Demming Financial Services Corp.

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3rd Quarter Newsletter

Summer 2014

Special Notes...

If you are still receiving statements from a mutual fund company or First Clearing LLC reflecting balances, please contact us to facilitate the transfer to TD Ameritrade Institutional.

As a friendly reminder, please be sure to forward us your 2013 tax returns if you have not already done so info@demmingfinancial.com.

Also, please be sure to check out the new Demming Financial Services Corp. website at www.demmingfinancial.com!

We wish you, and your family, a safe & happy summer!

Don't Fear the Correction

Article Courtesy of Bob Veres

At of the end of June, the Standard & Poor's 500 index has completed 32 full months without a correction of 10% or more. We are living in a remarkably long bull market; the average time span without a full-blown correction is just 18 months. Since the last correction in September of 2011, the S&P 500 has gained 75%, threatening the remarkable 100% advance that began in March of 2003 and lasted until the market peaked in October of 2007.

We are living in a remarkably long bull market...

Today, as the S&P moves near the 2,000 level, as the small cap Russell 2000 and the Nasdaq index both reach record highs, it may be a good time to prepare for that inevitable correction down the road. It may take the market down 10% or, worse, reach the technical definition of a full market correction, which is a downward move of 20% or more.

Prepare how? First, it helps to recognize that every market has pullbacks, and that these are a normal part of stock market behavior. Since the Great Recession lows in March 2009, the S&P index has experienced nine different corrections, ranging in magnitude from 6% to more than 21%.

Second, it helps to recognize that these pullbacks are almost totally unpredictable. Knowing there will be a pullback doesn't tell us when or help us maximize returns. If we take money out of the market today, on the certainty that a pullback is coming, we are just as likely to miss another year or two of upward movements as we are of sidestepping an immediate downturn. Nor do we know how long the downturn will last. Add in trading costs and taxes, and the decision to guess when to step out of the market, and back in gain, is not likely to add value in the long run.

Third, recognize now that the next unpredictable correction will look blindingly obvious in hindsight. It will seem like everybody but you knew in advance what was coming and when. In reality, what you'll be hearing is reporters quoting the same few people over and over again, people who confidently predicted that a downturn was nigh and turned out to be right. Look a bit more deeply than the reporters do, and you'll find that this small number of people had been predicting that the end was nigh over and over and over again for years.

Finally, realize that inaction is actually taking strong and unusual action. People who simply kept their money in stocks during each of the market downturns ended up seeing the indices reach new highs once the correction had run its course. Strong long-term investors benefit from the incremental daily, weekly, monthly efforts of millions of workers who come into the offices, factories and warehouses and build the value of their companies.

People will change their opinions about what stocks are worth, but in general, over time, the value of most companies will rise to the extent that those workers add value during their workdays. When people lose faith in that value, as they will when the next correction hits, it will put stocks on sale and give the rest of us an opportunity to buy in at lower prices--if we have the courage to separate ourselves from the herd.

Source:
http://www.bloombergview.com/articles/2014-07-07/a-correction-is-coming

Food Price Crisis?

Article Courtesy of Bob Veres

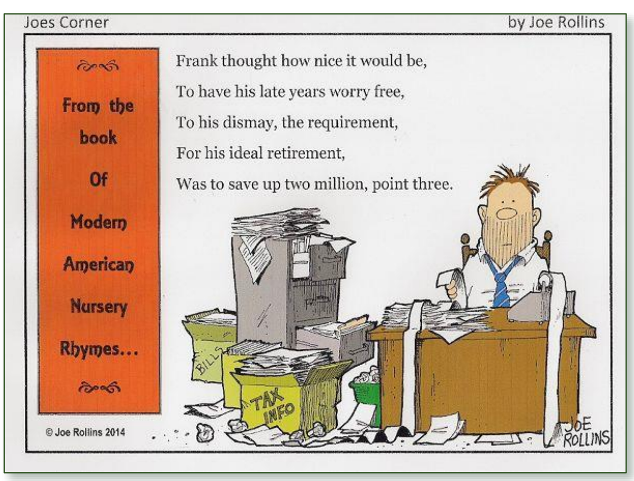
If you've visited the grocery store this year, you know that food prices have been going up alarmingly in recent months--and, in many cases, the price increases actually started years ago. Bacon prices (average $5.55 a pound) have risen 53% over the last four years, joining margarine ($2.11/lb, up 30%), ground beef ($4.13/lb, up 35%), oranges ($1.21/lb, up 35%), coffee ($5.00/lb; up 31%) and peanut butter ($2.71/lb, up 30%) as food commodities that have seen their prices rise by roughly a third over the past 48 months.

Some specialty items have gone up even more. If you had invested in a warehouse of fresh pine nuts four years ago, you'd be able to retire comfortably today.

The question we should be asking ourselves--especially those of us who expect to rely on fixed income in retirement, is: is this trend going to continue? Are food prices headed ever higher? And if so, should we be adjusting our budgets for double-digit annual inflation at the dinner table?

The answer is simple: the current situation is out of the control of farmers.

As it happens, we are living in a perfect storm, where supply shortages have been caused by forces over which farmers and ranchers have very little control. The biggest culprit is the multi-year drought in much of the western U.S. California is in the midst of its longest--and worst--drought on record. 2013 was California's driest year on record, and a freak heat wave during this year's rainy season has put 2014 on track to break that dismal mark. Farmers in the most productive agricultural land on Earth--California's central valley--have cut back on the number of acres planted as the snow pack in the Sierra Nevada mountains remains at roughly 15% of normal. This matters to food consumers everywhere. California produces a huge percentage of the nation's celery (95%), avocados (90%), cauliflower (89%), lemons (83%), spinach (83%), carrots (66%), broccoli (94%), strawberries (88%), bell peppers (50%) and tomatoes (30%).



The same drought pattern also extends deep into Texas, New Mexico, Oklahoma, Kansas and Nebraska, which have forced many of the nation's most productive beef cattle and feed growers to pare back herds and acreage. At the same time, Florida's citrus growers are facing a deadly new disease called "citrus greening" that has devastated orange groves--and for which there appears to be no cure. A relatively new hog virus called Porcine Epidemic Diarrhea Virus has significantly cut into pork production. And coffee prices have exploded ever since a fast-spreading fungus infection has begun spreading across farms from Mexico all the way to Peru. Hardest hit are the so-called "arabica" coffee plants, which produce the beans used in espressos and gourmet specialty coffee blends.

Normally, you hear commentators talk about commodity cycles, where higher prices in one year give farmers an incentive to plant more acreage, which means they produce more in hopes of taking advantage of those high prices. The excess supply drives prices back down toward normalcy. If prices are low, farmers cut back on acreage, and the lower production causes prices to rise back toward more normal levels. Some analysts are trying hard to explain why these time-honored mechanisms seem to have failed us over the past four years.

The answer is simple: the current situation is out of the control of farmers. Because of the unpredictable dynamics caused by Mother Nature, and the sudden advent of new crop diseases, food prices might stay high for at least a few more years--and they will be harder to predict as a retirement budget item.

Source:
http://www.advisorperspectives.com/commentaries/halbert_060414.php

First-Half Report Card: Modest Gains, Murky Outlook

Dear Clients,

It's hard to describe single-digit first half returns as a raging bull market, but it's also hard to feel too negative about a six month period when the S&P 500 recorded 22 record highs and virtually everything in your portfolio--including bonds--rose in value.

The Wilshire 5000--the broadest measure of U.S. stocks and bonds--rose 4.83% for the second quarter--and now stands at a 6.96% gain for the first half of the year.

The other U.S. market sectors experienced comparable gains. Large cap stocks, represented by the Wilshire U.S. Large Cap index, gained 5.12% in the second quarter, and is now up 7.17% so far for the year. The S&P 500 index of large company stocks gained 4.69% for the quarter and is up 6.05% since January 1.

The Wilshire U.S. Mid-Cap index rose 4.50% in the second three months of the year, and is up 8.42% at the year's midway point.

Small company stocks, as measured by the Wilshire U.S. Small-Cap, gained 2.71% in the second quarter; with the first quarter gains, the index is up 5.35% so far this year.

The technology-heavy Nasdaq Composite Index was up 5.94% for the quarter, and is up 5.30% for its investors so far this year, reaching levels that haven't been seen since March 2000. The rest of the world is not doing as well. The broad-based EAFE index of larger foreign companies in developed economies rose 2.95% in dollar terms during the second quarter of the year, and is up the same 2.95% so far this year. The stocks across the Eurozone economies rose 1.90%, and are now up 3.45% for the first half of the year.

Emerging markets, touted as the economic engines for global growth, recovered nicely from a moribund first quarter. The EAFE Emerging Markets index of lesser-developed economies rose 5.64% for the quarter, and are now up 4.80% for the year.

One of the most interesting questions batted around among professional investors these days is: are these low yields sustainable in the future?

Looking over the other investment categories, real estate investments, as measured by the Wilshire REIT index, rose 7.47% for the quarter, and is standing at a remarkable 18.36% gain for the year. Commodities, as measured by the S&P GSCI index, rose 2.69% this past quarter, posting a gain of 5.71% for the year. Most market participants and pundits expected bond rates to rise in the first half of the year, but once again bond returns surprised the experts. The Bloomberg U.S. Corporate Bond Index now has an effective yield of just 2.90%, while comparable yields in the Eurozone stand at 1.64%.

Treasury rates took their biggest first-half drop since 2010. 30-year Treasuries have seen their yields fall to 3.36% in the past six months, and 10-year Treasuries currently yield 2.53%. At the low end, 3-month T-bills are still yielding a miniscule 0.04%; 6-month bills are only slightly more generous, at 0.06%.

One of the most interesting questions batted around among professional investors these days is: are these low yields sustainable in the future? Can they keep dropping? Won't the appetite for Treasuries finally dry up, forcing rates higher? If you look at Treasury rates in isolation, current rates seem to be as low as they can go. But it is also interesting to look at the global bond markets from an international investor's perspective. Would you prefer to invest in U.S. 10-year Treasuries at 2.53%, or buy comparable Japanese government bonds, yielding just 0.563%? Are you more attracted to German 10-year bunds, trading at 1.25% yields? As little as they are yielding today, U.S. government bonds are still pulling in buyers from around the world, both as a safe haven and as a source of higher yields.

But depending on where you look, the economic news has been somewhat scary. The U.S. economy's GDP dropped 2.9% in the first quarter of the year--an enormous hit which has been largely blamed on the weather. The uncertainty in Iraq, including the recent ISIS capture of a major refinery, has sent the spot price of oil above $107 a barrel on global markets. Manufacturing activity fell in the past month, and the growth of jobs, which looked promising last year, has slowed down, with the unemployment rate stuck at 6.3%.

There are also positive signs, particularly in the statistics for housing demand. The pending home sales index for contracts to purchase previously-owned U.S. homes rose 6.1% in May, the largest advance since April 2010, when sales were boosted because the homebuyer's tax credit was on the verge of expiration. The rise in the overall REIT index suggests a strong bounce back in the real estate industry overall.

Even the government seems to be getting its books back in balance. You won't read about it in the newspapers, but the U.S. federal deficit has fallen from $1.4 trillion to around $400 billion in the space of one year. And the U.S. is now close to energy self-sufficiency, which means that the trade deficit (which has been largely driven by the cost of importing Middle Eastern oil) is shrinking dramatically vis-à-vis the rest of the world.

The Michigan Sentiment Index recently hit 82.5, which means that people are generally optimistic about the state of the economy and the world.

Where do we go from here? The future is never clear, but today it might be less clear than usual. The long bull market that started in March 2009 and the economic expansion that started nearly at the same time are both among the longest since the Civil War. Bull markets have to end eventually; we all know that. However, this growth period has been more like a marathon than the usual recovery sprint after a recession; the economy has grown at a 2% annualized rate since 2009, which is below the long-term average, and considerably below what is normal during a recovery from economic malaise. Marathon runners--at least in theory--can keep moving longer than sprinters. Is that the case today? The U.S. Federal Reserve has vowed to keep interest rates low for the next 12 months, and many investors seem to be comfortable with this approach. Many believe it could be a recipe for more economic growth, profits and clear stock market sailing in the foreseeable future.

The truth is, none of us can tell whether the markets will continue to test records or not. The best indicator, and it is not something you can pin down, is whether people are still anxious about the future and concerned about the possibility of a market plunge. So long as people are still worried, the market probably hasn't reached its top. Whenever you see most investors finally deciding that the market is on a permanent upward climb, whenever everybody finally gives up on worry and puts their money into the hot market, that is when stocks have probably peaked, and an unpleasant surprise awaits those who joined the party too late.

Where are we on this scale? Few investors seem to be enthusiastic about current market valuations, which some believe to be a bit overpriced. At the same time, the sentiment surveys are in the "complacent" zone, and we are not hearing quite the same shrill tone from perma-bears and pundits who probably feel a bit embarrassed about predicting disaster over and over again as the markets sailed through scary headlines and economic headwinds.

This may be the perfect time to celebrate the fact that we've managed to stay invested during fearful times, when government shutdowns, European banking crises and the threat of another meltdown at

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home were driving others away from the improbable upward trend. Since 2009, only the brave have stayed the course, and they earned the rewards of what, in retrospect, has been one of the most generous bull markets in U.S. history. How much more is in store for them, or when the inevitable pullback will come, is not something we mortals are given to know--despite the loud predictions you will hear from economists and pundits whose crystal balls are no more clear than yours.

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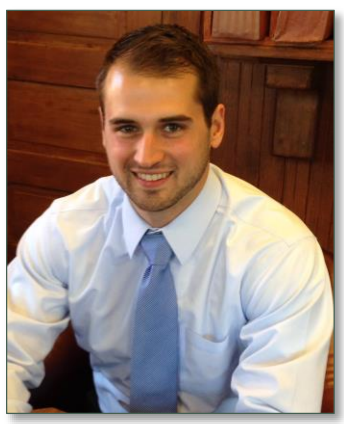
Employee News…

Congratulations!

Patrick has successfully completed his CFP® designation! He is the newest member of our Advisor team and he looks forward to continuing his work with clients!

Welcome!



Kevin is the newest member of the Demming Team as a Para Planner/ Financial Analyst! He is a Mercyhurst University graduate with a BA in Finance and we welcome him all the way from his hometown of Rochester, NY!

Happy Retirement!

After 15 ½ years of dedicated service, Kathy has retired! We wish her the best in her newest adventure of life!

For your security, redemption requests cannot be facilitated via email. Requests can be given over the telephone. Please feel free to contact us at #330.562.2122 and a member of our staff will be happy to help you!