

# KACHKOVSKY & FISHER, INC.

An Independent Firm

3610 N. 44<sup>th</sup> Street  
Suite 220  
Phoenix, AZ 85018

Phone: 602.604.9711  
Toll-Free: 866.604.9711  
Fax: 602.604.9712  
E-mail: [garry.kachkovsky@raymondjames.com](mailto:garry.kachkovsky@raymondjames.com)  
[kris.fisher@raymondjames.com](mailto:kris.fisher@raymondjames.com)  
website: [www.kandfadvisors.com](http://www.kandfadvisors.com)

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Whether January is the month in which you head for higher elevations in search of new fallen powder, travel to warmer climates for sunny beaches, or simply throw another log on the fire and settle into a good book, you're unlikely to miss the steady drumbeat of holidays and celebrations as the days go by. We hope the New Year brings joy and prosperity to you and yours. Let's take a look at the numbers.

	(As of 12/31/13)
Dow Jones Industrials	+26.50%
S&P 500 Index	+29.60%
NASDAQ Composite	+38.32%

<b>Major Bond Indexes</b>	(As of 12/31/13)
Lipper Intermediate U.S. Government	- 3.94%
Lipper Intermediate Investment Grade (Corporate)	- 2.44%

<b>Major Mutual Funds Indexes</b>	(As of 12/31/13)
Lipper Large-Cap Core	+31.80%
Lipper Mid-Cap Core Index	+35.04%
Lipper Small-Cap Core Index	+36.11%
Lipper International Index	+21.24%

**Source: The Wall Street Journal and Barron's**

\*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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## FINANCIAL AND INVESTMENT PLANNING

*"I think I can, I think I can..."*

*... Watty Piper, The Little Engine That Could*

Our lives outside of the office these days are all about our children. And it's only natural for us to think of children's stories (and morals of those stories) when reflecting on what's going on in our economy and the markets. The children's classic, *The Little Engine That Could*, stars a courageous little blue engine that must overcome seemingly insurmountable odds to pull a train to the other side of a mountain despite all the naysaying from the other, larger engines. By never giving up or losing faith in itself, the story's railed hero slowly-but-surely traverses up the dangerous mountain to arrive at its destination, thereby teaching generations of kids the rewards of determination and believing in one's self. Likewise, the stock market has ignored skeptics all the way up its own steep incline, stopping just long enough to mutter, "I think I can, I think I can," as it continues its perpetual journey to its indeterminate terminus. The S&P 500 shrugged off a great deal of negative news over the past few months and years to reach an all-time high on December 31<sup>st</sup>.

In a year fraught with challenges and the imminent curtailing of government stimulus spending, all three U.S. stock markets experienced double-digit growth in 2013. Despite an economy still recovering from the effects of the Great Recession, a 16-day government shutdown followed by the botched launch of a highly contentious national healthcare program, and persistent high long-term unemployment rates, investors showed sustained optimism throughout the year to allow the Dow Jones Industrial Average index to notch its best annual gain in 18 years.

The year began with a lot of uncertainty as wrangling over the federal budget in Washington brought the U.S. government within days of defaulting on its debt for the first time in history. The 2011 temporary cut to Social Security payroll taxes ended, meaning less take-home pay and discretionary spending for many Americans. The Federal Reserve announced in May that it may begin tapering its stimulus spending as the economy continued its steady, albeit slow, growth. In fact, the U.S. economy has continued to heel enough that the Fed announced they would begin to reduce their monthly asset purchases from \$85 billion to \$75 billion, starting this month. This is the first step towards unwinding the economic stimulus. The Fed indicated that it will likely reduce the pace of asset purchases "in further measured steps" at future meetings, but emphasized that the federal funds target rate will remain exceptionally low "well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the Committee's 2% longer-run goal." And while unemployment numbers fell to 7% in November, most experts agree that the job market is far from a full recovery.

A surprisingly positive development that came out of Washington (read: rare event) is that Congress passed a bipartisan budget deal, which will reduce (but not eliminate) the impact of sequester cuts that were set to arrive in mid-January. This isn't the "grand bargain" that lawmakers were tasked with. It does little to reduce the deficit over the long term and does not address the debt ceiling, which will have to be raised at some point. Nevertheless, it will prevent another government shutdown. All of these concerns would have been enough to give most investors second thoughts about the stock market all year long.

A host of factors helped the market reach an all-time high in December. Monetary policy has been supportive, not just here, but in Europe and Japan as well. Housing continued and continues to show signs of strength, not just in continued appreciation, but in fewer delinquencies and foreclosures. As of 12/31/09, 1 out of every 6.7 home mortgages (15%) in the U.S. were either in the foreclosure process or delinquent. As of 9/30/13, only 1 out of 10.3 home mortgages (9.8%) were in the same position. Those are not great numbers, but they are improving (source: Mortgage Bankers Association). Total credit card debt in the United States as of 8/31/08 was \$1.020 trillion and now sits at \$849 billion, down 17% from its high. Household net worth – the values of homes, stocks, bonds and other assets minus debts - rose \$14 trillion over the last two years to \$77.3 trillion, the highest on record, according to the Federal Reserve. The unemployment rate fell to the lowest level in five years, from 7.9% to approximately 7.0% as a result of modest job growth and declining labor participation (a 35 year low). We lost 8.8 million workers in the recession, but have gained back 8.1 million and should cross the 8.8 million mark before year end.

Looking abroad, there have been news releases about a potential housing bubble in China. However, it is important to understand the drivers of these price increases and the relationship between China's housing market and its banks. Chinese investors, generally, cannot invest outside of China. They are limited to purchasing equity and fixed income in the Chinese capital markets. Often Chinese investors will diversify their portfolios into real estate for speculation purposes or to generate income. This diversification mechanism, along with ever growing urban populations, are the driving factors to rising home prices in China's major cities. 70% of all Chinese homes are purchased with cash

compared to 40% being purchased in cash in the U.S. (as of July 2013). Such high full ownership rates provide a lower sensitivity to changes in home prices. The remaining 30% of home purchases in China that require bank financing have much higher down payment requirements than in the United States; 30% for the 1st home, 60-70% for the 2nd home (depending on city) and no 3rd third home mortgage is allowed. Higher down payments should reduce default risk (source: Harvest internal research).

The markets' rise was only one of many big headlines in 2013. The Patriot Day bombing in Boston once again reminded the nation of the threat of domestic and international terrorism. The Supreme Court struck down the Defense of Marriage Act (DOMA) as unconstitutional, giving same-sex couples full federal benefits including the ability to file joint tax returns. Pope Francis was welcomed in the Vatican, calling on governments to use their economic might to relieve poverty throughout the world. And former South African President Nelson Mandela died at age 95, leaving a global legacy of courage and compassion as a leader in one nation's struggle for racial equality.

Many experts, including Raymond James Chief Economist Scott Brown, say that the economic momentum of 2013 will continue to gather steam throughout 2014 and into 2015. As we look to 2014, economic growth should continue both here and around the world. Bob Doll, Chief Equity Strategist at Nuveen Asset Management, states, "Macroeconomic risks are diminishing as economies improve, which may help reduce fear and strengthen confidence. U.S. fiscal drag is lessening, Europe is emerging from recession, Japan's deflationary headwinds are diminishing, and China is showing signs of stabilization. Improving sentiment for U.S. corporations, along with strengthening consumption, should lead to an increase in capital spending and a relatively stronger growth trajectory. We anticipate the bond market will continue to experience a gradual climb in interest rates. We believe rising bond yields are not a headwind for equities as long as economic conditions continue to improve. Equities are vulnerable to a correction given recent strength. This transition to self-sustaining growth should provide the necessary acceleration in revenue and earnings growth." And while the full impact of the Federal Reserve's stimulus tapering and the mid-term election season on this year's economy and stock markets remains to be seen, our focus should remain on long-term planning.

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## PERSONAL

October, November and December are typically the busy and exciting months of the year for most. And, it's no exception for the Kachkovsky family. In November, the family celebrated Ava's 2<sup>nd</sup> birthday. The birthday song was sung no less than twenty times that day. The delighted parents and grandparents were happy to oblige each time just to see the ecstatic smiley face gazing back at them. Ava is growing up as quickly as she runs. She is non-stop. "Walk, Ava" is the most used phrase in our household. About the only thing faster than her two feet is her tongue. "What's that, mama? Show me that, papa." She is inquisitive and untiring. Spoken Russian is a work in progress. It seems like 19 out of 20 words are easier in English than in Russian – a tongue twister of a language. It is no wonder that Ava mostly speaks in English, but tries her best in Russian when asked. Dad is not giving up, however. At least one Russian book is read each night at bedtime.

The Kachkovskys spent Thanksgiving in Chicago, luckily avoiding the cold spell that covered most of the country in December. Garry's parents were overjoyed having Ava around, who couldn't be happier that Christmas came early. As in years past, Garry and his lifelong friends showed off their athletic skills (or lack thereof) on the gridiron. This was the 23<sup>rd</sup> such "Turkey Bowl", an annual football game rooted in friendships, memories and camaraderie. Christmas and New Years were spent in Phoenix. Ava was up early Christmas morning, anxious to see what Santa left under the tree. He did not disappoint, yet left the parents wondering where to store the ever growing toy collection.

Sippy cup - check, bumble bee suitcase - check, apples - check, goldfish crackers - check, iPad - check – Kora's preflight checklist was complete. Just shy of her 3<sup>rd</sup> birthday, the experienced traveler was ready to board her 4<sup>th</sup> flight. In her own assigned seat! Her baby sister Macy, now 18 months old, was happy to split her time on the plane

between mommy and daddy’s laps. The Fisher family was off to Wisconsin to see Angie’s oldest brother get married. It was truly special to see the happy couple exchange touching vows and begin their new life together!

As the end of December neared, Kora’s two favorite days were fast approaching – Christmas and her birthday. When asked what she would like, the answer never changed – “cupcakes!” When we sang “The Twelve Days of Christmas” and would ask her what each day brought, her response was always “a cupcake!” As she sat on Santa’s lap, the enthusiastic blond hair, blue-eyed girl shouted “cupcakes” before Santa could even finish his question! The lucky girl got exactly what she wanted!

Macy is starting to develop her own little personality and will often mimic her older sister. In Macy’s world, Kora walks on water most of the time. Recently, however, the little sister has come to realize that she has a voice and her big sister isn’t always perfect. The days of Kora taking a toy out of Macy’s hands without any consequences are over. As a result, Kora has gotten much better at sharing and offering a different toy in exchange for what Macy has. Now, after a mutually agreed upon trade takes place, big sister often says, “I love you Macy.” It’s been fun to watch the dynamics evolve between the adorable siblings! Every day is a blessing and the moments are priceless!



*From left to right: Duke, Stoli and Ava*

The greatest glory in living lies not in never falling, but in rising every time we fall.

- Nelson Mandela

Thank you for your trust, confidence and friendship.

Garry Kachkovsky, CFP®  
Financial Planner

Kristian R. Fisher, CFP®  
Financial Planner