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BCM Newsletter

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The BCM Team

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BCM UPDATE

The BCM Team

"Your life does not get better by chance, it gets better by change." –Jim Rohn

The third quarter of 2014 brought a substantial number of changes to Bellwether Capital Management, all of which we're happy to say were good ones. These changes greatly improve the ways we can help our clients' financial lives.

Wei Trieu joined BCM in June as a Partner. He is a CERTIFIED FINANCIAL PLANNER™ professional who was most recently a VP/Senior Account Executive at a national investment firm. Along with Wei joining the firm, BCM welcomed thirteen new clients during the quarter.

Bellwether Capital Management now proudly uses Charles Schwab as our primary custodian. Schwab is a recognized name in the financial industry and provides the best combination of investments, capabilities and customer service. They have been serving registered investment advisers like BCM for over 25 years. We leverage their industry-leading back office to run operations smoothly so we can focus on serving our clients.

In August, we relocated to our new office in San Ramon. With our lease in San Francisco coming due, we explored several new locations. San Ramon presented itself to be the most convenient location for clients, the most sensible place for operations and growth, and the best overall value. While San Ramon is our headquarters, we continue to work with clients throughout California and even in other states.

The entire BCM team would like to thank our clients for choosing us for their wealth management needs. We strive to continue growing our business but will always prioritize the needs of our clients.

MARKET RECAP

Victor K. Lai, CFA

After a calm start to 2014, financial markets ended the third quarter with a spike up in volatility. Global stock prices fell by 3.79% in the third quarter, but still ended with a year to date return of 3.80% (based on the FTSE Global All Cap Index). Risky asset prices in general were down across the board. Most notably, foreign developed market stock prices were down 7.03% in the third quarter and are now negative 1.26% for the year (based on the MSCI EAFE Index). Meanwhile, the US bond market stayed relatively flat for the quarter, but is up about 4.10% year to date (as measured by the Barclay's Aggregate Bond Index). Table 1 below shows performance for a range of major asset classes in 2014.

Table 1

Asset Class Price Performance

INDEX	YTD
FTSE Global All Cap	3.80%
S&P 500	8.34%
MSCI EAFE	(1.26%)
FTSE EM	5.20%
DJ US REIT	14.60%
GSCI Commodity	(5.64%)
Barclay's Aggregate Bond	4.10%

Behind the Volatility

Behind the scenes, there has been no shortage of reasons for increased volatility. As the year progresses, a number of key developments will likely continue to dominate the headlines and impact financial markets. We highlight several such developments below.

The End of QE
After almost six years and over $4.4 trillion in asset purchases, the Federal Reserve plans to end its unprecedented monetary policy known as quantitative easing, or "QE," in November. Though the end of QE has been widely anticipated, the actual termination of the policy represents a major turning point for financial markets at which the central bank stops injecting liquidity into the financial markets with asset purchases. Following a long period of accommodation by the Fed, markets will need to adjust to this environment of reduced liquidity. Increased volatility should be an expected extension of that adjustment.

Geopolitical Concerns
This year has seen a fair share of geopolitical concerns, many of which have flared up during the third quarter. Examples include the altercation between Russia and Ukraine, ISIL in Iraq, the ongoing turmoil in Syria, the persistent conflict between Israel and Palestine, and heightening political unrest throughout Asia. Though the world is rarely free of geopolitical concerns, the current storm of unrest comes at a time when the stock market hangs precariously at historical highs. With increased tension in both the political and financial arenas, even seemingly insignificant events could spark abnormally high levels of market volatility.

Market Prices
Since 2009, equity market prices have been on an impressive upward surge. As of the end of the third quarter, the S&P 500 is up by more than 190% from its March 2009 low. After years of gains, the reality is that equity markets have made and are still near all-time highs. Meanwhile we have not experienced a significant correction in equity market prices for three years. While some investors continue to dance around the rally, many are bracing for the certainty that the music will eventually stop. Combined with the concerns already mentioned, this further heightens market price sensitivity.

So What's an Investor to Do?

With so many headline risks, what can investors do? The truth is there is no such thing as a risk-free investment. Even safe investments like bank CDs have inflation risk and may lose purchasing power over time. With that in mind, it's important to understand which risks are truly relevant to you and your goals.

In all likelihood, the relevant risks have nothing to do with the Federal Reserve, ISIL, or which way the markets go. On the contrary, the most relevant risks are less spectacular and more personal – like will you save enough, will you use an appropriate allocation, and will you maintain a sustainable withdrawal rate?

At the end of the day, prudent long-term investors should make decisions based on their needs, goals, and circumstances -- not the most recent round of headline news. BCM is here to help; one of the most important parts of our job is to help ensure that your investment strategy is properly aligned with your objectives, and to stay the course regardless of what may happen. If you have any questions or think we can help, please feel free to contact BCM any time.

CURRENT EVENTS

Bill Gross' Departure from PIMCO and What It Means to You

Wei Trieu, CFP®

On September 26, 2014, Bill Gross announced his sudden departure from PIMCO, the firm he co-founded in 1971. This shake-up comes at an already troubling time for the investment company after the heir apparent, Mohamed El-Erian, announced his resignation earlier in the year. The firm's flagship Total Return fund has seen negative outflows for 16 months, losing 10% of its assets just in September.

The significance of PIMCO's Total Return fund is that it's ubiquitous in the portfolios of many individuals and institutions. After the most recent recession, bond funds experienced large inflows of money and PIMCO greatly benefited from that, having Bill Gross as their "Bond King." The Total Return fund is also pervasive in institutional accounts such as 401k and pension plans. Taking a look inside many 401k plans, there's a good chance you'll see the fund as one of the few bond choices or in some cases, the *only* option. Institutional investors may be slow to react, making decisions after numerous investment committee meetings. It would not be surprising to see more retirement plans drop PIMCO's fund in the months ahead, exercising their fiduciary responsibilities to their investors. As I write this article, Charles Schwab has just announced the removal of PIMCO Total Return from their target date funds.

Mutual funds are structured as open-ended investments where you redeem your shares when it's time to sell. Funds may have enough cash to pay a small amount of redemption but need to sell investments for much larger ones. If the outflows are big enough, this will negatively affect the fund manager's ability to manage the investments.

What does the job change of one man really mean to you? The answer is Gross isn't just any man, and the fund isn't just any fund. Although Bellwether Capital Management does not believe it making knee-jerk reactive moves, we do believe in continually monitoring your portfolio to maintain the proper allocation and being aware of changes that may affect you. If you think the changes at PIMCO may affect you, feel free to contact BCM for a review of your holdings and what options you have.