

KIS

Kehoe Investment Services, Inc.
Registered Investment Advisor

July 18, 2013

Dear Valued Client:

Enclosed is your portfolio report for the period ended June 30, 2013.

What Did He Say?

Since 2008 the national debt (courtesy of our country's executive and congressional branches) and the money supply (courtesy of the Federal Reserve) have increased dramatically. Everyone agrees the current policies are not sustainable. In particular, the Federal Reserve purchases of bonds each month is largely responsible for continuing low interest rates. However, look what happened on May 22, 2013 when Federal Reserve Chairman Ben Bernanke hinted that a stronger outlook for U.S. growth would lead to a gradual reduction in bond purchases by the Fed.

From May 22nd to June 30th the U.S. equities market dropped about 4% and the rest of the world went down by closer to 8%. This is a great example of how seemingly irrational the market can be. A stronger outlook for U.S. growth is good news. The market treated "good" news as "bad" news since good news might mean an end to our all time low interest rates.

At this time the DOW Jones Industrial Average is once again hovering around its all time high. The question is whether it's because of "good" news or "bad" news. As for KIS, we look forward to the day when good economic news is good for market prices.

American Resiliency

"The greatness of America lies not in being more enlightened than any other nation, but rather in her ability to repair her faults."

Alexis de Tocqueville, Democracy in America, 1835

Despite the problems with the U.S. economy, the U.S. stock market has grown approximately 32% since 2010, compared to 14% for the global economy (excluding the U.S.). America is known for a hyper-competitive culture and that culture still exists today for the majority of our citizens. Some manufacturing is actually returning to America from overseas and our oil and gas industries are using technology in ways that lead experts to conclude that the U.S. will reach a point where it is self-sufficient in regard to energy needs.

While the federal government seems completely lost, many state and local governments are operating with balanced budgets.

In the area of public education many states, including Oregon and Washington, have raised their standards based on what is expected in other schools around the world. This system is turning out students that are better

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prepared for higher education and/or the ability to pursue certain vocations. In the realm of higher education, the U.S. is home to 27 out of the world's top 30 universities for scientific research.

In short, the American economic and educational systems work. Our faults, the most serious of which lie with big government, are fixable. However, another quote attributed to Alexis de Tocqueville illustrates a cause for concern and diligence from all Americans "*The American Republic will endure until the day Congress discovers that it can bribe the public with the public's money.*"

Investment Philosophy

If you pay attention to investment news you will frequently encounter "predictions". One of our clients recently called us after reading a gloom and doom book written by folks who had accurately predicted the future collapse of housing prices. The prediction was made in 2006 and came to pass most dramatically in 2008/2009. Why should an investor follow the strategies in the book? The answer, repeated numerous times, was the authors were correct predictors in 2006.

If you watch any show where a panel of "smart" investment guys are asked to predict the next big stock market winner you will see each guest make a recommendation and then the other panel members comment on what a crummy investment that would be.

Perhaps the person with the most public predicting record is Jim Cramer, host of Mad Money on CNBC. Jim has made hundreds of predictions over the years and offers his advice quickly without any visible contemplation. His most often noted look into the future was on March 11, 2008 when a caller asked if he should sell Bear Stearns. Cramer's response "No! No! No! Bear Stearns is not in trouble". Bear Stearns dropped 92% on March 14, 2008.

There is a reason every investment brochure comes with a version of the following admonition; *All investing is subject to risk, including possible loss of principal. Past performance does not guarantee future results. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.*

What is true about the stock market is there is often great volatility in the short run and predicting what will happen next is impossible. What is also true is that certain factors have proven to improve the likelihood of better returns over long periods of time. The most tested of these factors are staying in the equities market and over weighting the asset classes of small and value stocks.

Full disclosure, Judy has a t-shirt inscribed "Overweight in all the right places".

We welcome your comments and questions in regard to your quarterly reports.

Sincerely

Judy Kehoe

Bob Kehoe