



**ATR Advisors**

## **ABSOLUTE TOTAL RETURN FIRST QUARTER 2015 COMMENTARY**

**By: Shawn Blau, PhD**

The first quarter of 2015 represented the first quarter in several years when the US Stock Market “took off its training wheels,” and acted on its own without the artificial stimulus of the Federal Reserve’s “quantitative stimulus.”

Some of the main results were the following:

- 1) The US Dollar rapidly appreciated against foreign currencies, especially against the Euro.
- 2) Inflation remained subdued in the United States, and throughout the developed world economies.
- 3) Long term interest rates remained low in the United States, with the 10-year US Treasury yield falling below 2% again, for the first time since 2013.

As a result of the above macro trends, we made the following adjustments to the ATR portfolio:

- 1) We continued to take advantage of volatile fluctuations in energy stocks, to gradually reduce our exposure to energy.
- 2) We increased our exposure to stocks in the developed European economies, while hedging against the risk of the rising US Dollar and declining Euro.
- 3) We also increased our exposure to American companies that consistently buy-back their own shares through long-term share repurchase programs.

During the quarter, our best performers were in the following sectors:

1) Business Development Companies (BDC's). The BDC's benefitted from resilient dividends in a low-rate environment, as well as significant exposure to floating-rate loans. The WFBDC Index, which tracks the BDC's was up 4.80% in the first quarter.

2) Real Estate Investment Trusts (REIT's). REIT's also benefitted from the low-rate environment in the first quarter, as well as active buyers of commercial real estate seeking to buy real-estate through buying out REIT's. The RMZ Index, representing the Equity REIT's was up 4.75% in the first quarter.

3) European stocks especially in Northern developed Europe, hedged against the currency risk of a declining Euro. Wisdom Tree's HEDJ exchange-traded fund, representing this sector, was up 19% in the first quarter.

4) "Buyback Stocks" in the United States. Powershares' PKW exchange-traded fund tracks US companies that have repurchased more than 5% of their outstanding shares over the trailing twelve months. It was up 2.73% in the first quarter.

Among our weaker sectors were the following:

1) Energy stocks. These continued to be plagued by extreme volatility in oil prices. This sector, represented by the XLE exchange-traded fund, was down 1.34% in the first quarter.

2) Large-cap American stocks. These companies rely heavily on export sales, and many were hurt by the strong dollar. This sector, represented by the Dow Industrial Index, was down 0.23% in the first quarter.

We believe that the above trends will continue in 2015, as the European Central Bank (ECB) expands their Quantitative Easing (QE) program. Simultaneously, we expect the US Federal Reserve to maintain a relatively tighter policy, since the US economy is much stronger than the Eurozone economies.

As usual, our approach to analyzing stocks, which has guided the ATR strategy for the past decade, is based on our belief that when you buy a stock you're not just buying one thing which has a single value for everybody. Rather, you are buying a collection of legal rights that you as a shareholder have. This collection of shareholder rights can vary; but, in general, they usually include among others the following:

The right to collect dividends that are announced by company management;

The right to tender your shares of stock for "buybacks" when management announces share re-purchases;

The right to vote on important company matters, when management brings them to a shareholder vote;

The right to sell your shares on the open market, when other investors are willing to pay more;

The right to participate in buyouts, when either a public or a private company decides to purchase your company.

So, we continue to look out for long-term values in both the United States, and in the developed Northern European economies, in both dividend-payers, and management buybacks.

Sincerely Yours,

Shawn Blau

The information herein has been obtained from sources believed to be reliable, but we cannot guarantee its accuracy or completeness. Past performance is no guarantee of future results. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. ATR Advisors LLC is an Investment Advisor registered with the SEC.