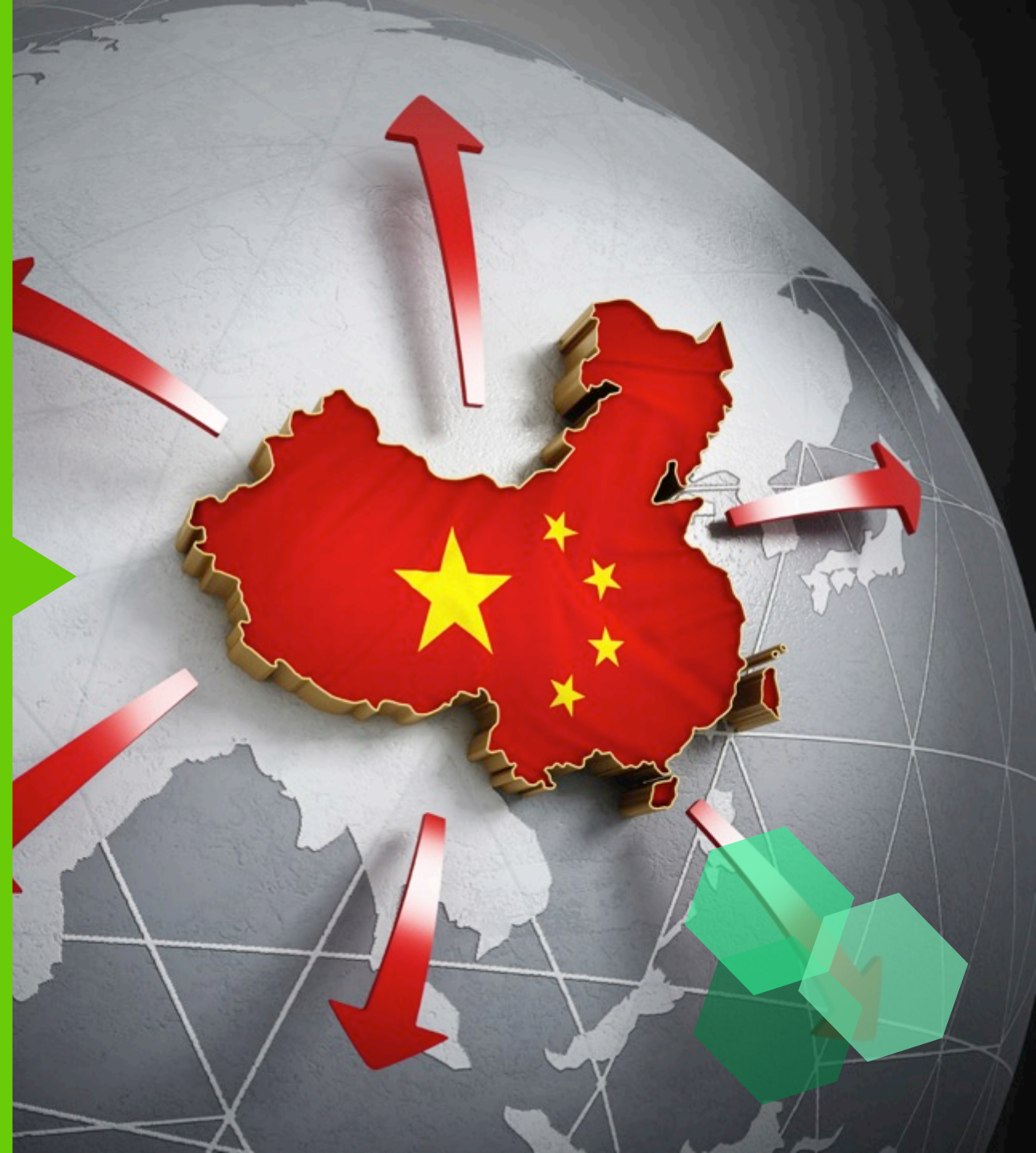
Where We've Been

# China: Buyer Beware

“At least 80 listed Chinese firms changed names in the first five months of this year. A hotel group rebranded itself as a high-speed rail company, a fireworks maker as a peer-to-peer lender, and a ceramics specialist as a clean-energy group. Their reinventions as high-tech companies appear to have less to do with the gradual rebalancing of China’s economy than with the mania sweeping its stock market...

Examples of excess abound. A pet-food company trades on 221 times earnings, a sauna-maker on 285, and a manufacturer of fans on 732. Chinese stocks have long had a tenuous relationship with economic reality, but the current rally has gone to new extremes.”

*--The Economist, May 30, 2015*

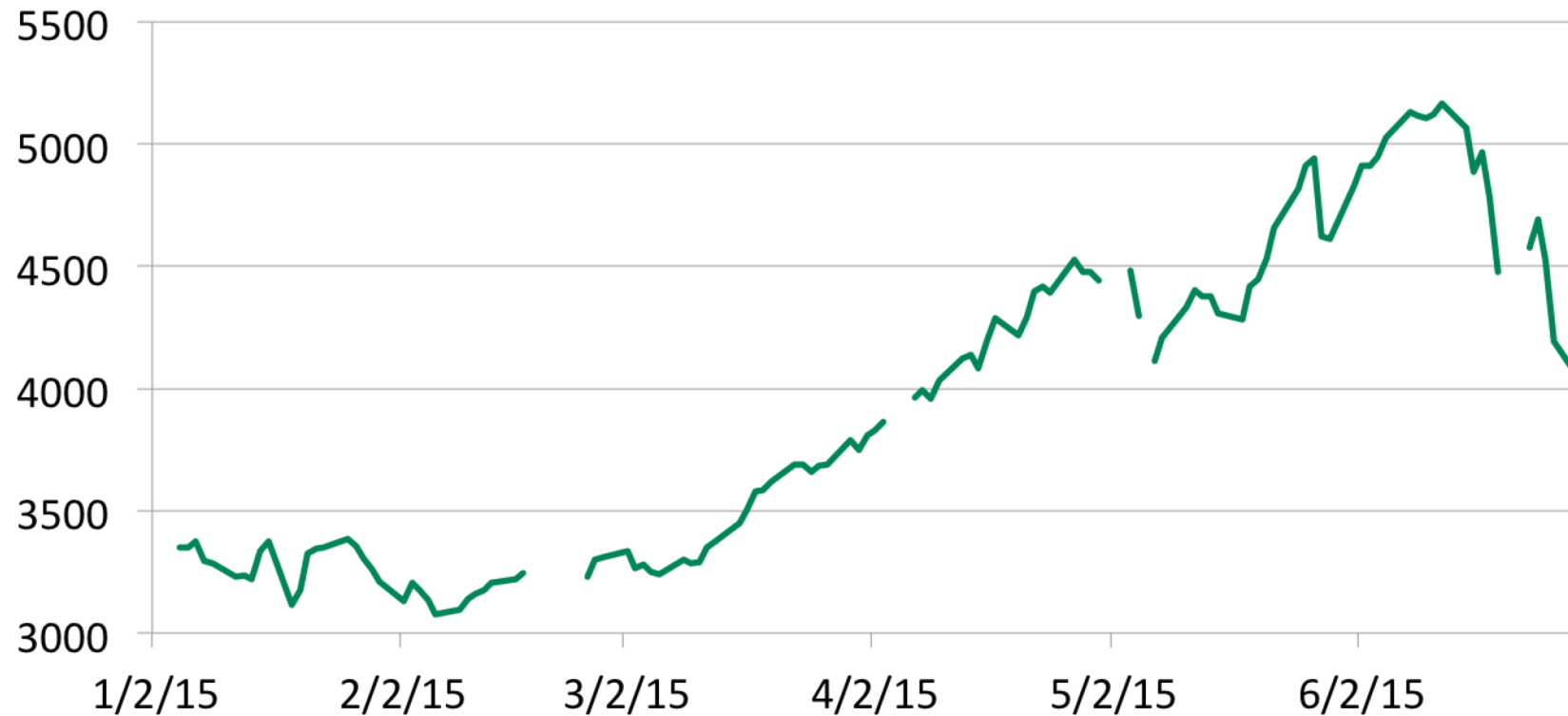


Where We've Been

# A Closer Look at China



**SSE Composite (China)**



# Volatile Government Bonds?!

“...liquidity is said to be at a low ebb in the financial markets, especially for bonds...As a result, transactions that once didn't cause prices to budge now send them lurching from trade to trade...And the advice from central bankers on both sides of the Atlantic about this new volatility? Get used to it.”

--Barron's, June 6, 2015



Source: Barron's

U.S. Treasuries may be considered “safe haven” investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

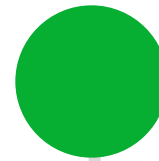


Where We've Been

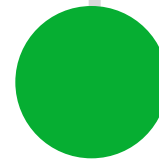
# Volatile Government Bonds?!



## Why are government bonds volatile?



Trading algorithms result in herding behavior



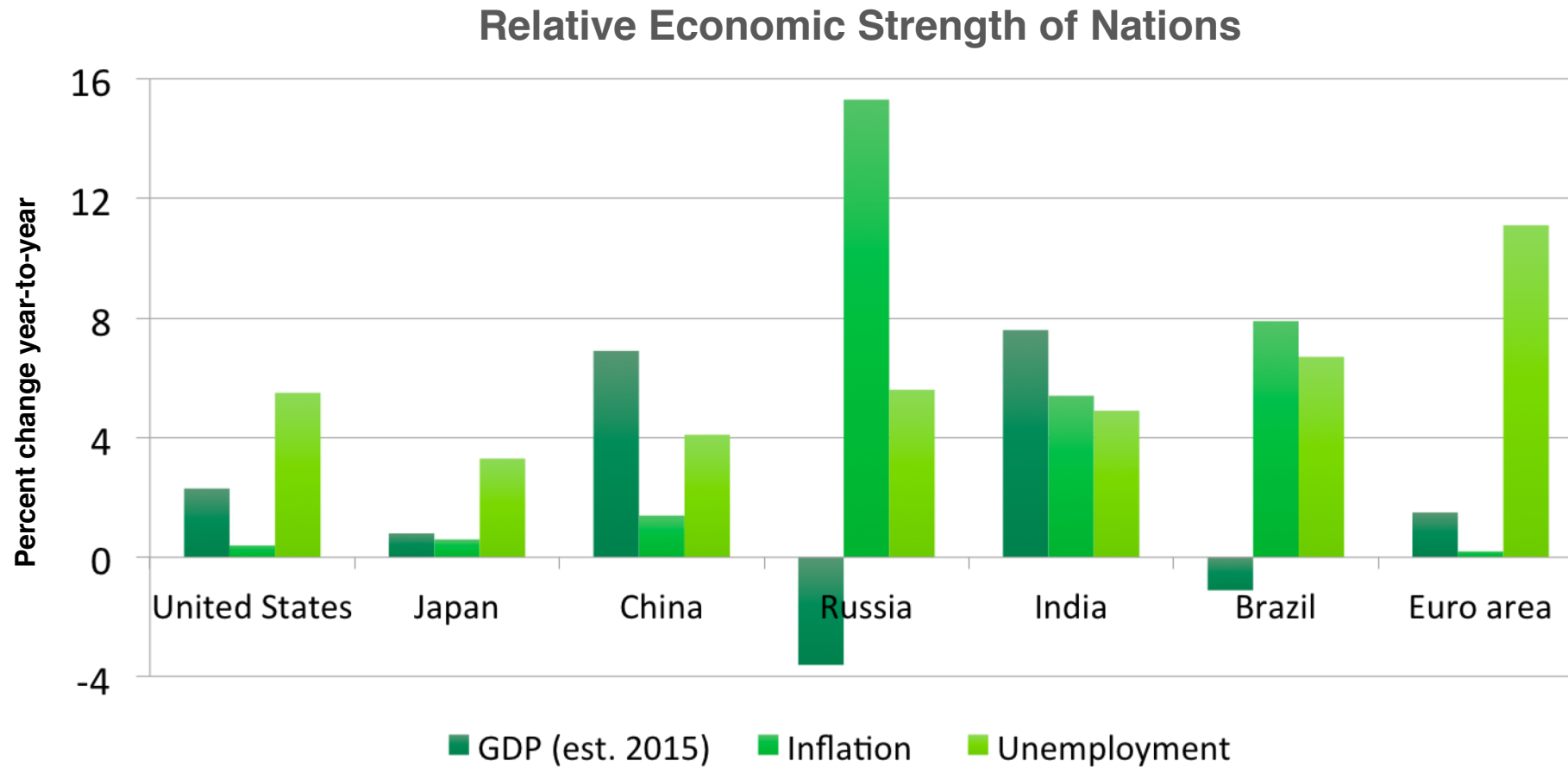
Banks have scaled back bond trading (market making) activities



## Where We Are

A Scandal: Racketeering charges brought by the United States against FIFA Officials.

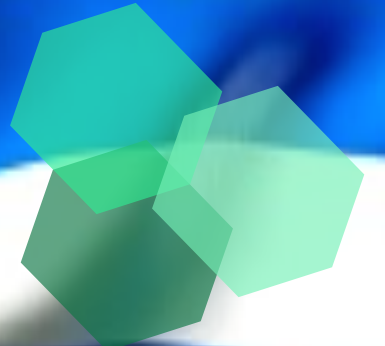
# Growing Our Economies... Mostly





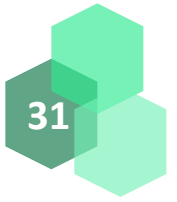
Where We Are

Greece?!?





# Waiting on a Rate Hike



“In the event that there is not agreement, I do see the potential for disruptions that could affect the European economic outlook and global financial markets. I would say that the United States has very limited direct exposure to Greece, either through trade ... or financial channels. But to the extent that there are impacts on the euro-area economy or on global financial markets, there would undoubtedly be spillovers to the United States that would affect our outlook as well.”

*--Federal Reserve Chairwoman Janet Yellen, June 17, 2015*

Where We Are

# ... And Wondering When It Will Happen

32

“The Federal Reserve’s forecast for economic growth this year and for interest rates in the coming three years could be edging down... If the Fed’s longer-run growth forecasts deteriorate, it might mean officials believe the economy can’t handle rates going very much higher.”

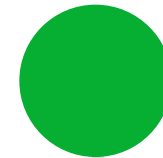
*--The Wall Street Journal, June 11, 2015*



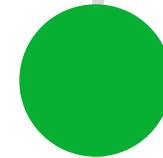
# Minding the Wealth Gap



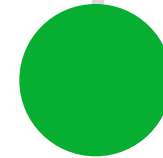
## In 20 developed nations:



The wealthiest 10% have 50% of all wealth



The next 50% have 47% of all wealth



The bottom 40% have just over 3% of all wealth

# Looking for Growth

The OECD reported income inequality slows economic growth.

“...income inequality has a sizeable and statistically negative impact on growth... Moreover, it [the data collected from the think tank’s 34 rich country members] suggests it is inequality at the bottom of the distribution that hampers growth.”

--Organization for Economic Cooperation and Development (OECD)







The city of Los Angeles will increase its minimum wage from \$9 to \$15 an hour by 2020.

### Why set the minimum so high?

For a person living in Los Angeles who is the sole provider for his or her family (1 adult, 2 children) and works 2,080 hours a year:

- \$29.84 an hour is a living wage
- \$9.00 an hour is a poverty level wage



Where We Are

# Changing the Minimum Wage

# Appreciating Low Oil Prices

“The main lesson is that although the price drop has been bad for producers in such places as the North Sea, it has not derailed America’s oil boom. Indeed, America is replacing Saudi Arabia as the world’s swing producer.”

*--The Economist, April 18, 2015*



## Where We Are

“Well, the 20th century was the century of the U.S. The 19th century was the century of the U.K. The 21st century will be the century of Asia, and it’s becoming more and more evident. And especially of China.”

*--Jim Rogers, Co-founder Quantum Fund*



## Asian Infrastructure Investment Bank (AIIB) members:





# Changing the World Power Structure?

“The AIIB is one of a number of new institutions launched by China, apparently in frustration at the failure of the existing international order to accommodate its astonishing rise. Efforts to reform the International Monetary Fund are stalled in the American Congress. America retains its traditional grip on the management of the World Bank. The Asian Development Bank remains based in Manila but directed by a succession of Japanese bureaucrats. So China...is building an alternative architecture.”

--*The Economist*, March 17, 2015



A person is shown in silhouette, looking through binoculars. The background is a bright, warm sunset or sunrise sky. The person's hands are visible holding the binoculars, and a white shirt cuff is visible on the right arm. The binoculars are silver and black.

# Where We May Be Going

Another sports scandal?

Interest rate tantrums?

Economic growth?

Economic decline?

Bull markets?

Bear markets?

# Things Aren't Looking So Good



“If secular stagnation was emerging, what would one expect to see? One would expect to see that the world real interest rate, or that the real interest rates of those places where secular stagnation was a pressing problem, were chronically declining. Indeed, what you see here is that for some long time period the real interest rate has been in substantial decline.”

*--Larry Summers, Former Secretary of the U.S. Treasury*



# What Is Secular Stagnation?



- Low or no growth
- Weak inflation
- Low interest rates
- Savings exceeds investments (in infrastructure, education, and other things critical to future economic growth)
- European consumers spent the low-oil-price windfall



# Larry Summers Is Wrong



“Two of the biggest names in macroeconomics met on the battlefield of the blogosphere last week. Former Federal Reserve Chairman Ben Bernanke and former Treasury Secretary Larry Summers were debating why interest rates are so low.

For more than a year, Mr. Summers has advanced the theory that “secular stagnation” is to blame: a chronic shortfall in demand. Mr. Bernanke disagrees, blaming a combination of cyclical and special factors.”

*--The Wall Street Journal, April 7, 2015*

# Things Are Looking Up for 2015

“Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.”

*--IMF World Economic Outlook, April 2015*



# But Slower Growth May Be Ahead



“Advanced economies are projected to grow at more modest rates from 2017 onward, reflecting the gradual closure of output gaps—particularly in the euro area and the United States (where the persistence of crisis legacies and policy *uncertainty play a role*)—as well as the effects of demographics on labor supply and hence on potential output.”

--IMF World Economic Outlook, April 2015



# The Bull Market Isn't Done



“You’ve seen the headlines: China meltdown; Greece collapsing the eurozone; “Brexit” risk bashing UK businesses; US debt bomb; Europe’s quantitative easing failing; stocks overvalued...

Widely known fears aren’t risks. They’re gifts... Stocks climb the “wall [of worry]” until investors are out of worries and become euphoric, or until a huge, nasty surprise knocks them. Size and surprise, or euphoria. We have neither now. Instead, worrying keeps expectations low and euphoria at bay, lengthening our bull market.”

--Ken Fisher, Founder and CEO Fisher Investments



# The Bull Market Is Over



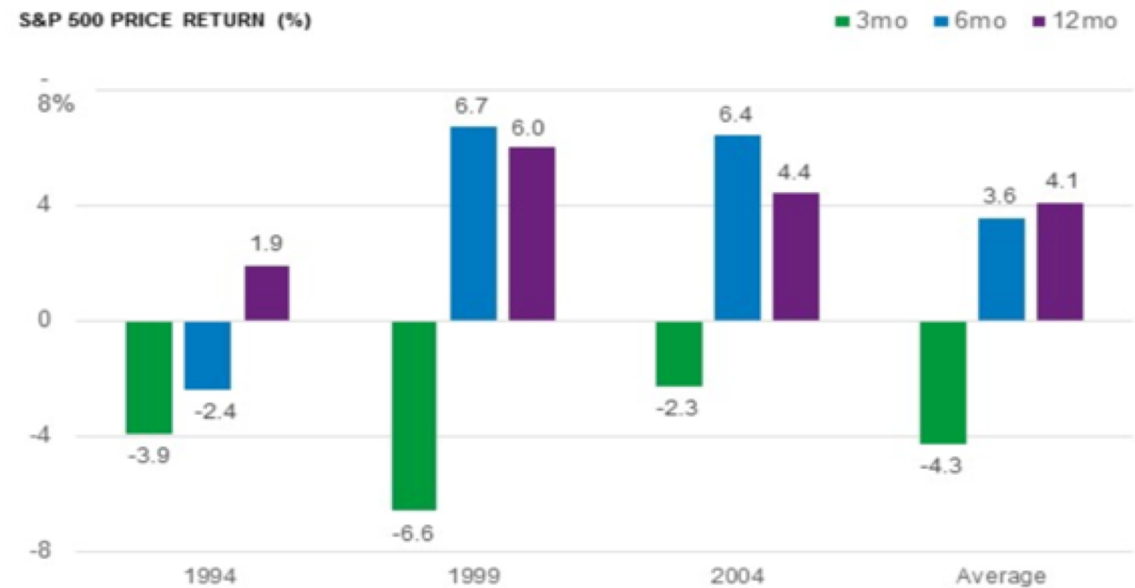
“But now, successful, neither perma-bearish nor perma-bullish managers have spoken to a “sense of an ending” as well. Stanley Druckenmiller, George Soros, Ray Dalio, Jeremy Grantham, among others warn investors that our 35-year investment supercycle may be exhausted. They don’t necessarily counsel heading for the hills, or liquidating assets for cash, but they do speak to low future returns...”

*--Bill Gross, Portfolio Manager*

# The Fed Rate Hike Won't Hurt for Long



## Rate Hikes Don't Imply End to Long-Term Performance



Source: Bloomberg, S&P 500 Price Return (%) after the start of a tightening cycle.

BLACKROCK™

Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Where We May Be Going

# This Time May Be Different

“Central banks’ support for markets since 2008 has been unprecedented—not just near-zero rates, but also the buying of assets through quantitative easing (QE). Analysts at Société Générale, a French bank, point out that there have only been two periods in which American stocks rose as quickly in six years as they have done since 2009; in both cases (1923-29 and 1993-99), a bear market quickly followed.”

--*The Economist*, March 21, 2015





Where We May Be Going

# Forecasting Isn't Easy

46%



54%





Where We May Be Going

# There Are Always Opportunities



# Thank You for Your Continued Support!



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# IMPORTANT INFORMATION



## Domestic Index Descriptions

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day and is related to the total value of the Index.



# IMPORTANT INFORMATION



## International Index Descriptions

The Hang Seng Index is a capitalization weighted index that tracks the performance of 40 of the largest companies on the Hong Kong Exchange. The companies represent about 60 percent of the exchange's total market capitalization.

The SSE Composite Index measures the performance of all A-shares and B-shares on the Shanghai Stock Exchange. Most companies on Chinese exchanges offer two types of shares. A-shares are quoted in non-Chinese currencies. B-shares are quoted only in Chinese renminbi.

The S&P BSE Sensex Index is a capitalization weighted index that tracks the performance of the 30 largest, most liquid and financially sound companies across key sectors of the Indian economy. It is a benchmark index for India.

The Nikkei Stock Average is a price weighted index that measures the performance of 225 stocks in the first section of the Tokyo Stock Exchange. It is a benchmark index for Japan.



# HALF-TIME

## 2015