Making End$ Meet ~ 20th Annual Report ~ 2015

Dear client, colleague, and/or friend, Spring 2015

To ascertain excellence and keep planning assumptions about Return on Investment (ROI) both hopeful and realistic, every spring I skim the cream off the mutual fund market and share my findings in an annual report. This is the twentieth. Please accept it with my best wishes for your felicity, health, and success in all things.

Its purpose is to help you prosper. However, beware that investing in the funds on these reports right away can result in "performance chasing." Nonetheless, with such excellent track records, I reckon they're noteworthy for future reference, at least as historic examples of what's possible. Past performance is no guarantee of future results; read prospecti and annual reports; if you need help understanding them, get it. Buy low, and sell high.

Although it's about mutual funds, I don't mean to imply that they're the only way to invest. However, their regular accountability facilitates the making of a report like this; and since they're invested in almost all sectors of the economy, I regard them as fair representative samples of most investing opportunities.

It focuses on these findings:

- Top-Performing Mutual Funds 1996-2015, sorted from long- to short-term return on investment. Top funds are concentrated in health care. I wonder how much their results are influenced by politics.
- Sector Analysis: summary of top performing mutual funds by economic sector and year, 1996-2015, ranked by frequency of occurrence. This analysis helps identify 2-7 year cyclical investment opportunities, and overall endurance. Currently trending sectors are listed below.

There is real value here. I share it freely because I care about people. Over the years, it has benefited my family, my clients, and me mightily. It represents weeks of work that I've done consistently each year over the two decades of my life that I've spent struggling to help struggling people. I hope you'll take it to heart, and contact me if there's any way I can be helpful to you and yours.

This year's excellence-defining Return on Investment (ROI) criteria are 27%, 22.1%, 18.7%, and 11.9% for 1, 3, 5, and 10 year annual averages, respectively. In other words, of all the funds that Morningstar tracks, when sorted by one time frame at a time, within each time frame, 200 funds met or exceeded these thresholds.

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This table puts them into historic perspective:

1, 3, 5, & 10-Year Average Annual ROI Criteria
Top Performing Mutual Funds, 1996-2015
Data courtesy of Morningstar.com

Year	1	3	5	10
1996	45.0	22.5	19.5	14.7
1997	29.7	22.8	18.1	14.0
1998	59.0	34.7	23.5	19.8
1999	55.4	31.3	27.1	19.2
2000	80.0	40.0	29.0	20.0
2001	17.0	16.0	19.0	16.0
2002	22.0	20.0	17.0	14.0
2003	14.7	13.7	7.8	10.0
2004	84.5	22.1	19.0	13.2
2005	23.8	19.8	17.8	13.9
2006	54.0	47.0	26.0	15.3
2007	31.8	28.9	25.2	14.7
2008	27.4	28.5	33.3	14.1
2009	7.5	6.7	9.4	9.8
2010	98.5	8.6	14.9	12.4
2011	41.2	11.8	11.1	14.0
2012	19.3	31.8	8.5	12.7
2013	23.9	17.5	11.5	15.3
2014	42.5	19.6	29.5	11.8
2015	27.0	22.1	18.7	11.9

Experience learning these criteria and building this table has taught me that the highest sustainable long-term average annual return is around fourteen percent, and that over the shorter run, to the shrewd and attentive investor who learns to notice and work well with 2-7 year cycles, higher returns are possible. That is one reason why I maintain and share this Sector Analysis.

Over the years, I have developed the following rating scheme, based on the idea that the ideal investment gains consistently and enjoys excellent, stable growth by meeting more than one criterion:

A – All criteria (1, 3, 5, & 10 year average annual return)
B – 1, 3, 5
C – 1, 3
D – Honorable Mention: met criteria in the past, & still performing respectably

This year there were twenty-two As, six Bs, and six Cs in the following economic sectors:

Sector	Frequency
Health Care	16
Large Growth	5
Trading – Leveraged Equity	5
China Stock	2
India Stock	1
Japanese Stock	1
Large Blend	1
Medium Growth	1
Small Growth	1
Technology	1
Total	**34**

This year I've added a fifth element to my rating scheme: “Buying Opportunities”, which begin at the bottom of page five. These are funds that made the cut in past years (indicated in the far right column) and that are now bargains. Since the usual rating system is biased in favor of chasing performance, they're opportunities that are not appreciated under it.

I would not go so far as to call them “recommendations” because I'm not sure whether they'll do as well in the future as they did in the past. Besides, I am not licensed or qualified to make recommendations. Instead, I call them “opportunities” because compared to their own histories, their prices are considerably low.

What really determines whether an investment will grow in the future isn't just its track record. We must also consider what markets will value in the future.

For example, I suppose that health care and biotech funds dominated this year's As because the Affordable Healthcare Act was passed five years ago, stimulating the whole industry, and because aging Baby Boomers want the best health care, and probably will, increasingly, for the rest of their lives. If you'll notice, in the Sector Analysis Health Care first appeared in 2011, the year following passage of the Act.

Obviously five years ago would have been a great time to get in on these investments. Now, with ten-year averages as high as they are (well beyond the mean), are we in a health care bubble, or can we expect the industry to keep booming? What drives this growth? Will it continue? And if so, how?

As I Google around, I notice dire warnings about a health care bubble written by credible authors in 2012. Now it's three years later, and those who disregarded bubble warnings then and invested in, for example, BIPSX, Profunds Biotech UltraSector Svce fund enjoyed a 3-year average annual return of 61.3%.

Now what? Were the Health Care Bubble predictors right, but early? Three years later, are we in the bubble now? Or, because of sustained demand for health care and continuing innovative developments in health care technology, and perhaps incremental improvements in “Obamacare” itself, will this growth trend continue indefinitely?

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One thing is clear to me: vituperative political ideology and resentments have no place in investment decisions. They cloud discernment. Wise investment decisions must be dispassionate and based in fact.

As I study the Sector Analysis, the first thing I notice is that this health care run is four years old. It began in 2011 – in other words, that is when health care began to make the Top 200 cut, to appear on my radar.

I study other past runs. I notice that the longest continuous run was Diverse Emerging Markets, 2003-2011: eight years. European Stocks lasted six years, from 2004-2009. Latin American Stocks enjoyed a six year run, too, from 2005 to 2010. With a couple of gaps, Precious Metals enjoyed an eight-year run, from 2003-2010.

Given how significant health care is, as a proportion of the whole economy, in terms of importance to the aging Baby Boomer demographic, and considering the momentum and pace of advancements in research and development, how likely is this run to last more than four years? In making future investment decisions, these are the kinds of questions I feel must be asked; and in the future, in the web site's news archive, I plan to share answers as I notice them.

Brief News

- I moved and upgraded the web site from Network Solutions to Weebly.

- As already mentioned, instead of a conventional "blog", the new site contains an annual news archive (menu > news > year).

- For the past five or six months, I've been focused on developing a productivity application called "How We Did" for job- and project-oriented businesses. It began as a spreadsheet solution requested by one client in the janitorial industry. Once it was made, I realized it had widespread uses and put it on the cloud in database form. Lately I've enhanced it from tracking simple jobs to both managing and tracking whole, complex projects.

  Its Unique Selling Proposition (USP) is that it fills the void between Project Management and Accounting in a way that ordinary Project Management (PM) applications don't, and creates a vital metric that is well understood in business schools but usually unheard of in the marketplace called Contribution Margin.

  Contribution Margin is revenue minus the costs of making it happen. Break Even is when Contribution Margin = Overhead; profitability is when Contribution Margin > Overhead. Most businesses never know their Contribution Margin, or discover it too late. The app measures it as it's happening, before invoicing is even done, and breaks it down in a variety of ways that can help business owners improve productivity, revenues, profits, morale, and project accountability. For more information about Contribution Margin, please visit the Break Even Analysis page.

- I just finished reading Tony Robbins' book Money: Master the Game – 7 Simple Steps to Financial Freedom. I'll write a review of it soon and publish it on the Book Reviews page.

  Meanwhile . . . in a nutshell . . . he seems to be focused mostly on investing, particularly in Index Funds, but with a hat tip to people who pay close enough attention to beat the averages, as I am doing with this research.

While he acknowledges that ample income is necessary to BE an investor, insofar as the likes of Charles Schwab, whom he interviewed, acknowledged on page 536 ("You've got to have a well-paying job, which are not that plentiful today"), I was disappointed by how, despite the book's length, he didn't unpack the challenge much, except in the most general of terms ("Help more people").

I know that Tony is a caring guy who himself rose from poverty, but I feel personally that it's almost cruel to elaborate on investing without first elaborating on its prerequisite. I've also found that it's unkind to disregard fixed costs and suppose that regardless of anything else, everyone ought to be able to save a percentage of their income.

I've found that the reason we have such an epidemic of debt and inadequate savings is that, because people don't plan or budget, they earn at the level of obvious immediate expenses. Employers realize this and set average salaries and wages at the same level.

The solution is for all of us – both employers and employees – to get smart, think ahead, admit what incomes are really necessary to afford everything, and to make such incomes possible, focus together on being more productive. That's a huge reason why I developed the How We Did productivity app.

He has developed a kind of financial planning app too, which I checked out, and I was also disappointed by its lack of specificity about goals, its reliance on averages, its lack of a clear time line, and its broken grammar and punctuation which by themselves are insignificant, but that can indicate a general lack of attention to detail that can have significant consequences.

Be that as it may, I appreciate Tony's passion and effort. His interviews of economic heavy hitters like Schwab, Warren Buffett, Sir John Templeton and others, especially Ray Dalio, an obscure Economist who has prepared an awesome ½ hour video (below) about the relationships between short-term credit cycles, long-term credit cycles, and productivity that you should see right now, were fantastic, and I'm very grateful to Tony for educating me about them.

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In closing . . . .

To be an investor and enjoy these kinds of returns, one must live beneath one's means. Income must exceed expenses. This requires a healthy balance of industry and thrift. That's where Making End$ Meet can help.

It all starts with a Lifetime Savings Plan, which is now available in both quick and thorough forms.

Thanks very much for taking the time to read this. Please accept my best wishes for a fabulous future and life. I'm here to help you make it happen. Please contact me for help, and feel free to share this report far and wide with all you know who could use my help.

For your success,

Kristofer N. Freeberg, Economist
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