



Short – Term vs Long

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In financial matters there is often a substantial difference in results depending on the time-frames used to judge. Here are some of my current thoughts on two important issues: debt and investing.

Debt. Taking on debt usually eases short-term tensions, it makes things appear brighter. As a consumer you're riding in a nice smelling, beautiful new \$ 20,000 + car yet, depending on the terms of financing, your bank account is as large as it was before. Ahhh, sweet.

But those monthly payments keep popping up and, eventually, that new car isn't quite as new, or exciting. And now you wish you had some of that money with which to do something else, like paying off credit cards, saving for Retirement, or College. Short – term vs long.

Segueing to macro-economics, in 2014 when you find an industry that's doing well, you'll also likely find its debt is increasing. For example, U.S. auto sales are hot. Simultaneously the average new car loan just rose to a record \$27,430 = \$ 471 / month (not including

insurance). Housing is doing well again because buyers are willing to borrow.

This issue is at the heart of my nervousness about the U.S. Economy. Since 2008, all together we Americans (governments, corporations and consumers) borrowed a record amount of money: \$ Trillions actually. We were encouraged to do that by corporations (of course, they want us to buy their products), but also by our Federal Government who wants to stimulate spending, which will decrease un-employment.

Although the boost to GDP has been the smallest 'ever', we still see the short-term results: the economy is doing better than 2008. History suggests, however, the long-term results will likely be different, and not as rosy. Short-term vs long.

Investing. Stocks are an excellent asset for capital appreciation over the long-term, in part because companies can change with the conditions, create new products, open new plants, cut costs, etc. But stock prices are often very volatile

in the short-term. One of the biggest mistakes I see investors make is not 'segmenting' their investments for different goals, some of that segmenting related to time-horizon.

Example. You have a new child or grandchild and want to start investing for their future education. The best time-tested asset class, 100% stocks. Now a slightly different scenario: that child is 17 and will start college next year. Q: do you leave your savings all in stocks or liquidate some into cash and eliminate the possibility of selling into a price decline ?

The recognition of the effects of time-frames are very important if you want to become financially independent. They are also, of course, also very important to successful investing.

We're going to address both of these issues, generally and specifically, in our next Workshop (see details on page 3 inside). Feel free to come spend a couple of educational hours with us. It may improve your results.

Does Middle East Conflict Still Matter to Us?

The Short and Long of It

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Much has been made of U.S. reticence to become more deeply involved in the widening sectarian violence in Syria and Iraq. Polls support President Obama's policy of committing few resources & personell to a region that has cost us dearly in blood & treasure since 9/11. War weariness is quite understandable among the American public, and conflict between the Sunni & Shiite factions of Islam seems intractable and never ending. But, as shown below, our increasing domestic production is a very big reason to justify less military involvement in the oil-rich Middle East. It would seem to be unambiguously positive for our economy and our national security.

Increasing geo-political tensions in Ukraine, Syria, Iraq and other parts of the Middle East & Africa recently caused global oil prices to move higher on concerns about production and transportation disruptions, despite the ongoing surge in N. American oil/gas output. This is because our domestic gains are being more than offset by real or potential declines elsewhere, whether caused by conflict or outright depletion of reserves that are not being replaced (see Exxon Mobil). In addition, new production from fracking

shale formations depletes rapidly, so operators must keep drilling to maintain the pace. To put it simply, all the easy oil was found years ago and new reserves are very difficult to find and produce, so we're now on a permanently higher plateau of energy pricing. This will be with us for some time no matter how hard we push toward the adoption of alternative ener-

gy sources. It's one of the surer bets over the long run and why we're overweight energy in our portfolios.

Hopefully, our reliance on imported oil, esp. from the unstable Middle East, will continue to decline and we can afford to do far less policing of the region.

But our recent domes-

tic production gains will be difficult to maintain without continued manic drilling, and it will be increasingly expensive as much of the "low hanging fruit" is picked and operators move on to harder projects. But at least we'll be paying our own workforce to produce it, along with the ripple effects of relatively cheap and plentiful energy and feed stocks to the chemical, refining, utility and manufacturing industries.

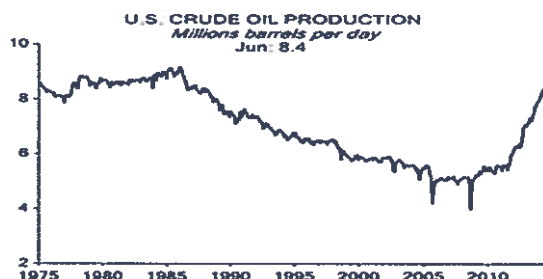
The human tragedy in much of the Middle East will likely continue, but our economic fates are becoming less intertwined. For the foreseeable future, this can only be a good thing.

U.S. Energy Boom Continuing

It's likely that in a few months news headlines will blare:

U.S. OIL PRODUCTION REACHES RECORD HIGH.

In any event, production over the past three years has surged +55%.



How to Conservatively Invest When Most Things Aren't So Conservative

William Mason CFA

Regarding Federal Reserve money printing Warren Buffett had the following to say in a *CNBC* interview on March 4, 2013:

"So basically, you know, I'm jealous of the Fed. I'd like to have a machine like that myself. But they — it doesn't cost them anything. So if they can do a trillion this way, why not do \$3.5 trillion then we wouldn't have to have any taxes at all.

"I am being facetious, believe me. But it's something that can't go on. And if it was this easy, you know, we would have been doing it centuries ago."

We know it can't last forever. What happens once they take away the "monetary cocaine" as Dallas Federal Reserve governor referred to it?

I think an investor should be prepared. The following are some investments that I consider conservative and well positioned for future years and future events.

FPA New Income

FPA New Income is a bond fund that I have been using since 1985. As of March 31, 2014, 79% of FPA New Income was rated AA or above and the duration of the fund was at 1.5 years. They have a relatively short-term portfolio that is very high quality. The money printing by the Federal Reserve has helped to lower interest rates to what were, in 2012, record low interest rates. By keeping the maturities short and the duration of the fund low, FPA New Income is conservatively positioned. In the FPA New Income Semi-Annual report dated March 31, 2013 they wrote the following:

"In today's low-yield environment, we continue to focus on preservation of capital before looking to earn high levels of income and capital appreciation."

Oil

When I invest in oil I realize that it is not as easy as the

investment firms and general press makes it out to be when they continue to blissfully write about U.S. energy independence.

According to the BP Statistical Review of World Energy 2014, world proven oil reserves are: "Sufficient to meet 53.3 years of global production." That doesn't seem like a lot to me. In the meantime, the inexpensive and easy to find oil has been accessed. We have to expend tremendous amounts to get the rest.

A July 10 Reuters article indicated that exploration and production spending rose to about \$700 billion. That is four times what it was in 2000.

According to John Busby, Trends of Five Oil Majors, May 12:

"Exxon Mobil had its company oil peak in 2010, BP its in 2007, Shell before 2004, Total before 2004, ConocoPhillips in 2006 and Chevron in 2010... Their combined crude oil production has declined from Gb 4.225 (Gb = billion barrels) in 2004 to Gb 3.451 in 2013, a fall of 18.3%. As far as the Western oil majors are concerned peak oil passed years ago."

Note: the report cited above regards only oil and not natural gas.

My investments of choice are Canadian Oil Sands and Atwood Oceanics. Canadian Oil Sands does not explore for more oil, they have what they need. Atwood helps oil companies go up to two miles under the ocean to find oil.

Annaly Capital

Series C Preferred

Annaly has been profitable every year for the last 16 years (as far back as my current *Value Line* report goes). The series C preferred currently pays over 7.5%.

Don't Be Desperate for Yield

There will be future opportunities. Investors are accepting a great deal of risk in their rush for yield. On May 19 the *Wall Street Journal* had an article entitled "Chasing Yield, Investors Plow Into Riskier Bonds." That rush for anything with a yield has driven CCC rated bonds to an all time record low. Investments are being priced as if there is no risk. Just wait for the risk to re-surface... it will. For now, keep it conservative.

Value Financial Advisers Quarterly



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Workshop

How to Invest Intelligently in these Unusual, Critical times.

In my 29 years I've never seen a more complex scenario for Investors. Interest rates are at historical lows, so CD's and bonds pay next to nothing. Stocks have been strong lately, but the World's underlying economies are barely growing. Gold is a roller-coaster.

In this two hour educational session Phillip and I will cover why these conditions exist, and what the likely outcomes will be. And rather than just listen to the easy-to-find popular press, as has guided us over our careers we will lean heavily on the current advice of some of the World's most successful Investors.

Finally, we will give our specific thoughts what investors should do now depending on their goals and timeframes: retirement planning, retirement income, college-funding, etc.

We feel strongly investors need to have a sober, time-tested approach in these times.

Bill & Phillip Connors Wednesday, August 20 10 am – noon.

These Workshops are free – but Reservations are Required.

Call (303) 770-3030 to reserve seats.

How Much Did that Education Cost?

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As the world advances, populations grow, and opportunities become more competitive. We have become ingrained with the idea that education is needed to truly compete in today's job markets; imagine how important it will be for future generations? Studies show that on average those who obtain education get paid considerably more, and have more prestigious careers with better benefits over the course of their careers. Seems fair; those who are most qualified should get the job.

Understanding the wealth gap between those who could afford to go to college and those who could not, student loans were created to give an opportunity for everybody to go to college and compete. As education became more and more main stream as a topic of importance, more and more students applied for student loans to continue their education. One result, Universities have flourished!

The cost of college is 4 times greater than in 1980 (inflation adjusted.) When easier financing became an option, American were less likely to save for education and Retirement and other more personal goals moved up the list. However, even parents with a solid savings plan often find their kids needing loans be-

cause costs have risen and / or they just weren't able to save enough.

Student Loans will be an enormous problem for this country for future decades. Unlike credit cards and other types of debt, Student Loans are required to be paid back; (with some limited exceptions.) Current graduates are averaging roughly \$27,000.00 in debt, yet they are often underemployed, and underfunded to survive initially. Many move back in with their parents or rely on their parents for assistance. Recent studies show roughly 36% of Millennials (age 18-34) currently live at home, and the number of graduates needing assistance from their parents is even higher.

Savings for education is an excellent idea for anybody who has future kin headed to college. Getting started is the most important part. There are numerous ways to set money aside for future education, and different tax rules and benefits for various types of accounts. As a recent father myself, I have spent a lot of time evaluating these plans to find which option is best for me, I would be happy to do that with you as well – feel free to call me @ (303) 770-3030 for some free advice.