# KACHKOVSKY & FISHER, INC.

**Registered Investment Advisor**

Phoenix Office
3610 N. 44th Street
Suite 220
Phoenix, AZ 85018

Phone: 602.604.9711
Toll-Free: 866.604.9711
Fax: 602.604.9712

Evergreen Office
1524 Belford Court
Evergreen, CO 80439

Email : garry@kachkovskyandfisher.com
kris@kachkovskyandfisher.com
emily@kachkovskyandfisher.com
website : kachkovskyandfisher.com

Summer 2016

Everyone loves a celebration, and July is certainly a month for that! There's nothing better than the festivities surrounding the Fourth of July; the cookouts, fireworks and family gatherings are a great respite from our busy lives. Wishing you and yours a happy 4th and a fun, stress-free summer. Let's take a look at the numbers.

| | (As of 6/30/16) |
|---|---|
| Dow Jones Industrials | + 2.89% |
| S&P 500 Index | + 2.69% |
| NASDAQ Composite | - 3.29% |
| MSCI EAFE Index | - 4.42% |

| **Major Bond Indexes** | (As of 6/30/16) |
|---|---|
| Lipper U.S. Government | + 4.17% |
| Lipper Short-term Investment Grade | + 1.89% |
| Lipper Corporate A-Rated | + 7.49% |

| **Major Mutual Funds Indexes** | (As of 6/30/16) |
|---|---|
| Lipper Large-Cap Core | + 2.93% |
| Lipper Mid-Cap Core Index | + 3.87% |
| Lipper Small-Cap Core Index | + 4.37% |
| Lipper International Index | - 2.53% |

**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.

Well, you can only control what you can control. I think whatever your view of the world is, you have to invest. You can't put the money in the mattress and in this day and age of low interest rates, you can't put it in the money market fund or a bank CD, so invest, you must. Now, you might want to invest regularly. For people that are investing regularly, I would say for god's sake don't stop investing now. I know the market is not doing much this year, just about where it started a little bit down, but not much and bond yields are still very low, actually lower than they were at the beginning of the year, but you have to put your money to work. The alternative is – I mean, the only way to guarantee you will have nothing at retirement is to invest nothing along the way. So, you have to take your chances.

. . . John Bogle

The first half of 2016 went as quickly as it came. And, on the surface, if one played absentee to world economic, political and geo-political events, and simply glanced at the major U.S. stock market indices, it could be deduced that this year, so far, has been drearily uneventful. That assumption couldn't be further from the truth. Just in the month of June, Paul Ryan endorsed Donald Trump who became the presumptive Republican nominee, Muhammad Ali, Gordie Howe and the winningest Coach Pat Summitt passed away, Hillary Clinton became the presumptive Democratic Nominee, Gawker Media Declared Bankruptcy, Terror in Orlando Nightclub shook the nation, Pittsburgh Penguins won the Stanley Cup, Microsoft bought LinkedIn, Dustin Johnson won U.S. Open, Cleveland Cavaliers won NBA Championship, Corey Lewandowski left the Trump campaign, gun control measures failed, Supreme Court upheld affirmative action and Overturned Texas Abortion Law, U.S. backed Iraqi troops regained Falluja. And, Brexit.

On June 24th, with a vote of 51.89% to 48.11, Great Britain declared its departure from the European Union. As warned, the global markets responded in stirring fashion, notwithstanding the fact that it may take a duration of two years for Britain to fully disengage from EU.

Former Federal Reserve Chief Ben Bernanke suggests, "The vote ushers in what will be several years of tremendous uncertainty—about the rules that will govern the U.K.'s trade with its continental neighbors, about the fates of foreign workers in Britain and British workers abroad, and about the country's political direction, including perhaps where its borders will ultimately lie. Such fundamental uncertainty will depress business formation, capital investment, and hiring; indeed, it had begun to do so even before the vote. The U.K. economic slowdown to come will be exacerbated by falling asset values (houses, commercial real estate, stocks) and damaged confidence on the part of households and businesses. Ironically, the sharp decline in the value of the pound may be a bit of a buffer here as, all else equal, it will make British exports more competitive."

It is generally believed that the uncertainty caused by the Brexit will impact overall EU growth, cause peripheral economies to feel additional pressure and the intra-EU government bond spreads to widen. Undoubtedly, the European Central Bank will seek to protect the financial system. Brexit could ignite referendum contagion across the euro zone. Scottish prime Minister has announced her intention to propose new referendum, while Italy has a referendum vote in October.

Ben Bernanke adds, "In the longer run, the uncertainty will dissipate, but the economic costs to the U.K. still will exceed the benefits. Financial services and other globally oriented industries, which depend on unfettered access to European markets and exchanges, will come under pressure. At the same time, the purported gains from freeing the U.K. from the heavy regulatory hand of Brussels will be limited, because Britain will likely have to accept most of those rules (without ability to influence them) as part of restructured trade agreements. Immigration is unpopular in the U.K., and slowing it was a motivation for some "leave" voters, but a more slowly growing labor force likely would also reduce overall economic growth. The rest of Europe will also be adversely affected, even though Frankfurt and a few other cities may gain finance jobs at the expense of London. The biggest risks here are political, as has been widely noted: In particular, markets are already beginning to price in the risk that other countries or regions will press for greater autonomy from Brussels. Even those sympathetic to such demands should worry that attempts to unwind existing trade and regulatory arrangements could be highly disruptive, as they will likely be for Great Britain. A move toward exit by a member of the euro zone would be particularly destabilizing, as even the possibility that a country might leave the common currency could provoke bank runs and speculative attacks on the country's sovereign debt and on other countries that might be thought to be next in line. The challenge for European leaders will be to keep the overall integration process on track, while finding ways to meet the concerns of potential leavers. One issue that could be revisited is the EU's commitment to the absolutely free movement of people across borders, which seems more a political than an economic principle; the perception that the U.K. had lost control of its borders was one of the most effective arguments for "leave," and secessionist movements elsewhere have also seized on the issue."

As mentioned often in our missives, investors and the markets do not like uncertainty, selling off risky assets like stocks and herding to benign harbors like gold, the U.S dollar and the sovereign debt of Japan Germany and the U.S.. Today, central bankers have less legroom than in the past to ease monetary policy. Japan's crusade against deflation could be set back by the firming up of the yen and the deterioration in equity prices. Economists believe that in the United States, the economic recovery is unlikely to be wrecked by the market turbulence, assuming things don't get significantly worse from here. In addition, the weakening in longer-term U.S. interest rates (including mortgage rates) partly counteracts the contraction results of the strengthening dollar. Read - the Fed and U.S. policymakers should and will remain guarded until the impacts of the British vote are further sorted out.

David Herro, Chief Investment Officer of Harris Associates adds, "I think people are comparing this event to what happened in 2008 at the outset of the Global Financial Crisis. I don't believe this is a correct comparison. There are some positives that need to be considered. For instance, there is a strong global consumer out there. There are high employment rates, low interest rates, low energy costs. So consumers are doing pretty well, and they are not as indebted as they were in 2007 and 2008. We don't have that debt overhang today. Looking at their leverage ratios and capital ratios, I believe the banks are better equipped to deal with the uncertainties we are now facing related to the United Kingdom and Europe than they were seven or eight years ago. So as I look at European bank stocks trading down 15% to 20% in the aftermath of the Brexit vote, it seems a bit overdone in some cases. We also have to keep in mind that many of these stocks were at low valuations before the vote occurred." While the details will continue to emerge over the coming months and years, cooler heads are starting to prevail. Investors globally are beginning to realize that things will be different going forward, but that economic output is not going to zero, unemployment is not rising to 100%, and capitalism will continue to thrive in the decades ahead. Interestingly enough, three weeks after the historic vote, the U.S. stock markets sprung back up, erasing the two-day 900 point drop in the Dow Jones.

The long-term political, economic, and financial repercussions of the "Leave" vote are immeasurable at this instant. But markets acclimate. Policymakers adjust. Businesses alters strategy in search of profits. Prices will retune. Openings and opportunities will emerge. Market volatility brought on by the UK's historic Brexit vote is no justification to disengage from portfolio planning and long-term investing. Investors who are inclined to look ahead, with an eye on opportunities and an eye on their goals, ought to be more prone to achieve both.

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- 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.
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## PERSONAL

In April, Garry participated in the 12th Annual Pat's Run – a 4.2 mile run around Arizona State University organized by the Pat Tillman Foundation. Pat Tillman put an all-star NFL career with the Arizona Cardinals on hold to serve his country in the wake of the attacks of 9/11. After Pat's death, family and friends founded the Pat Tillman Foundation with a $1.25 million pledge to Arizona State University to create the Tillman Scholars-ASU Leadership Through Action™ program at the W. P. Carey School of Business. This year over 30,000 runners from all walks of life participated in the event, helping raise money for the Foundation, which now invests in military veterans and their spouses through academic scholarships – building a diverse community of leaders committed to service to others.

Garry's parents visited Phoenix in early May. Although Skype, videos and pictures provide updates of life in the Kachkovsky household, nothing compares to face to face contact. Emily's mom continues to visit every other weekend from San Diego, lending a much needed helping hand with two quickly growing girls. At four and a half Ava has narrowed her career path to racecar driver. "I will race a golden Tesla. Papa, you can ride with me. We'll be the winning team because our car is FAST!" When she is not playing, talking or dreaming about everything automotive, Ava is sharpening her other burgeoning skills - swimming (the only reprieve from the oppressive Arizona summer heat) and performing on an impromptu stage (singing, dancing and entertaining the family) . Elle, who is now 16 months, is happy to participate in any activities with her older sister – singing back-up vocals or dancing. But when she is not being included, Elle is on a constant hunt for "treasures". Her dual language development has been remarkable – repeating at a high parakeet level any tongue twister we throw at her.

At 5am, with front and rear lights on and an abundance of gels and bars packed in their cycling jerseys to sustain energy during the ride, Kris and his brother, Steve, began their ascent from the small town of Evergreen to the summit of Mt. Evans at 14,264 feet. An hour into the climb, pink rays of sun emerged to the east. Oxygen was at a premium as the brothers continued to climb. Ascending the highest paved road in the continental U.S., the temperature dropped, the wind began to howl, and the switchbacks came one after another. The climb took about 4 hours and the brothers loved every minute of it! Once on top of the mountain, Steve and Kris took in panoramic views of the snow-capped peaks – Pikes Peak to the south, Longs Peak to the north and Holy Cross to the west. With no guard rails, the descent is not for the faint of heart.

Every Monday over the past few months, Kora (5), puts on her ballet shoes and leotard for dance class. At home, she enjoys teaching mommy, daddy and Macy (4) the moves she learned in class. The whole family practices their twirls, shoe taps and curtsies, albeit not very gracefully (at least for the men in the family). While the rest of the country experienced the early days of spring in April, the Fisher family was exposed to a brand new kind of spring. In late April, four feet of snow fell out of the sky and landed in their front yard. The girls rushed to put on their snow outfits to play in the winter/spring wonderland. Dad grabbed a shovel and went to work. Macy and Kora could hardly contain their enthusiasm as they built a snow mountain, made snow angels, snowmen and a snow fort. Everyone loved their first winter and spring in the mountains.

**"Perseverance is not a long race; it is many short races one after the other"**
**- Walter Elliot**

Thank you for your trust, confidence and friendship.

Garry Kachkovsky, CFP®
Financial Planner

Kristian R. Fisher, CFP®
Financial Planner