



Warren Financial  
*Investing for a Greater Purpose*

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## Q3 Client Strategy Update

by Randy Warren, Chief Investment Officer

### Randy Warren

is Chief Investment Officer of Warren Financial, an investment management firm catering to

- self-made individuals,
- dual-income families
- and family-owned or small businesses

Headquartered, Exton, PA offices in:

- New York,
- Hilton Head,
- Atlanta, and
- Philly (Exton)



**Brexit caused our MVI (Macro VIX Indicator) to jump up to 90 on Fri Jun 24, but it quickly calmed down as volatility wilted. No hedging benefits to this brief spike, especially because the market began the drop from a relative high point.**

### New WarrenFinancial.com Website !

Warren Financial just launched a new website with new content and some videos about the company. Please take a moment to visit us at [www.WarrenFinancial.com](http://www.WarrenFinancial.com). If you haven't seen our commercial on TV, you can view it on our website.

If you use Facebook, then you know that Facebook is all about things you and your friends and family do, such as pictures, graduations, marriages, etc. If Facebook is about things you DO, then Twitter is about things you THINK. Twitter is about opinions. Warren Financial often tweets out articles we are quoted in, as well as Forbes articles we write, and our opinions about things happening in the markets. If you "follow" us on Twitter, you will automatically receive these updates on your twitter wall (similar to your facebook wall). Create a Twitter login, and "follow" newsmakers, then you can get your news direct from the source, instead of from reporters and producers that edit and filter the news on CNN, Fox, and MSNBC.

### Greater Purpose Contest

Warren Financial is sponsoring a Greater Purpose Contest. We have heard so many inspiring stories from our clients, friends and prospects that we felt it would be beneficial to create an archive of these stories. All Greater Purpose stories entered into our new website this summer will be eligible to win the prize, an all-expense paid weekend to the beach in Hilton Head. Fall is beautiful in Hilton Head as it's still hot enough to go to the beach, yet cool enough to play golf, tennis, ride bikes, etc. See contest description for details.

### Brexit !

Brexit won't affect anyone's retirement plans, except to make vacations to the U.K. quite a bit cheaper. The British Pound dropped 15% on the news of Brexit while equity markets dropped about 3%.

**Disclosures:** Warren Financial has long positions in some of the stocks mentioned in this article both for our clients and our own portfolios. We may be starting new long positions in some of these companies in the future. The fact that a company is mentioned is not a recommendation or offer to buy or sell that stock or bond. Investors should always seek advice from an advisor that knows their particular financial situation and not assume that general information such as the information in this article will always apply directly to their portfolio. Investing includes the risk of loss. For more information on how to protect your investments from volatility, visit [www.WarrenFinancial.com](http://www.WarrenFinancial.com) and make sure to investigate our volatility strategies.

### Sage Words of Advice

The ART of being a great investment manager must include the problem of dealing with markets and stock picks that are NOT going your way. When investors are all making money in a sector or stock (think about the 1999 tech bubble) there will be incredible pressure to conform your portfolio. Jeremy Grantham argues that the manager must stand against the crowd in a way that will make the manager and their investors feel uncomfortable at times. Howard Marks says, "I'd say the necessary condition for the existence of bargains is that perception has to be considerably worse than reality. That means the best opportunities are usually found among the things most others won't do. After all, if everyone feels good about something and is glad to join in, it won't be bargain-priced."





Oil has stabilized. We bought some in the hedge fund and in many of our client portfolios. Some of our favorite picks include Concho (CXO) and Pioneer (PXD).



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The British were never fully “in” the EU (European Union of 24 countries) since they never adopted the Euro (the Euro is the EU’s common currency). So, dropping out of the EU won’t have much of a dramatic effect on the UK and even less of an effect on the USA. The vote to drop out of the EU was more about the people voting that they did not like Brussels (the center of EU politics) and were not happy that anyone (even potential terrorists) could move freely into the U.K. simply because they arrived in a refugee boat off the shores of Greece.

The drop in the value of the British pound will help U.K. companies to recover quickly, but the U.K. might slip into recession.

The US stock and bond markets are “over it”. Now it’s time for the US markets to look toward our own politics with the upcoming Democratic and Republican Conventions. This election is sure to be contentious. No matter who wins, forcing politicians to refocus on the needs of the people will be a good thing.

So far, the USA is not slipping into recession, but we’re watching.

### Why do “Bad” things happen to “Good” Companies ?

There is often confusion when bad things (price declines) happen to good companies. “Why did the price go down when the earnings and revenue were reported to be so good?” It can be vexing to many investors.

The situation is simple to explain. It’s all about expectations.

- If investors expect the company to make 10% revenue growth and 15% earnings growth, even if the company reports nice revenue and earnings growth, sometimes, it’s just not enough to “impress” investors.
- If a company is in a defensive industry, such as a utility, and the risk appetite of the market is increasing, then that company’s revenue and earnings increases will be largely ignored. Alternatively, if the company is in the discretionary space (such as Under Armour, Nike, etc) and the economy is perceived to be going into a slowdown (possibly even recession) then these companies will sell-off in favor of the more defensive names, such as utilities. The growth of those discretionary names will be largely ignored for a while.

The above scenarios are two very common examples. But investors can not chase rotations in the marketplace. Instead, under most circumstances, holding great companies through the tough times is still the best way to generate 1000% returns and ultimately investor wealth.

How can you tell if a company is “great” compared to a company that has a nice price chart over the past year, but is really just benefitting from a shift in investor attitudes, or rotation forces? Answer: Warren Financial spends a great deal of time studying companies and what they are doing and how their markets are potentially expanding. It’s certainly not easy to separate the “great” ones from the ones that are just doing well recently, but aren’t truly “great”. It’s our job.

### Warren Dividend Hedge Strategy



The goal of the Warren Dividend Hedge Strategy is to provide “safer-equity” by utilizing options on Vix futures to reduce the downside risk of holding stocks. The goal of the fund is not to outperform the SP500 every year, but rather to “keep up” in good years and outperform (by losing less) in bad years when the market drops -10% or more. The bigger the drop the better the outperformance. This is what we call, “safer-equity”.

### Best of the Best !

Unfortunately, the “best of the best” stocks are constantly changing if all you consider is recent performance. But among a shifting landscape, we can search high and low for top companies that we think have a decent chance to WIN, fundamentally, over the long haul. Currently:

Under Armour, Ulta, Facebook, Amazon, maybe Global Pmts.

Get communication from Warren Financial weekly. Our new website contains our weekly issue called, Weekly Worries and Opportunities Report.



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