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Geopolitical Storm Envelopes Markets But Doesn't Capsize Them

Recent developments in the Ukraine, Gaza and Mesopotamia are by turns depressingly familiar and newly horrific all over again. So far, however, they've done little more than put a hitch in the market's stride. While the Dow Jones Industrial Average did finish July slightly underwater on the year, US markets have mostly shrugged off events abroad, or may even – in the case of high quality US bonds – prove to be a financial refuge from them.

The chart below shows benchmark yields on global government debt as of July 31st, 2014:

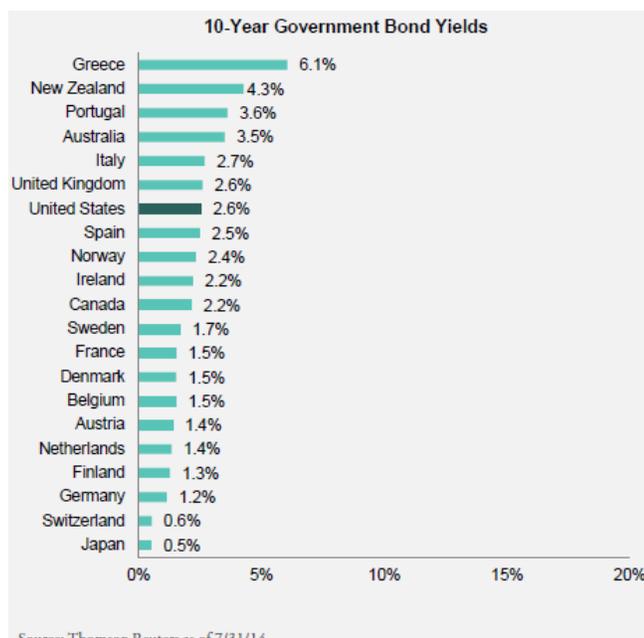


Chart source: Eaton Vance

The US benchmark yield pays higher than most developed world treasuries do, and even higher than EU problem child Spain, which seemed on the ropes just a couple of years ago. My

takeaway: Either many foreign rates are way too low (i.e. foreign bonds are overpriced) or US rates have room to go lower again (in which case US bonds aren't necessarily as dangerously expensive as the consensus seems to think they are).

Meanwhile the yield differential on stocks is reversed, with US equities sporting a sub-2% dividend yield while the non-US developed world MSCI EAFE pays better than 3%. My takeaway: Foreign stocks are pricing in more risk than US stocks.

These observations don't have us radically altering allocations, but we are starting to lean back from favoring foreign bonds, while keeping our eyes (and arms) open for attractively priced foreign stocks.

If geopolitical ugliness spreads or deepens, US stocks won't be immune, and US bonds may prove, at least in the short-run, a refuge of sorts.

Julie Bryan Strengthens Investment Team

This summer, Julie C. Bryan, CFA, has joined us as Portfolio Manager. Julie has over 25 years in the investment business, most recently serving as Vice President/Director of Research and portfolio manager at MKG Financial Group. She earned her undergraduate degree from Stanford University (go Cardinal!) and her MBA from Marylhurst University. She also holds the Chartered Financial Analyst designation and is a member of Portland's CFA Society.

As well as performing investment research and analysis, trading securities and helping run all aspects of our client portfolios, Julie will be part of Allen Trust Company's Investment Committee, and may even help spell me on writing these monthly Investment Updates from time to time. Her energy, team-oriented "can-do" mindset and high integrity make her a pleasure to work with, not to mention a great resource and asset to our clients. Welcome aboard, Julie!