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Fall 2014

Fall arrived at 10:29 p.m. ET on Monday, September 22 this year. For many cultures this time of year is seen as a period of transition, as the northern hemisphere progresses toward the winter solstice and the southern hemisphere looks forward to the summer season. And throughout history, the autumnal equinox in our half of the world has been observed as a time of preparation and reflection. It is during this time that the Arctic Tern makes its annual 11,000 mile trip south and the Band-Headed Goose soars to heights above 28,000 feet (that's over five miles up!) as they skim over the Himalayas on their way to warmer climates. Yes, the arrival of autumn is indeed a time of change. We hope the return of cooler weather, longer nights and the anticipation of the upcoming holiday season finds you happy and healthy. Let's take a look at the numbers.

	(As of 9/30/14)
Dow Jones Industrials	+2.81%
S&P 500 Index	+6.70%
NASDAQ Composite	+7.59%

Major Bond Indexes	(As of 9/29/14)
Lipper U.S. Government	+4.33%
Lipper Corporate (A-rated)	+7.24%

Major Mutual Funds Indexes	(As of 9/29/14)
Lipper Large-Cap Core	+7.14%
Lipper Mid-Cap Core Index	+4.28%
Lipper Small-Cap Core Index	- 2.09%
Lipper International Index	- 1.26%

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.

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FINANCIAL AND INVESTMENT PLANNING

“In the Year of our Lord, patriots of Scotland – starving and outnumbered – charged the fields of Bannockburn. They fought like warrior poets; they fought like Scotsman, and won their freedom.”

- Mel Gibson, as William Wallace in *Braveheart*

Freedom! Scotland won its independence from England in the days when swords and shields were the weapons of choice. Fast forward to today and again Scotland considered its independence, this time from the United Kingdom and in a more peaceful manner as voters took to the polls to determine their nation’s future. Those who wanted their independence will have to wait a bit longer, as the majority voted, “No.” The Scots were not alone in wanting to see change. In Hong Kong, we see pro-democracy protests. Tensions there have been rumbling all year. China promised the former British colony democratic elections in 2017, but said it would vet the candidates first. This angered many people who took the streets recently. They were met with tear gas from riot police, which seemed to only strengthen their stance. China could resolve the situation with sheer force or go about it in a more peaceful manner. Time will tell how the demonstrations will play out. It appears they will first attempt to handle it peacefully, as the Chinese government announced they would talk with the protesters. Global equity markets rallied on the news.

September reinforced its reputation as one of the worst months for stocks. The S&P 500, for example, dropped 1.5%. Thankfully, the declines over the last two weeks of September weren’t enough to entirely erase the gains we have seen over the past quarter. In fact, the broad-market index, which reached a record high on Sept. 18, just managed to post its seventh straight quarterly gain. This quarter also saw a successful IPO season, with \$66.8 billion raised through IPOs globally (\$40 billion in the U.S.), resulting in the busiest third quarter in more than a decade, according to Bloomberg figures.

Both the U.S. and global equity markets experienced volatility over the past three months, marked by geopolitical concerns (e.g., Russia, Ukraine, Iraq, Syria, Hong Kong, Afghanistan, Scotland, etc.). The markets, for the most part, chose to ignore many of these issues throughout the quarter, but things came to a head Sept. 25, when they stumbled on a confluence of factors, including mixed economic data. Consumer confidence, for example, unexpectedly declined in September to a four-month low. However, property values increased slightly over the past year, according to the latest S&P/Case-Shiller index numbers. The three-month averages on shipments and new orders of capital equipment have shown a healthy trend, pointing to strength in business fixed investment. Economists also predicted – correctly – that GDP would be revised upward to a 4.6% annualized growth rate for the second quarter. The good news prompted some to worry that economic improvements will drive the Federal Reserve to raise rates sooner than expected. It appears a combination of economic, psychological and geopolitical factors (e.g., Ebola risks, Middle East conflicts, Russian sanctions) are at play during this current market volatility.

According to Raymond James Chief Economist Scott Brown, “Recent strength in capital spending likely reflects improved business sentiment. That optimism may prompt new hires, as well, feeding the growth cycle. The second quarter’s strength must be balanced against the first quarter’s weakness. As the third quarter ends, we still don’t have a complete picture. However, figures are likely to suggest a moderately strong pace of growth and a gradual taking up of economic slack.”

The Federal Reserve is scrutinizing the data for signs that the economy will soon be strong enough to withstand higher interest rates. The central bank is on course to end its quantitative easing (bond-buying) program in October and will consider increasing interest rates if the economy continues its upward trajectory. For now, the Fed remains patient. Many feel the agency will slowly start to increase rates next year. As a result, some investors have started to become increasingly nervous about a potential increase in interest rates and the effect it will have on their overall portfolios. While rising rates may negatively affect bond returns over short periods, the impact has historically not been long-lasting, as higher yields begin to offset lower prices. In the past when rates rise, various sectors react differently. In today’s diverse and global bond market, a globally diversified bond portfolio can help cushion against rate increases. Bonds play an important role in an overall portfolio no matter what the rate environment, offering diversification benefits and relative steadiness. While bond prices may weaken a bit when the Fed raises rates, stocks have historically been constructive (as stocks move opposite bonds). While history is never a guarantee for the future, we thought you would find the below data interesting.

S&P 500 Performance Following First Fed Rate Hike

	<u>12 Months Preceding</u>	<u>12 Months Following</u>
February 1994	+11%	+3%
June 1999	+21%	+9%
June 2004	+17%	+7%
Average	+17%	+6%

Source: Goldman Sachs. Since 1994, there have been 3 periods of increasing federal funds rates: 2/4/94 to 2/1/95, 6/30/99 to 5/16/2000 and 6/30/04 to 6/29/06.

Bond Sector Returns During Periods Of Fed Tightening

	<u>Rate Hike</u> <small>(basis points)</small>	<u>U.S</u> <u>Treasuries</u>	<u>MBS</u>	<u>Credit</u>	<u>Munis</u>	<u>Emerging</u> <u>Markets</u>
March 1998 to February 1989	325	3.92%	5.27%	5.21%	7.44%	n/a
February 1994 to February 1995	300	-2.69%	-0.49%	-3.93%	-3.56%	-21.70%
June 1999 to May 2000	175	3.27%	2.27%	0.10%	-0.16%	14.92%
June 2004 to June 2006	425	5.41%	6.80%	5.85%	9.30%	25.44%

Source: PIMCO. BofA Merrill Lynch U.S. Treasury Master Index; Barclays U.S. Agency Fixed Rate MBS Index; Barclays U.S. Credit Index; Barclays Municipal Index; JP Morgan EMBI Global Index

While it's important to keep tabs on short-term data, we want to point out that long-term upward trends appear intact. "Long-term trends are not yet broken in any of the major indices, by my judgment," said Andrew Adams, chartered market technician on the Raymond James Investment Strategy team. "Although these dips can be agonizing on a day-to-day basis, it is important to remember the context in which they occur." Additionally, the Chief Investment Strategist Jeffrey Saut maintains his belief that we're in a long-term, secular bull market that has years left to run.

In a recent interview, Warren Buffett offered some advice: a) don't let world events affect your investing decisions; b) don't feel bad when stocks go down; and c) don't go for the quick profit. He went on to say that, "Even if I knew a big war was unavoidable, I will still be buying stock. You're going to invest your money in something over time. The one thing you can be sure of is if we went into some very major war, the value of money would go down. ... That's happened in virtually every war that I'm aware of. ... The last thing you want to do is hold money during a war. You might want to own a farm, you might want to own an apartment house, you might want to own securities. During World War II, the stock market advanced. The stock market is going to advance over time."

So, our focus remains on the long-term, both for the economy as well as your financial future. We hope yours will, too. Of course, we'll continue to monitor market movements for enduring trends and make adjustments accordingly.

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PERSONAL

At over 11,000 feet, with her blond hair blowing back in dad's face, her arms extended into the big blue sky, Kora (sitting on Kris' lap) picked up more and more speed, until they crashed at the bottom of a small mountain of snow. The 3 year-old screamed out, "Daddy, this is the best day of my life!" The blue-eyed girl couldn't get enough of the man-made mountain of snow at the Breckenridge Ski Resort on a sunny August afternoon. Kris, Angie, Kora and Macy rented a house with Kris' brothers and their families, as well as Kris' parents in Breckenridge. It was amazing to have the 14 family members all under one roof! The six cousins, ranging from 8 months to 5 years spent their days playing on the mountain, eating popcorn and watching cartoons on grandpa's lap, playing catch with a football in the hot tub, and pretending to be Elsa and Anna from the movie *Frozen*. Kris' youngest brother, Justin, is a Navy pilot. He returned home in July from an eight month assignment overseas where he was in charge of eight aircraft and 215 sailors. Upon his July arrival back home, he met his 7 month old son, Bodhi, for the first time. There were tears from the family just thinking about their first hug! Deployment isn't only tough on our men and women who serve, but the families who wait for their safe return. We are all very grateful for the work that our service men and women do for our country.

After getting permission from the wives, the three brothers and their dad embarked on hiking up one of Colorado's towering 14,000 foot peaks. With an early alpine start, the four men took Steve's Jeep up a not so friendly mountain road to the trail head of Mt. Antero. The mountain is well known for its beautiful gemstone deposits. With their backpacks on, the group set out for the summit. Along the way, the brothers joked around, reminisced about their childhood and family vacations, talked about their families and how lucky they all are. As the hikers made their way to the summit, the amount of available oxygen became less and less – in fact at 14,000 feet, the air has 43% less oxygen than at sea level. Once the family reached the top of the mountain at 14,269 feet, they found some rocks to sit on, and ate their long awaited peanut butter and jelly sandwiches! There are lots of moments in life when you wish time could stand still for a while – that day and that week was one of them!

Upon returning home from Colorado, Kora took a spill off the couch and fractured her clavicle. Normally, when the kids fall, mom and dad say, "Just wipe it off. Smile and you'll feel better!" That actually works most of the time, but this time Kora and her tears told us it was different. The doctor said it would take 6 – 8 weeks to heal and that she needed to wear a sling. She wasn't herself for the first few days, but after day three, Kris and Angie were doing everything they could to try and slow down their ever passionate and energetic daughter. Macy, who just turned 2, is starting to develop her own personality. Her infectious smile and contagious laugh make her parent's hearts sing every day!

The Kachkovskys were fortunate enough to spend some time in San Diego this summer, visiting with family and friends, chasing Ava up and down the beach and soaking up the perfect summer weather coming off the Pacific. The self-proclaimed "America's most livable city" has so much to offer families. Balboa Park is the nation's largest urban cultural park, home to 15 major museums, renowned performing arts venues, and beautiful gardens. Next door, the San Diego Zoo pioneered the concept of open-air, cageless exhibits that re-create natural animal habitat. It is one of the few zoos in the world that houses the giant panda. Just down the road is SeaWorld, an animal theme park, oceanarium, outside aquarium, and marine mammal park founded in 1964 by four graduates of UCLA. All are worthy of a visit with or without kids.

In late August, the Kachkovskys traveled to Chicago to visit family and attend a wedding in Milwaukee. These special occasions give great reason to reunite with old friends. A wonderful ceremony and reception were topped off with a thundering fireworks show to celebrate a new union. While Garry and Emily were attending the wedding, Garry's parents were soaking up every minute with Ava, playing house, coloring, watching cartoons and running around at the park. In early September the family celebrated Emily's birthday. "Happy Birthday" was sung at every opportunity, with Ava leading the charge. In other noteworthy news, Emily and Garry are expecting their second child in early March. Mom feels great despite showing much earlier this time around. The exciting and agonizing process of finding "just the right" two names has begun; the parents decided to wait till birth to find out the gender of the baby.

To follow the footsteps of those that came before (native Americans, early explorers, prospectors and hikers), Kris and Garry are training to hike the Grand Canyon rim to rim to rim in early November (weather and health permitting). In preparation, a 16.5 mile rim to river to rim (south rim to the Colorado River and back to the south

rim) hike was completed in late September. Stay tuned for an update on this ambitious 47 mile non-stop journey in our next newsletter.

We all have those days when curling up in bed seems preferable to, well, just about everything. While we believe voluntary seclusion can soothe the soul, we're not advocating that we all pull a Thoreau and run away to the woods. But we can learn a thing or two from the solitary lifestyle. With National Hermit Day falling at the beginning of this month, October is the perfect time to indulge in your inner recluse. Turn off your cellphone – forgo sports updates, friend requests and work emails for a few hours. The world will continue without you. Prepare your favorite meal, read a good book, go to bed early. Netflix and surfing the web can make an insomniac out of the best of us. Retire early, and you'll be ready for tomorrow. The technological world we live in doesn't always leave us time for ourselves, especially with a career, family and friends to juggle. Taking a few hours for your self can help recharge your batteries.



Kora and Macy Fisher and Ava Kachkovsky enjoying the beach in San Diego

“When I despair, I remember that all through history the way of truth and love has always won. There have been tyrants and murderers, and for a time, they can seem invincible, but in the end, they always fall. Think of it - always.”

- Mahatma Gandhi

Thank you for your trust, confidence and friendship.

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