JOHANSON
FINANCIAL ADVISORS

Greatest Investor of All Time?

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In This Letter

- Inflation, the Fed, and Low Rates

Contact Us

http://www.johansonfinancial.com

info@johansonfinancial.com

What comes to mind when you hear the name Warren Buffett – investor, mutual fund manager, CEO, entrepreneur, stock picker, philanthropist, or billionaire? Whatever you think, one thing is clear. He has made a lot of money investing over the years.

Buffett's success over the last 50 years undoubtedly enhances his credibility. When I think of Warren Buffett, "patience" and "value investor" are among my first thoughts.

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price," Buffett once remarked.

"If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes," he once advised. That compliments another one of his quips, "When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."

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He has mastered the art of patience, eschewing worries about the daily twists and turns in the market in favor of the long term.

His "forever" philosophy is a guideline that beckons us to be patient investors, keeping our eyes on the long-term prize. We can't say for sure where the market will be in 12 months, but then who really can? Owning a broad-based portfolio is akin to grabbing a stake in the U.S. economy.

The 2nd quarter of 2015 could prove to be a little disappointing on the short-run with analyst earning expectations getting very cautious. We'll see setbacks from time to time, but the economy should continue to plow forward, supporting longer-term corporate

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earnings.

Inflation, the Fed, and Low Rates

We should never miss the forest for the trees. It is important to be mindful of crosswinds that influence shorter-term market action. A current influence on the markets right now is the low rate of inflation.

While we are all aware of the drop in gasoline prices, other items have spiked in price.

Your favorite restaurant may have just hiked prices or decreased portions, or the cost of a movie ticket, popcorn, and a drink may leave you gasping for breath. Has the price of your health insurance jumped? Or maybe the check you just wrote for your son or daughter's college tuition comes to mind when you hear someone utter "low inflation."

Well, according to the broad-based Personal Consumption Expenditures (PCE) Price Index, which is the index the Federal Reserve favors when it's gauging price pressures in the economy, price increases have been holding below its 2% annual target for 34 months straight, per data supplied by the St. Louis Federal Reserve.

If we throw out the more volatile food and energy components and look at what economists call core inflation, we're still below the Fed's 2% target for the same 34 months.

The Consumer Price Index is more familiar to most of us, especially to those of us who remember the wicked inflation of the 1970s. The CPI tends to run slightly higher than the PCE Price Index, but it is also currently running below the Fed's target of 2% (Bureau of Labor Statistics).

So what's the point? Well, whatever you think the real rate of inflation is--and of course it will vary from person to person based on the individual basket of items and services he or she consumes--how the CPI or the PCE Price Index records inflation directly affects stocks, bonds, and the Federal Reserve policy.

The Federal Reserve was quite explicit in its statement that followed the March meeting, noting that it won't begin raising the fed fund rate until it sees further progress in the job market and "is

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reasonably confident that inflation will move back to its 2% objective over the medium term."

Clearly, low inflation is playing into the Fed's low-rate equation. Plus, long-term bondholders want to be compensated if they expect much higher inflation. Right now, that's not the case.

Regardless of the Fed's decision and future interest rate movements, price inflation will continue to be a factor in our lives. The greatest risk to clients in their portfolio's returns may simply be not keeping up with inflation.

The days of putting money in a bank account and living on the interest have passed. Today's low interest rates make it mandatory for all of us to continue to invest for the long term, as Warren Buffet has suggested. Investing in assets that provide growth potential is the key to financial success.

As always, we are honored and humbled that you have placed your trust and confidence in our firm. Thank you for your friendship over the years. If we can do anything for you at all please give us a call.

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