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On July 6, 1776 the Declaration of Independence was announced on the front page of the *Pennsylvania Evening Gazette*. As we celebrate this great country's 239th birthday on July 4th, another great document is celebrating its 800th birthday – the Magna Carta. The charter is often referred to as “The Great Charter of Liberties.” It was signed in 1215 to make peace between an unpopular King and some rebel barons. It promised the protection of church rights, the protection of illegal imprisonment, swift justice and limitations on feudal taxes to the Crown. Many historians believe it influenced the early American colonies. While the Magna Carta was focused on the relationship between the King and some rebels, rather than the rights of ordinary people, the document is still regarded as a foundation of individual freedom vs. a ruling authority. Let's take a look at the numbers.

	(As of 6/30/15)
Dow Jones Industrials	-1.14%
S&P 500 Index	+0.20%
NASDAQ Composite	+5.30%

Major Bond Indexes	(As of 7/2/15)
Lipper U.S. Government	+0.40%
Lipper Short-term Investment Grade	+0.80%

Major Mutual Funds Indexes	(As of 7/2/15)
Lipper Large-Cap Core	+1.41%
Lipper Mid-Cap Core Index	+3.70%
Lipper Small-Cap Core Index	+3.48%
Lipper International Index	+6.84%

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

“Overweight Statistical Probability. Underweight Emotion!”
Benjamin Graham

Well, they left as quickly as they arrived. The first six months of 2015 are behind us. And here at home, the major market indexes are close to where they started the year. A lot has happened; you just wouldn't know by looking at the year to date returns. Abroad, however, after a meteoric 150% rise in the Shanghai Composite Index over the course of a year the Chinese stock market has been in a free fall since mid-June. The Chinese central and local governments have taken measures into their own hands – only like an authoritarian regime can. The police departments launched investigations with the securities regulator against "malicious short-selling of stocks". The People's Bank of China (PBOC) undraped a bouquet of new instruments to staunch the market retreat, such as providing loans to China Securities Financing Corporation, the state-backed margin finance company, which, in turn, has provided 260 billion yuan (\$41.87 billion) in credit lines to 21 brokerages to help them buy stocks via proprietary trading.

Elsewhere, with its economy near collapse, ATM withdrawals rationed and the banks shut till further notice, Greece is inching ever so closely to bankruptcy that would most likely impose it to leave the European Union, the euro and revert to the drachma, its pre United States of Europe currency. The administration submitted a request to the European Stability Mechanism bailout fund to lend an indeterminate amount "to meet Greece's debt obligations and to ensure stability of the financial system". In return, it promised to begin implementing tax and pension measures sought by creditors. We wonder if the last few months could have been avoided, since it appears that the austerity measures request by the European Union will be implemented after all.

With China and Greece stealing the spotlight, Puerto Rico's woes are not getting much attention in the news or in the halls of Congress. It is asphyxiating under a mound of \$73 billion in debt, yet Congress is balking at a bankruptcy lifeline for this U.S. Territory island. As a territory, Puerto Rico currently doesn't have the option of restructuring its debts under Chapter 9 bankruptcy protection. Detroit, Michigan and Stockton, California used this alternative when they ran into analogous financial calamities.

Back home, there has been a lot of talk about how stocks will do once the Fed starts to raise interest rates. Looking back over the past 40 years, history shows us the global stock market has actually performed well in rising rate environments. We looked at the previous 15 bouts of rising 10-year Treasury bond yields since 1970. The chart below shows the MSCI (global stock index) had annualized gains of around 17% during those periods.

While the starting point matters (today we have low inflation and slow growth) and not every rising rate environment was great for stocks, we feel that if rates rise as a result of an economy getting stronger and inflation doesn't get out of control, stocks should do well as companies benefit from improving demand and pricing power. If we get stagflation or deflation, then stocks could struggle. Regarding how fast the Fed will raise rates, Janet Yellen, Federal Reserve Board Chair, recently said, "If conditions develop as my colleagues and I expect, then the FOMC's objectives of maximum employment and price stability would best be achieved by proceeding cautiously, which I expect would mean that it will be several years before the federal funds rate would be back to its normal, longer-run level." If the Fed is successful in its implementation of rate hikes, then rates should be able to gradually move higher without adversely affecting the growth of the economy or corporate earnings.

Annualized Global Stock Returns in Rising Rate Environments Since 1970

Rising Rate Cycles	Changes in Treasury Yields*	Global Stock Returns*
Jan 71 – Sept 75	2.4%	2.2%
Dec 76 – Oct 81	7.8%	9.9%
Oct 82 – Jun 84	3.1%	20.3%
Aug 86 – Sep 87	2.7%	41.5%
Feb 88 – Feb 89	1.1%	21.9%
July 89 – Apr 90	1.2%	-2.8%
Sep 93 – Nov 94	2.5%	3.0%
Dec 95 – Aug 96	1.4%	10.1%
Nov 96 – Mar 97	0.9%	10.3%
Sep 98 – Jan 00	2.2%	30.1%
Oct 01 – Mar 02	1.2%	18.7%
Sep 02 – Jun 06	1.5%	14.8%
Dec 08 – Dec 09	1.6%	31.2%
Aug 10 – Mar 11	1.0%	31.7%
Jun 12 – Jun 13	1.0%	18.6%
Average	2.1%	17.4%

*Total percentage point change in nominal 10 year US Treasury bond yields and MSCI stock returns from 1970 – 2013.

Source: Bloomberg, MSCI and Alliance Bernstein

After a long stretch of little U.S. market volatility, recent financial news in Greece, China and other countries have renewed volatility in the global equity and fixed income markets. These periodic flare-ups are common and to be expected over the course of a year. We know staying calm and disciplined isn't always easy as the credit crisis is still fresh in many investors' minds; but keeping a globally diversified and balanced portfolio should continue to help investors stay on track to meet their long range goals. Making impulsive decisions during times of temporary market adversity tends to lower an investors chance of achieving their long term goals. Speaking of long term goals, the U.S. women's soccer team never lost sight of winning the World Cup. After countless practices, friendlies, and international competitions, with numerous setbacks along the way, the team finally achieved the goal it's been striving towards for sixteen years – winning another World Cup. Many soccer matches are determined by the slimmest of margins, often by penalty kicks.

Penalty kicks are a critical time of decision making for both the goal keeper and the penalty taker. Given that, for most professional games, the average number of goals scored is around 2.5, a penalty kick can have a major influence on the outcome of a match. Penalty kicks may reach speeds near 125 mph and are usually over within a quarter of a second. Thus, the goal keeper must make a decision on how to stop the shot before the ball is struck. Statistics show that goal keepers will most often jump to the left or right, hoping to guess correctly and place him (or her) self in a position to block the kick. Is this action by the keeper the best strategy? Research headed by Michael Bar-Eli at the Ben-Gurion University of the Negev in Israel makes some interesting conclusions about how goal keepers should defend penalty kicks. Goal keeping behavior explains part of the goal scoring successes. In attempting to stop the penalty kick, goal keepers jump to the right or left 94% of the time. In doing this, they guess correctly only about 40% of the time (i.e. jump left, shot placed left). However, even when they guess correctly, they only stop 25-30% of the shots. The most intriguing part of the Dr. Bar-Eli's analyses is that when goal keepers remain in the center of the goal and the shot is placed in the center, they make the save 60% of the time. Given that about 30% of penalty kicks are placed in the center third of the goal, remaining stationary in the center of the goal increases the keepers' chances of stopping the shot from about 13% to more than 33%. (Source: *The Science of Soccer Online*)

The same can be true for investors. Study after study has shown that investors' portfolios have profited handsomely in the long term if an asset allocation has been adhered to through good times and bad. In other words, over the long haul, and based on certain set of parameters (i.e. risk tolerance, investment horizon, life expectancy, etc.) an optimum mix of assets such equities, cash, fixed income instruments, and real estate has shown to yield superior results to actively adjusting portfolio in reaction to short-term fluctuation in the markets. Eliminating the guesswork by overweighting statistical probability and underweighting emotion gives investors the best possibility of reaching financial success.

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- The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. Any opinions of this date and are subject to change without notice.
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- Lipper indexes are based on the 30 largest funds by asset size within the Lipper objective and do not include multiple share classes of similar funds.
- The **Dow Jones Industrial Average** (DJIA), commonly known as "The Dow", is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
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PERSONAL

Despite many sleep deprived nights at the Kachkovsky household the last quarter flew by. Elle just turned four months. She is a happy baby, smiling every chance she gets. Grandparents crave to see her in any format – pictures, videos, Skype and especially in person. Garry's mom flew in from Chicago for a few days to see the newest addition. Emily's dad and wife made the trip from San Diego. And, her mom and aunt continue to visit almost every other weekend. Ava is smitten with her baby sister – kissing and hugging her and cooing at her.

The human brain is the largest brain of all vertebrates relative to body size. It weighs about 3.3 pounds, makes up about 2 percent of a human's body weight, contains about 86 billion nerve cells, billions of nerve fibers which are connected by trillions of connections, or synapses. Perhaps this may explain how a three year old brain can seamlessly flow between two conversations in two different languages. In May, the Russian pre-school which Ava attends put on a Mother's Day recital. Kids recited poems, sang, acted and danced to the delight of parents. All in Russian, might we add. Since then, Ava has been speaking in full sentences, conjugating verbs and nouns, and pronouncing the endless tongue twisters consisting of the Russian language. Garry couldn't be more proud of his bi-lingual star.

June was a memorable month. Emily's great-grandfather (Ava's and Elle's great-great-grandfather) celebrated his 100th birthday and 70th wedding anniversary in San Diego. More than 120 people came cross country to partake in this occasion. A five generation picture will be cherished for years to come. Later in the month the family flew to Chicago for a wedding. Garry's long-time high school friend got married at an amazing venue – a state-of-the-art glass studio, gallery and event space in downtown Chicago. It was great to reconnect with old friends.

On a hot June morning, the Fisher family made the 13 hour drive to their new home in Evergreen, Colorado. Upon arriving, it felt like sensory overload, as the family wasn't used to all the green grass and evergreens. As Angie and Kris unpacked, the girls immediately went outside to play. Being able to play outside during the day in summer is a new phenomenon for Kora and Macy. With the temps in the 70s, green grass, small boulders to play on and aspens to dance around, the girl's endless energy was put to the test. After all the furniture was unloaded, the sisters were still singing, running and twirling around their new yard.

Excited to exercise in their new mountain community, Angie and Kris had similar experiences when they went for their first trail run and bike ride – a mini heart attack when going up the side of a mountain. With the excitement of a kid in a candy shop, Kris jumped on his bike to ride up Juniper Pass. Two hours later, with his legs and lungs burning, he arrived at 11,140 feet and had a 180 degree view of the snow-capped peaks along the Continental Divide. It was absolutely breathtaking!

New experiences seem to be taking place on a daily basis. One morning, after opening the garage door, Kris walked around the back of the car. On the other side of the garage wall, an adult female elk, which typically weigh around 500 pounds, was eating her breakfast (Kora and Macy's new green grass). The elk took a step forward and moved in front of the garage about 4 feet from where Kris was standing. Kris' dormant agility came back to life as he sprung backwards and now suffered his 2nd mini heart attack in as many days. The elk looked at him, realized he was new in town, and continued eating her breakfast. The girls came outside and started screaming and dancing as they watched the elk walk down the street to join the rest of the herd. As John Denver sang, "coming home to a place he'd never been before," Kris and Angie, while never having lived in Evergreen, feel like they are home!



“There is nothing wrong in America that can't be fixed with what is right in America”

- President Bill Clinton

Thank you for your trust, confidence and friendship.

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