

EXPECT (AND EMBRACE) VOLATILITY IN 2016 A NOTE FROM JOE ROMANO



After a noticeable four year absence of volatility, this trend finally reversed course in 2015 as we wrote in the last newsletter. The strong downtrend of last August and September and the “V” shaped recovery in ensuing months mirrored the same market movement in January and February, and the sharp recovery in March and April of 2016.

That latest recovery, while welcomed not only by professionals like us but investors like you, helped assuage investor balance sheets and professionals’ nerves. But for the professionals at the very least, it has also left a certain amount of head scratching. Exactly what has been the catalyst for these sharp snap backs? Good news?

Not exactly. On the good side, oil prices are at their highest point in 2016 since touching their lows at the end of 2015, reversing the downward trend that began in the summer of 2014. Beyond this however, economic news hasn’t been anything more than just plain tepid generally speaking. First quarter GDP increased 0.5%, less than the 0.7% forecast. More troublesome, this suggests only a 2% annualized growth for 2016. On the job front, the U.S. economy added only 160,000 jobs in April, less than the 208,000 jobs added in March and the 200,000 forecast for the month.

This weak data has led to a “risk off” trade recently, and the 10 year Treasury note which has been rather range bound, fell 10 basis points to yield 1.75%. According to Bloomberg data, the weak reports forced traders to adjust their expectations from a 58% probability of a rate hike in 2016 down to 42.8%. As you recall, we had our first rate hike in December of 2015 with the projection of four rate hikes for 2016 at that time. Now we seem hard pressed to get even one...

The data for equities hasn’t been any better as measured by the most recent earnings season.

With 90% of the S&P 500 reporting, 74% have beat on earnings and 54% on revenue estimates. However, the S&P is currently on track to post a 7.9% decline in year over year earnings, citing Bloomberg. As a continuation of 2015, certain sectors have been hard hit. Retailers and technology stocks, including the once infallible Apple and the world’s largest public company, have fared poorly. It posted its first ever revenue decline in more than a decade.

Yet despite all of this lackluster news, the Dow is only about 4% off all time highs. To us, this represents a disconnect and dulls our appetite for stocks. The same conundrum as stated here too often in recent years still exists—we struggle to find good values in equities while insanely low rates force us to avoid bonds. What is an investor to do?

For us, we maintain our discipline and wait patiently. Given the perceived disconnect between stock prices and economic data, we feel that the volatility in the market place is likely to be persistent for at least the near term. And we reiterate from past letters, this type of volatility is reminiscent of “normal” market action during any calendar year, as the absence of it over recent years has been the exception rather than the norm.

Given this expectation, Portfolio Manager Scott Miller has written a piece “Navigating Market Volatility” that we believe is both timely and useful. It is a reminder that investing is as much a discipline as it is a science, and that the times of deep market downturns should be viewed in a contrarian light as buying--rather than selling--opportunities. This has been the cornerstone of our strategy for the past 54 years, and we embrace, rather than loathe, the next dip and buying opportunity. In the meantime, enjoy your summer!



Joe Romano, PRESIDENT

NAVIGATING MARKET VOLATILITY



The markets have been on an upward trend for the past 7 years, after bottoming in April of 2009. In that time, there has been very little volatility, with our first 10%+ correction occurring in the third quarter of last year and most recently, the relentless selling which took place during the first quarter of 2016. A big question in many people's minds is "how much higher can this market go"? While this question can never really be concretely answered, it is that time of year where investors are again wondering whether or not they should follow the old adage "sell in May and go away". With the recent market sell-off fresh on investors' minds, it is timely to review the subject of market timing and the importance of asset allocation.

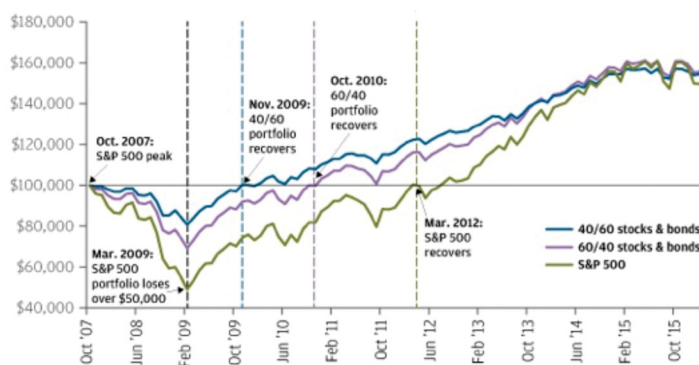
As a firm, we believe in investing for the long term and stress the importance of asset allocation based on risk tolerance. Studies have shown asset allocation plays a significant role in overall returns with some statistics attributing 79% of portfolio returns to allocation. Attempting to consistently sell at the market tops while in turn reinvesting sale proceeds at market bottoms is a losing strategy. In fact, according to Hulbert Financial Digest, advisors who were heavily invested in cash during the bear markets of 2000-2002 (50% market declines) and 2007-2009 (57% decline) or other non-equity assets over the past 16 years have regularly underperformed the indices. Statistically speaking, no advisors in this study were successful in picking both the top and bottom. The primary reason for this underperformance is that advisors failed to get back into the market anywhere near actual market lows. A huge part of the gains we find happen over a small number of market days. Bear market rallies are fast and furious. Sit in cash and you may miss those gains entirely.

According to Hulbert Financial Digest, the most successful advisors stayed invested in equities during bear markets. The top performing advisors tended to share a bias toward value stocks, which pay dividends and tend to be less volatile in down markets than higher-multiple growth stocks. In addition, with interest rates at all-time lows, the income generation is critical for retirees. This investment philosophy falls more in line with our investment style. We tend to invest in value

companies, which often return capital to investors in the form of dividends.

This is not to say that we are completely opposed to making strategic adjustments to portfolios. At times, a higher cash allocation allows us the flexibility to deploy cash during times of market duress. We do not believe in making all or nothing shifts from one investment to another based on market conditions. Proper diversification cannot be overstated and is a critical part to an investor's overall success. An example of this is shown in the chart below.

**Portfolio Returns:
equities vs. equity and fixed income blend**



Source: Standard & Poor's and Factset; data as of February 29, 2016.

Assume an investor deposited \$100,000 into the market at the peak in October of 2007. Included are three different allocations: a portfolio of 40% stocks and 60% bonds (40/60), a portfolio of 60% stocks and 40% bonds (60/40), and a portfolio of 100% stocks. As you can see, the 40/60 split recovered its losses from the lows in less than a year, the 60/40 split recovered its losses in a little over a year and a half, while the equity portfolio recovered its losses in a little over three years.

At the end of the day, we understand having a properly diversified portfolio does not minimize the pain of losses during market corrections. Over the long term, however, investors who stay the course have been financially rewarded. While it is impossible to accurately anticipate market peaks and troughs, a properly diversified portfolio will help minimize the volatility.

Scott Miller
Portfolio Manager



SPOTLIGHT ON OUR CLIENTS

A SINGLE LEAP OF FAITH CHANGED TIMOTHY O'GRADY'S LIFE FOREVER.

A man he'd met while working for a literary magazine at Northwestern University had offered him a free place to stay on a deserted island off the coast of Ireland.

Enamored with the idea of a bohemian life abroad at age 22, he took the offer.

"It was just romantic adventure," he says.

"I thought I'd travel around Europe for a year—that was my idea."

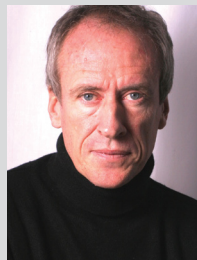
A year turned into two, then five, then ten. More than four decades and six books later, O'Grady can look back at that moment as a launchpad for his literary career. His experiences in Ireland inspired his first novel, *Motherland*, which won the David Higham Prize for best first novel of the year, and his second, *I Could Read the Sky*, also an award-winner.

The Rogers Park native says he "regrets nothing" about his bare-bones beginning in Ireland. The deserted house he stayed in had no plumbing, no electricity, and broken windows. But it was home.

It was from there he watched as the Northern Ireland conflict raged on. He later co-authored a book inspired, no doubt, by what he saw: *Curious Journey: An Oral History of Ireland's Unfinished Revolution*.

"It was such a drastic experience to go from student life in the early 70s in America...to the silence of a deserted island in a country with an ancient culture," he says. "I didn't have anything else to do but pay attention to it."

He continued to hone his writing as he moved from Ireland to London to Spain and ultimately Poland, where he now resides. Something, inevitably, would always come up to help him keep the lights on: an odd job here, a grant there.



His parents had long been Romano Wealth Management clients, and when they died, he became one himself.

"It was like having a patron, when there were such things," he said. "The bohemian life became greatly easier."

He and Dick Romano became "good friends," with Dick and his wife visiting him when he lived in Spain. He's consulted Dick on market and other issues for his books and they periodically have long conversations by telephone.

"We don't always agree," he says, "but it's always spirited and interesting and good-natured."

He has worked in theater and film and taught at various universities, but writing has always fueled his passion for life.

"These novels just came into my head, they seemed so compelling, and once I had those things, it was like falling in love with somebody," he says. "It was something so fascinating and so endless."

He returned to the United States for two cross-country road trips in the early 2000s, traveling between New York and San Francisco along northern and southern routes. His catalogue of the souls he met on the journey became *Divine Magnetic Lands: A Journey in America*, a portrait of the U.S. at the turn of the new millennium.

A teaching residency in Las Vegas was the catalyst for his seventh book, *Children of Las Vegas*, which is composed of 10 interviews with people who grew up in Sin City.

"It's about people who've witnessed this city and what it can do to you," he says.

Children of Las Vegas will be published in London this June and can be ordered from the publisher Unbound at www.unbound.co.uk.

photo: Iris Renata Lardner



NEW CHARITABLE FACEBOOK PROMOTION:

We are starting a Facebook charity campaign to gain more likes! For every new 'like' the Romano Wealth Management page receives starting June 1, we will donate \$5 to Shore Community Services, a North Shore Charitable Foundation that has provided services to individuals with intellectual and other developmental disabilities for over 60 years. Our goal is to raise \$5,000 over the next three months! Help us reach our goal by liking our page and spreading the news!



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ROMANO NEWS

Rick's 20 Year Milestone

"Congratulations to **Rick Hemwall**, Portfolio Manager at Romano Wealth Management, for two decades of exemplary service! Rick came to us from Merrill Lynch 20 years ago and we couldn't be happier to have him. Looks like the wealth management gene runs in the family; his son Peter Hemwall is about to hit 2 years with the firm as well. Talk about a dynamic and dynastic duo!"



Peter Hemwall, CFP®:

...Speaking of **Peter Hemwall**, a big Congratulations belongs to him as well! This past January, Peter completed the rigorous course study - including 5 subject exams, a final paper, and a comprehensive final exam - to successfully earn the designation of CFP® (Certified Financial Planner™). The time and effort Peter put into receiving this certification makes him an even more valuable member of our team. Well done, Peter!

Scott's Election to Chamber Board:

Congratulations to Romano Wealth Portfolio manager, Scott Miller, on being elected to the Evanston Chamber of Commerce Board of Directors. In this new role, Scott will be working with other local leaders and businesses around the North Shore to continue bettering this wonderful community we've been a part of for 54 years!

Cooler bag in BVI:

Spotted: a Romano Wealth Cooler bag keeping some refreshing island beers as cold as a Chicago winter on the sunny beaches of the British Virgin Islands! A client happened to be walking down the beach and snapped this photo for us. We are so happy to be a part of what makes vacations like this happen!

