The ACM Journal

Of Lice and Men

Life has been relatively tranquil lately. There's always a lot of work to be done, both at the office and at home on the farm. However, we haven't had any major drama in some time. So, it came as a bit of surprise when our oldest, Omar, went to the doctor and came home with a diagnosis of lice.

Lice isn't really that big a deal, but it seems to conjure up images of filth and pestilence. I always think of the kid from the old Charlie Brown cartoons who has a cloud of dust in his wake. Omar certainly isn't a dirty kid, despite the fact that his mom is always nagging him to take showers. Nevertheless, it seemed we had some unwanted visitors in our home.

My wife, Nipa, mentioned this to a couple of folks, and all of them had horrendous tales to share. One person said they had to throw away two mattresses when their child got lice. Someone else said you had to tear out all your carpets. Still another said it would take a month to rid your house of the nasty little buggers, and that it was a guarantee that everyone would get it.

We found that a round of special

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Portfolio Review

Despite some volatility, the stock market was performing reasonably well in the second quarter. That is right up until the end of the quarter when it seemed that both Greece and Puerto Rico would imminently default on their debt. The S&P 500 stock market index was up 2.7% with just a couple days until quarter end. However, after the announcement from the Greeks, the S&P finished the quarter just marginally in the black (see graph on page 2).

Volatility Returns
The quarter was a volatile one. Issues such as those presented by Greece and Puerto Rico, combined with continued speculation about whether the Fed will soon raise interest rates, resulted in seesaw returns. Fairly full valuation of the stock market also isn't helping. Investors are nervous in this environment, and volatility is the usual outcome of uncertainty. We warned in our last newsletter that increased volatility was likely through at least the rest of the year, and we've started to see some of that. However, we expect volatility will become more dramatic before it goes away.

Investors Seek Growth
Growth stocks have performed better than value stocks recently. This is not unusual in the later stages of a bull market. When valuations are higher, and earnings growth is slowing, investors naturally look to sectors of higher growth. Technology stocks are a prime example. Revenue and earnings growth rates are relatively strong, and technology has been the best performing industry sector. In our portfolios, the momentum funds we use have generally outperformed our value funds.

Mid-cap and small-cap stocks were weaker than large-cap stocks in the second quarter, but are still up significantly more for the year-to-date period. Again, investors are looking for growth opportunities, wherever they exist, and earnings growth is generally stronger among smaller-cap companies.

International Stocks Rebound
Interestingly, international stocks are finally starting to show signs of life. International stocks posted the strongest gains for the quarter and year-to-date period. This is all the more notable given the recent strength in the U.S. dollar. A strengthening dollar makes foreign investment returns look worse for U.S. investors. However, lower valuations and stimulus from foreign

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governments probably put European and some Asian economies in a place that the U.S. was at in 2009. There are still many economic challenges, but cheap stocks and central bank stimulus may trump those concerns. International stocks will likely be the darlings of the coming decade.

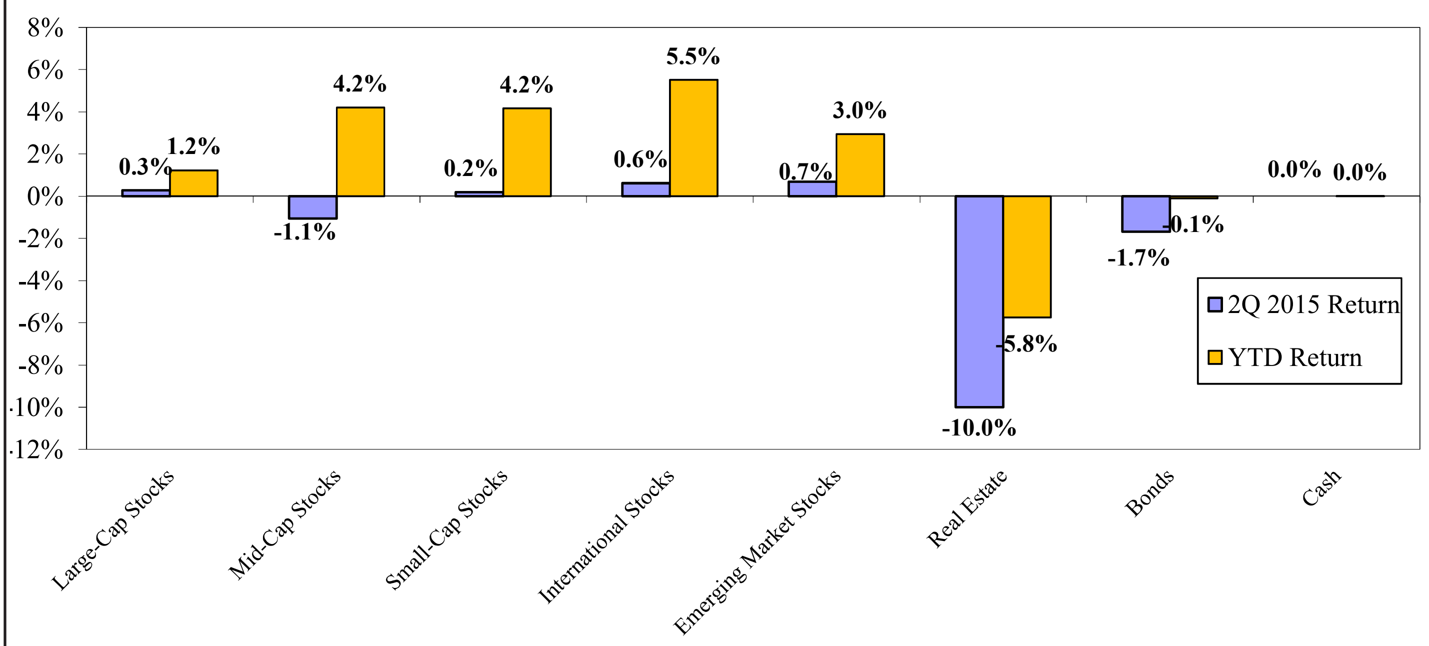
Interest Rates Rise

We aren't much for market timing, but we did make some tactical changes to our portfolios a while back. This included reducing our weight in real estate and shortening the duration of our bond portfolios. The rationale for these moves was that real estate looked overvalued, and that historically low interest rates would soon start to rise. The timing proved poor. Real estate valuations became even more expensive over the past year or so, and interest rates continued to fall. However, it seems our theses are starting to play out. Real estate was the worst performing asset class in the second quarter, and longer-term interest rates have started to rise.

The bond market posted a loss of 1.7% as interest rates rose. There are some arguing that even if the Fed raises short-term interest rates, longer-term rates could remain low. We don't believe that is a likely scenario. The recent rise in ten-year government bonds, probably a reaction to the increased likelihood that the Fed raises short-term rates this year, is an indication that rates across the yield curve will rise together. We are still not expecting a dramatic rise in rates, nor dramatic losses in bonds, but short-term rates at zero percent is not sustainable.

Stocks have moved mostly sideways so far this year. While steady gains are nice, we aren't terribly upset about the current situation. Domestic stock market valuations have been rising, and returns have been stellar the past six years. While we like to see positive returns, it isn't realistic every year, and we are likely due for a pause. We'd rather see anemic returns for a year or so, while earnings catch up to valuations, than see the market overheat and subsequently crash. Overall, the environment is still constructive for investors, and the long-term outlook for a diversified portfolio is positive.

Second Quarter 2015 Asset Class Returns



Broadstone Net Lease

Despite our general lack of enthusiasm for real estate investment trusts (REITs), there is an investment we've become excited about. It is a private REIT, which is a little different than the publicly-traded REITs we currently hold in our portfolios.

Let me start by saying there are a lot of abuses in the private REIT market, and we have avoided this part of the market like the plague. They generally are poorly managed, incur very high fees, and earn large commissions for the brokers recommending them. However, we have a private REIT here in our backyard that bucks the trend.

Broadstone Net Lease is a private REIT that was founded, and is run by members of the Leenhouts family. This same family started Home Properties, a publicly-traded REIT that was just acquired for $7.6 billion. I'm not suggesting that will happen to Broadstone, but the management team, led by Amy Tait, is highly experienced, qualified, and ethical.

The REIT purchases only properties which are freestanding, single-tenant properties that are leased primarily to businesses in the medical, industrial, and retail industries. They also keep leverage to reasonable levels, diversify geographically, and negotiate long-term leases and financing arrangements. The latter should help protect investors in a rising interest rate environment.

Aside from their conservative approach and strong management team, we like the fact that Broadstone has a history of paying reliable income and increasing its share price. Certainly there could be volatility and declines in the value of the shares, but so far the REIT has proven adept at making solid property acquisitions that are accretive to shareholders. Broadstone also pays roughly a 6.5% annualized dividend. This income, paid monthly, is structured in such a way that not all of it is ordinary income, so the income is somewhat tax-advantaged.

Broadstone has been investing outside money since 2008, and currently invests over $1 billion. We take a skeptical view of all the investments we analyze, and Broadstone has been no different. However, after several years of talking with management, attending their shareholder meetings, and getting to know their processes and philosophy, we feel confident that this fund can be complementary to our clients' portfolios.

Broadstone is not for everyone, and it is only open to accredited investors. The minimum investment is generally $500,000, but our clients can get in with as little as $250,000. It is also not a liquid investment. Anyone investing should plan on holding for at least five years. The fund can be held in your Schwab or TD Ameritrade account, and can be held in IRAs for additional tax efficiency.

Some Armbruster Capital management employees have invested in Broadstone, as we believe it has the potential for solid returns that are uncorrelated to the other investments we hold. If you have an interest in discussing Broadstone further, please give us a call.

What is ACM?

Armbruster Capital Management, Inc. (ACM) is a boutique wealth management firm serving high-net-worth individual and institutional clients. The firm's innovative "Passive Quant" investment approach incorporates cutting edge financial research to help control risk and pursue superior returns. ACM uses index funds, exchange-traded funds (ETFs), and other investment vehicles to build portfolios designed to reduce investment-related costs and taxes in order to maximize net returns.

Located in Pittsford, New York, ACM is employee owned, independent, and free of conflicts of interest. Acting as a fiduciary, the firm creates truly customized investment portfolios tailored to each client's unique objectives.

EMERGENCY MONEY

A lot of our clients like to hold cash as an emergency reserve. Generally, I think this is a good idea, as you never know when a little extra liquidity could come in handy. However, with interest rates at all-time lows, the returns on this cash are anemic, at best. In fact, when you factor in the impact of inflation, you are actually losing money on cash balances these days.

If you have a mortgage, it might make sense to apply any emergency cash to pay down your mortgage. Even mortgages with very low rates are generally incurring interest of over 3.0%, so you can effectively lock in a risk-free 3.0% return by using your cash to pay down the loan.

Using your reserves to pay down debt obviously doesn't allow for any emergency spending that comes up. However, you could also apply for a home equity line of credit (HELOC) to use as emergency funds. HELOCs incur floating interest rates, which currently are even lower than most mortgage rates. Though, you generally only pay interest when you use the line. If it just sits out there waiting for an emergency to arise, there are usually no costs.

Similarly, there are often no costs to open HELOCs. For example, here in Rochester, Pittsford Federal Credit Union allows you to open a HELOC for up to $50,000 with no fees or closing costs. Larger lines do incur some application fees.

Because most emergency funds never get used, the idea of putting your cash to productive use, but still having a means to securing emergency cash, is probably a more efficient approach. Give us a shout if you'd like us to review your specific situation.

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shampoo, a bit of combing, and some precautionary measures were enough to do the trick. Omar was back at school, lice-free, the next day. However, upon further inspection, we found that the other kids had it too. Even my uber-clean wife, it seems, was not immune to catching cooties. Though, I can hardly blame the bugs for wanting to take up residence in her hair. With all the flowery-smelling, hydrating shampoos and conditioners she uses, it must be like living in a tropical rainforest. I started to explain this to her, but thought better of it.

These new discoveries set off a wave of cleaning and checking that our house has never before seen. Pillows, blankets, bean bag chairs, stuffed animals, and other plush items were either cleaned or quarantined in air-tight bags. The washing machine ran non-stop for at least two days. Pretty much every time I came home, Nipa was sorting through one of the kid's heads looking for signs of a resurgence. It reminded me of those nature shows where the gorillas pick bugs off each other and eat them (though I never did actually see Nipa ingest anything she removed from the kids).

In the end, we rid our house of lice fairly quickly. Nipa was exhausted from all the laundry, cleaning, and shampooing of small children, but it was not as bad as we were led to believe. Hopefully now we can get back to our state of domestic tranquility. With three kids, what could possibly go wrong?

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