Mosaic Fi

Q2 2014

Clarity…Courage…Commitment

It is with pleasure that I write Mosaic Fi's first quarterly newsletter. I would like to thank my clients for your trust, confidence and friendship. I would also like to thank my friends, former colleagues and family for the support, guidance and encouragement you have given me as I embarked on this journey. As Hillary Clinton once said, 'It takes a village". That not only applies to raising children but to building anything worthwhile.

Having spent the past twenty years investing in the capital markets and working with clients, has given me the perspective to develop my core values and investing philosophy for Mosaic Fi. Having a clear awareness of your core values and the key principles that allow you to remain steadfast and true to those values, has helped me through the process of building Mosaic. Always aligning to these core values makes decision making a lot easier. At Mosaic Fi the first question we ask is whether something is in the best interests of our client/prospect. We fundamentally believe that through our clients' success will come ours.

The Equity markets posted positive performance for the second quarter led by Emerging Markets. This was the first quarterly period in which Emerging Markets outperformed Developed Markets since the 3rd quarter of 2012. REITs in both the US and developed non-US markets outperformed equities. The large cap markets outperformed small caps and in general, value stocks outperformed growth.

The fixed income markets also experienced strong performance over the past quarter. The 10 year Treasury declined 20 bps, ending the quarter at a 2.53% yield. Both Municipal bonds as well as Taxable bonds had strong performance especially at the longer end of the curve. The decline in yields at the longer end of the curve caused the yield curve to flatten given that there was not much movement at the shorter end of the curve during the quarter. Within the currency markets, the US dollar depreciated versus most developed and emerging market currencies.

The best part of the quarter was the lack of excitement in the markets. It was a steady as she goes, very low volatility market. After such a strong performance in the equity markets in 2013, with returns of over 30%, there was much concern among investment professionals that a correction was imminent. Similarly, many investors were anticipating that a rise in interest rates was just around the corner, which would cause significant negative returns in fixed income portfolios. Instead, we got mid-single digit returns in both markets for the first six months of this year.

We were rewarded for getting and staying invested. As we reflect on what all of this means for our clients, we hold firm to our fundamental belief that the most important decision we can make for our clients is identifying the appropriate asset allocation based on their unique set of circumstances and then methodically getting them fully invested.

Speaking of the fixed income markets… for the first time in the last several years, anticipating where interest rates are going over the short-term is becoming a more challenging question. While there has been concern over the past few years that a rise in interest rates was imminent, when you considered the lack of inflation or risks to inflation, it was actually pretty clear that interest rates were going to remain range bound. Today as we look at the data coming out on inflation (because that is all that really matters) and employment (which eventually becomes the main driver to inflation) the likelihood that we begin to see some inflationary pressures has become stronger. Fed Chairwoman, Janet Yellen, made an interesting comment recently that the strong inflation numbers that we have been seeing recently were 'noise'. Given that the labor markets are beginning to strengthen and we are seeing that the economy is on sound footing, I am not sure why these inflation numbers should be viewed as 'noise' and not the beginnings of a trend. Not that we believe the trend is on an upward trajectory. While there is some firming in the labor markets it is still a buyer's (of labor) market. Once we begin to see inflation numbers consistently posting at a 2 plus percent clip, the bond markets will begin to demand a higher yield then what we are getting today. That being said, we do believe that while an increase in inflation will translate into an increase in interest rates, we expect both of those increases to be fairly contained.

We are at an interesting point in the Equity and Bond markets. It would be difficult to argue that there are many 'cheap' segments of either markets, but at the same time we are in a fairly stable economic environment. That said, it would not be surprising to have a small correction in the markets over the near-term given the strong performance that we have experienced. We would expect a relatively quick recovery if/when this were to occur given the relative strength in the fundamentals of the economy.

Once again, all of this reaffirms our belief at Mosaic Fi that getting and staying invested is what will likely be the winning strategy over the long term. The most important decision that we can make for our clients is creating an investment policy and asset allocation that is appropriately suited for their unique financial picture. We work with our clients over time to develop a flexible plan that meets their evolving needs.

As always, we would love to hear from you so please feel free to contact us at any time.

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