



MARKET PULSE

ARE SAFE STOCKS SAFE ANYMORE?

Did You Know: *Absurd RX Price Hikes*

Martin Shkreli made headlines last year when his drug company purchased the rights to a drug called Daraprim and raised its price from \$13.50 per tablet to \$750... a 5,000% jump. The company eventually cut the price in half, but it's still a 2,500% price hike.

As outrageous as it may seem, it's a common practice. In early 2015, Valent bought two drugs Isuprel and Nitropress and quickly boosted their prices by 525% and 212%.

The most recent case was with the EpiPen, which delivers epinephrine to those suffering from a life-threatening allergic reaction. When Mylan bought the rights from Merck in 2007, the pens were selling for \$57 each. Since then, the company has steadily raised prices and were expected to cost more than \$600 later this year. However, public outrage, caused the company to offer a generic version for \$300.

They all seem to draw from the same playbook: Buy an old product that has no competitors, do nothing to improve the product, then jack-up the prices until there's public outcry, then roll back pricing levels a bit.

Source: NY Times, CBS, Boston Globe

The markets for August came and went without much fanfare. The Dow ended a six-month winning streak, closing down 0.75% for the month. The S&P also snapped a five-month winning streak, ending the period lower by 1%.

Despite the lower returns for the month, both major indices are up over 7% for the year. Not too bad considering the Brexit, a looming election, slower growth than expected in both China and the U.S., and stable but underperforming employment and manufacturing data.

A common story line of late has become valuations of so-called safe stocks. More and more analysts are chiming in on the fact that many consumer and domestic based stocks are fully valued and ripe for a pullback. Stocks like McDonalds (MCD), AT&T (T) and even popular Utilities like Southern Company (SO) & Consolidated Edison (ED).

Our thinking is, "What's taken them so long?" We've been advocating reducing these positions for months and mainstream media is finally catching on. As part of our investment process, we review both fundamental and technical data and assign a fair value to the positions we hold for clients. In other words, we have a buy price and a sell price for stocks.

This is important because over time we have come to understand that each sector and individual holding will have their day and time. For examples, Utilities are typically added to a portfolio for slow and steady dividend payments. Nobody buys

them expecting returns of 15% or 20%. However, because of concerns about global growth they have done just that. At the end of August, the sector was up almost 16%.

That's great, but the cookie has already started to crumble. While 16% is a nice return, the sector has underperformed for the last month, turning in a dismal -5.72%. For us, that's great news because as the sector slides, it returns to a compelling valuation, and will once again be cheap and offer long-term value.

The other major factor we are watching is interest rates. I think interest rates have been a key part of every Market Pulse newsletter this year because they will become the single most important factor to portfolios once they do climb. They will have an impact on both stocks and bonds in a number of ways. First, as interest rates go up, the value of bonds goes down. It's one reason we hold very few fixed income positions. Secondly, as the rate on 10-year US Treasury goes up, it is less appealing to own stocks. Right now with the 10-year yielding only 1.6%, investors can earn more with the S&P 500 which yields over 2%. However, as bond yields reach similar levels, investors are expected to rotate out of stocks and into less risky bonds.

While we don't expect that to happen in the next 6 months, it's a very real consideration as we get into the second and third quarters of 2017. It's one reason we will seek opportunities with inflation protected bonds and short duration holdings.

Robert Laura & Drummond Osborn

Can You Answer These Brain Teasers?



- 1) How many animals of each species did Moses take on the ark?
- 2) How many two-cent stamps are there in a dozen?
- 3) What was the largest ocean in the world before Balboa discovered the Pacific Ocean?



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Don't Let Your Retirement Become A Titanic Disaster

The RMS Titanic was nearly 900 feet long and more than 100 feet high. It could reach speeds of 30 knots and was thought to be the world's fastest ship. It was also said to be unsinkable because she was equipped with a double-plated bottom and sixteen watertight compartments on the hull of the ship with doors that would close if water entered them.

During the evening of Sunday, April 14 the Titanic's starboard side violently scraped an iceberg, ripping open six compartments. The ship's design could only withstand 4 compartments flooding. Just after midnight, the order to head for the lifeboats was given.

Over 100 years later, the Titanic disaster still offers key life lessons that can also be applied to the retirement planning process.

Don't Compartmentalize Retirement

The White Star Line put undue faith in the watertight compartments. They were not sealed at the top, so once they were breached, seawater would flow from one compartment to the next, the same way water fills an ice cube tray.

The same idea holds true for compartmentalizing retirement. Investors should not institute certain rules for saving and investing but neglect non-financial areas like their hobbies, health, and marriage. Simply because at some point there will be a breach in one of these other areas of life. And you don't want them to take down your entire ship.

Too Big To Fail

The Titanic was the most expensive ship ever assembled. It cost an estimated \$7.5 million in 1912 dollars, or \$180 million today. It boasted ten decks, and first time features such as a swimming pool, Turkish baths, squash courts and a gym.

On paper, it was the place to be, but regretfully, there were only half as many lifeboats as needed. The lifeboats had been constructed and installed but were removed to reduce the "clutter" on the first class promenade deck, and because they didn't think they would ever need them.

In retirement, life boats come in the form of good mental and physical health, strong relationships, and social connections. It's up to you to not only construct and install them, but also make sure they are all in good working order.

Follow Your Own Path

One of the primary reasons for the Titanic disaster was the ship lines director ,Bruce Ismay ,who ordered the captain to reach New York in record time. His plan to set a new record combined with a moonless night that made it hard to see icebergs put the lives of thousands of people and families at risk.

When it comes to charting your way through retirement, make sure you don't end up in an icy ocean, full of regrets. Treat it as a voyage of discovery by rolling up your sleeves and charting your own course... because great personal stories and family legacies aren't created by following someone else's directions.

Brain Teaser Answers

- 1) Moses didn't take any - it was Noah on the Ark
- 2) 12: No matter what it's made up of, a dozen is a dozen.
- 3) The Pacific was and still is the largest - regardless if it was discovered or not.

Source: clevelandseniors.com

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