The Main Advisory

Fourth Quarter 2014

Piecing It All Together

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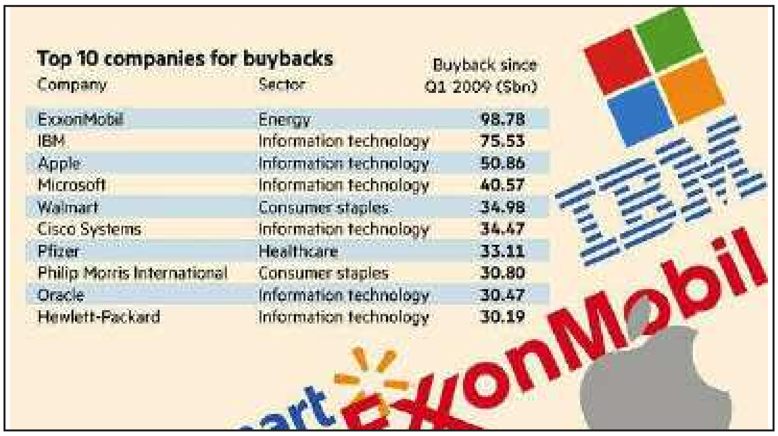
Up, Up, and UP

On January 2, 2014, *Business Insider* published an article entitled "Here's What 14 Top Wall Street Strategists are Predicting for the Stock Market in 2014." Boiling it down, the average call was for the S&P 500 to hit 1,955. The S&P 500 opened at 1,957.50 on June 19, 2014 and broke through 2,000 two months later on August 25, 2014. One possible catalyst for higher stock prices may be stock buybacks.



Top 10 companies for buybacks Company	Sector	Buyback since Q1 2009 ($bn)
ExxonMobil	Energy	98.78
IBM	Information technology	75.53
Apple	Information technology	50.86
Microsoft	Information technology	40.57
Walmart	Consumer staples	34.98
Cisco Systems	Information technology	34.47
Pfizer	Healthcare	33.11
Philip Morris International	Consumer staples	30.80
Oracle	Information technology	30.47
Hewlett-Packard	Information technology	30.19

Companies in the S&P 500 Index are on track to spend $914 billion on share buybacks and dividends this year, representing about 95% of earnings. For the first quarter of 2014, money spent in this manner exceeded profits, and some think this will be true for the third quarter. (Third quarter data not available at the time of this writing.)

Corporate share buybacks are not new. But over the last decade, the pace has doubled. In fact, according to a recent *Financial Times* article, share buybacks peaked in the third quarter of 2007, right before the financial crisis began.

There is, and has been, a constant debate as to the merits of stock buybacks. One side, typically made up of shareholder activists and hedge fund managers, argues that corporate buybacks are a way of returning excess cash to shareholders and rewarding remaining investors with a larger stake in the company. Larry Fink, chief executive of BlackRock, argues that corporations sap investment that could pay for jobs or research on new products in favor of short-term gain. In an open letter to chief executives this year, Mr. Fink wrote, "Too many companies have cut capital expenditure and even increased debt to boost dividends and increase share buybacks. We certainly believe that returning cash to shareholders should be part of a balanced capital strategy; however, when done for the wrong reasons …. it can jeopardize a company's ability to generate sustainable long-term returns."

Much of the more than $1 trillion in new corporate bonds issued in 2014 has gone toward stock buybacks. Apple is the "poster child" for being one of the largest sellers of corporate bonds ($29 billion) to help purchase $50 billion in stock. Albert Edwards, strategist at Société Générale, commented that "companies issuing at low yields into this buying frenzy are doing what they always like doing with debt in the final throes of an economic cycle: they issue cheap debt to buy expensive equity."

While share buybacks have served to increase earnings per share and stock prices for investors, companies are not 100% altruistic. Corporate executives are often large beneficiaries of such tactics. Michigan University professor William Lazonick has long tracked the impact of corporate share buybacks and recently noted that "in 2012, the 500 highest-paid executives named in proxy statements of U.S. public companies received, on average, $30.3 million each; 42% of their compensation came from stock options and 41% from stock awards." He goes on to say, "As a result, the very people we rely on to make investments in the productive capabilities that will increase our shared prosperity are instead devoting most of their companies' profits to uses that will increase their own prosperity—with unsurprising results."

With a possible rise in interest rates and the end of quantitative easing, the pace of buybacks may recede, potentially withdrawing support for equity prices or the hope for continued upside. Another poignant quote from Albert Edwards is worthy of attention, "This pro-cyclical process always ends in tears and is regarded in retrospect as typical end-of-cycle madness." Let's hope he's wrong on this point. ■

Choices…So Many Choices!

Darla D. Main, CFP®

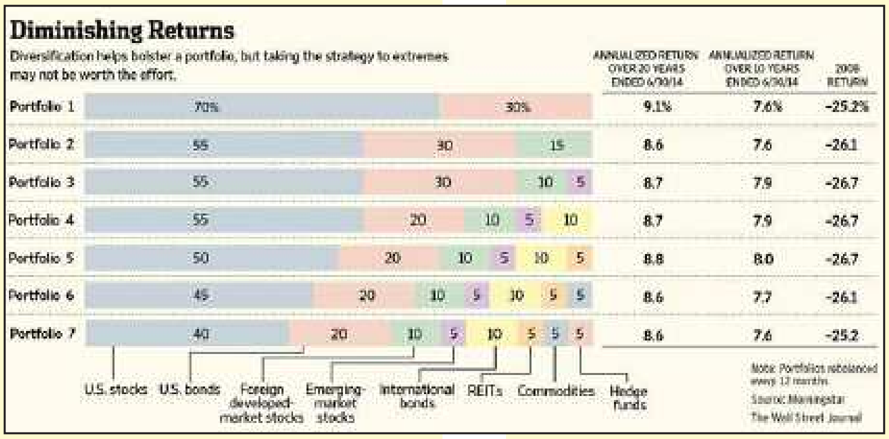
President and CEO of Main Advisory, Inc.

Our phones ring daily from investment companies offering a new mutual fund or investment product for my review. There are SO many choices today. How can a new idea significantly outperform the thousands that are already on the shelf?

Workers are also confronted with a myriad of choices in retirement plans. My family has a habit of bringing their fund line-ups to me for assistance in making the appropriate selections. So, I fully understand the dilemma facing employees of all ages.

Three Columbia Business School professors conducted a study in 2004 known as "How Much Choice is Too Much?" They studied data from nearly 800,000 employees of 647 plans in 69 industries in the year 2001 and discovered that employee participation in 401(k) plans with ten or more options showed significant drops compared to plans offering only a handful of funds.

Recently, *The Wall Street Journal* asked Chicago-based investment researcher Morningstar to set up a portfolio consisting of a broadly diversified mix of 70% U.S. stocks and 30% U.S. bonds.



Morningstar also created six additional portfolios, inserting a new asset class at each step along the way: first foreign stocks of developed countries, then emerging-market stocks, international bonds, real-estate investment trusts, commodities, and finally, hedge funds.

That resulted in seven portfolios, each with an increasingly diverse blend of indexes representing the different investments.

Morningstar provided annualized returns for the 20 years through the end of June for all the investments and the portfolios, plus data showing how each portfolio performed in 2008, the year of the most-recent market crash. All returns were before fees, with the exception of the hedge-fund returns.

As the saying goes "a picture is worth a thousand words"-- take a look at the results above.

Wow, the variances are miniscule. But, does this mean broad diversification has little merit? Absolutely not. The exercise covered only one period of time. Evaluating longer periods of market history will achieve different outcomes as well as toying with the allocations, but the study does show that we may labor too hard on "picking" the optimal lineup.

There are fads within loads of consumer products. The same is true for the investment community. The idea that "simpler" can be better often gets lost in the noise. The goal is to achieve a level of diversification without going overboard. Remember, there is a hassle factor to monitoring a large selection of funds.

The Wall Street Journal concluded "there isn't a definitive answer for how many different types of assets you should own. But whatever number you settle on, don't feel obliged to continue adding to it just because Wall Street's marketing machine keeps churning out ever more options." I couldn't agree more. ■

The views are those of Darla Main and should not be construed as individual investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic and performance information is historical and not indicative of future results. Investors cannot directly invest in an index.

IRS Changes 401(k) Rules for 2015

The IRS announced last month that the maximum for contributions with the government's Thrift Savings Plan, private sector 401(k)s, and other comparable programs has been raised to $18,000, up from $17,500 in 2014 and 2013. For employees over 50 years of age, the "catch-up" contribution has been increased from $5,500 to $6,000.

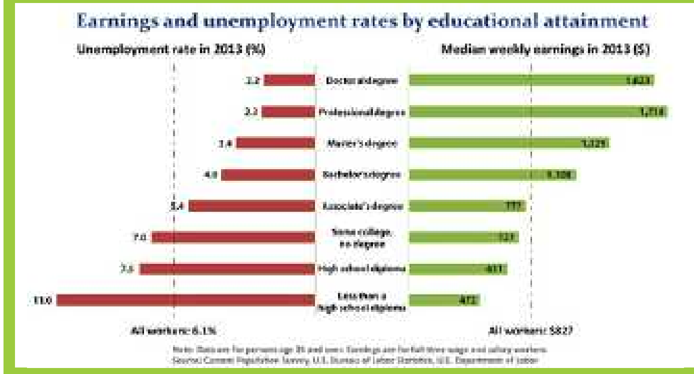
So, the combined total investment limit for people 50 and older -- $18,000 for the 401(k) plus $6,000 for catch-up totals $24,000 for 2015.

"For those over 50 years of age—a group that needs to be far more aggressive about saving—the fact that they can get $24,000 a year in contribution is a strong message for them to save at a significant rate," said Kevin Crain, Bank of America Merrill Lynch's managing director. "If you look back to 2009, the limits on 401(k)s were around $16,000. These aren't huge bumps, but it's slowly incrementing upwards, and it's a nice message on the opportunity and power to save," Crain continued.

"To build proper savings for retirement requires a process of saving continuously through life. The later you begin saving for retirement, the more difficult it will be to have that pool of money you will want to live in retirement in dignity," reminded Larry Fink Chairman and CEO of BlackRock. "Too many Americans are too dependent on just Social Security. The Social Security program was supposed to be a backdrop to all the other private savings you have."

Some programs remain unchanged. For IRAs, the $5,500 limit will stay the same for 2015. Annual benefits from a defined benefit plan will stay at $210,000. ■

Eye Openers . . .



Social Security Updates

The Social Security Administration began mailing annual benefit statements to workers 25 and older in 1999. In a cost cutting effort, they suspended the mailings in mid-2011. But, the move proved unpopular. So, statements will be mailed again.

Beginning in September 2014, the Social Security Administration began mailing estimated benefits statements to workers, 25, 30, 35, 40, 45, 50, 55, and 60 who are not currently receiving benefits or who have not registered for a My Social Security online account. Statements will be mailed approximately three months before their birthdays.

It is highly recommended that everyone register online to routinely check to see if the amount of income being recorded annually is correct. Moreover, it aids in planning the financial future and pathway to retirement.

Another bit of good news for those already receiving Social Security was the announcement that the cost of living adjustment beginning January 2015 will increase 1.7%. This is slightly above that for 2014, but still below historical norms. ■

UPDATE YOUR COMPUTER ADDRESS BOOK!

Beginning December 15, 2014, Pershing will be using a new email server domain to deliver communications to you such as statements and trade confirmations.

PLEASE UPDATE your address book to include:
edelivery@netxinvestor.com

This will ensure that emails from Pershing will not be rejected.

STAFF NEWS!

Darla Main - President, Main Advisory, Inc.

My immediate family was relatively small with one brother and one sister, but my extended family is quite large. My mother is one of twelve children; six girls and six boys. She is one of three still living. One common among the girls is their ability to cook great food. The girls learned to make homemade bread at an early age. There are no recipes, just a handful of this and a pinch of that. My mother's homemade rolls are to die for. She can make a big pan of rolls in the time it takes me to scramble a dozen eggs. On a recent visit, we were greeted by the scent of rolls rising on the counter. My efforts to remain "gluten free" were thrown to the wind as soon as she pulled the rolls out of the oven and brushed them with melted butter. Then, to top it off, she asked me to go to the basement and retrieve a new jar of homemade apple butter. Oh my goodness … there is no restaurant in the world that can stimulate the taste buds like that! I will never be able to compete on the bread-baking front, but I can hold my own if there is a consumption contest. ■

Suzanne Campanella - Client Services

Ever since our honeymoon cruise on NCL, my husband and I continue to cruise the high seas. We love that you can unpack your suitcase one time, and the worries of where to eat, where to sleep, and what to do vanish once you are in your stateroom. We love a balcony so we can enjoy the beauty and sound of the sea. Best value for your vacation dollar says my husband! In September, we returned to Allure of the Seas, one of RCL's largest ships. Built two years ago as one of its premiere ships, it boasts what they affectionately call "neighborhoods," areas on the ship that are built for you to explore and enjoy. This time I fell in love with "Central Park," a beautiful green space on the ship that is lovely, quiet, and a great place to read, especially in the morning. The crew was delightful, the food outstanding, and the sea vistas so soothing. With so many restaurants, theaters, and shops, the ship is nearly a destination in itself. If you are looking for a cruise for a family, group, or a lot of people to please, this is the ship for you. ■

Journeys & Travels

… to Porto

For all you bookworms out there, you may want to include a visit to the "third best bookstore in the world." It is located in Porto, Portugal and contains approximately 120,000 books. It is known as the Lello Bookshop and gained its recent popularity as the rumored place where J.K. Rowling unearthed the inspiration for the Harry Potter series. She taught language in Porto and lived very close to the bookstore.

A dear friend recently had an opportunity to see firsthand the beauty and intrigue of the building dating back to 1906. The impressive interior is breathtakingly beautiful with a spiral art nouveau staircase inviting visitors to explore the inner depths of the building. The wooden paneled ceiling and beautifully carved bookcases give the sense one is walking back in time or perhaps, in a museum.

Not all of the books are for sale. Some are now purely for exhibition, encased on glass-enclosed bookshelves for posterity.

Even if books aren't your thing, it is worth the visit in order to enjoy a coffee and cake at one of the city's best-kept secrets – the coffee shop on the second floor. Can't you imagine J.K. seated inside with thoughts of "Hogwarts" running through her head?

There are no photographs allowed inside, as flash photography poses too much of a risk to some of the delicate ancient tomes. It is possible to buy beautiful photos from the store at a cost of five euros which many visitors choose to do as a memento.

The bookstore sits on one of the most popular squares in the old city of Porto. Many of the buildings on the square are ornate with the hand painted tiles so famous for Portugal. The whole city is akin to a "fairy tale" world!

The University of Porto is only a few blocks from the Lello Bookshop with an enrollment of 31,000 students. The attire for the undergraduate students was adopted from the Coimbre University founded in 1290 and is composed of black trousers (or skirt, for female students), white shirt, black tie, a black overcoat, known as batina (in the case of male students, the classical "traje" also includes a black vest), and a black robe. The town square in front of the Lello Bookshop is often filled with students in "black capes." Can you imagine a world with hundreds of Harry Potters mingling in the streets? It really does exist! ■