

# ICMA 401 Plan Quarterly Newsletter

Burgess Chambers & Associates (BCA)

BCA is the City of Hialeah Defined Contribution Plan Consultant and Investment Performance Monitor

## BCA Market Perspective ©

### Volatility Has Returned

July 2015

The U.S. stock markets have seen a significant increase in volatility over the past several weeks with news out of Greece and China continuing to shake investor confidence. But why is this news having such a significant impact on our domestic markets?

The Greek economy accounts for less than 0.38% of the world's Gross Domestic Product (GDP). Most major U.S. institutions divested themselves of Greek debt several years ago when the Greece debt crisis first surfaced in the global markets. So why then is Greece important to U.S. investors?

The answer is the potential impact the Greece crisis could have on other countries, particularly countries in the Eurozone. This could then have a direct impact on the growth rates in Europe. With over 25% of the S&P 500 earnings coming directly from Europe, any significant slowdown in Europe would have an impact on earnings for many U.S. companies. In addition, many European banks own Greek debt. A default by Greece could have a major impact on many of these banks. While most U.S. banks do not have direct exposure to Greek debt, many do have indirect exposure through the European banks. In addition, other European countries with high debt exposure (i.e. Spain and Italy) will no doubt be watching closely and demanding similar treatment from the stronger countries, such as Germany and France.

Another major contributor to the recent increase in volatility has been China. China's stock market has taken a significant dive after an extraordinary run over the previous several months. China's market is like no other and the government has stepped in with aggressive actions to limit sales and encourage additional investments in stocks. China's growth rate is expected to drop to 3-5% by most economists over the next year. While still healthy, it is a significant drop from recent years and has caused commodity prices to drop as demand from China is expected to decline. With China's GDP representing approximately 16.7% of the world's economy, any slowdown could have an impact on earnings for any companies invested heavily in China.

While these events have had a major role in increased volatility, the good news is that the U.S. economy appears to be improving, interest rates remain low, earnings have been strong and the valuations on stocks, while slightly above long term averages, appear to be attractive given the current low rate environment. There continues to be talk of a lending rate hike by the Federal Reserve, but given the problems in Greece and China and the strength of the dollar, we continue to believe any rate hike will be pushed out to the end of this year at the earliest. But even if we see a hike earlier than expected, it would most likely be .25% or less and should have a minimal and most likely a short term impact on stocks.

Disclosure: All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. Content should not be regarded as a complete analysis of the subjects discussed or as personalized investment advice. All investment strategies have the potential for profit or loss. References to market performance in publications do not represent the returns achieved by Burgess Chambers & Associates or any of its advisory clients.

## ICMA PERFORMANCE SUMMARY

Below you will find information relating to funds in the Hialeah Defined Contribution Plan that have been placed on a watch list by our consultant, BCA. This is not a recommendation to buy or sell any funds, but an indication that BCA has identified these funds as those that are not meeting their specific performance expectations over the last 3 to 5 years, and/or experienced material management changes. This performance information shows the returns versus a benchmark index as well as a ranking against similarly managed funds. The City will continue to monitor these funds closely and will consider changes to the managers or adding additional fund options as recommended by BCA and ICMA. For information on all of the available investment options plus additional information on your Plan, please contact **Terry Toledo-Ferguson, ICMA Retirement Plans Specialist. Phone: (866) 630-3041 or email: [tferguson@icmarc.org](mailto:tferguson@icmarc.org).**

BCA would recommend consulting with a personal advisor before making any investment decisions or you are encouraged to schedule an appointment with your ICMA Retirement Plan Specialist when they visit the various locations. In addition, the City encourages your attendance at any of the numerous City sponsored educational and retirement planning sessions held throughout the year.

Group/Investment	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
<b>Portfolio Holdings</b>								
<b>US OE Large Blend</b>								
Vantagepoint Model Port All-Eq Gr Inv M	-0.26	69	2.32	84	15.06	77	14.19	82
Benchmark 1: Russell 1000 TR USD	0.11		7.37		17.73		17.58	
<b>US OE Large Growth</b>								
Fidelity® Contrafund®	1.00	35	10.29	44	17.42	54	17.11	51
T. Rowe Price Growth Stock	1.02	35	13.47	13	19.43	19	19.42	10
Vantagepoint Growth Investor	0.72	44	9.30	53	17.17	58	15.96	71
Calvert Equity A	0.81	41	11.35	33	16.66	67	16.17	68
Benchmark 1: Russell 1000 Growth TR USL	0.12		10.56		17.99		18.59	
<b>US OE Large Value</b>								
AllianzGI NFJ Dividend Value A	0.20	40	-0.65	90	14.35	73	14.87	59
Vantagepoint Equity Income Investor	-1.20	83	-0.42	89	14.37	73	14.01	78
Benchmark 1: Russell 1000 Value TR USD	0.11		4.13		17.34		16.50	
<b>US OE Mid-Cap Value</b>								
Goldman Sachs Mid Cap Value A	-2.12	79	4.04	44	17.98	56	16.24	56
Vantagepoint Select Value Investor	-1.97	74	1.99	68	16.74	72	16.05	61
Benchmark 1: Russell Mid Cap Value TR USL	-1.97		3.67		19.13		17.73	
<b>US OE Small Blend</b>								
T. Rowe Price Small-Cap Value	-0.61	66	-1.78	87	13.53	89	14.57	77
Benchmark 1: Russell 2000 TR USD	0.42		6.49		17.81		17.08	
<b>US OE Intermediate-Term Bond</b>								
PIMCO Total Return A	-1.93	84	0.90	64	2.05	59	3.62	55
Vantagepoint Core Bond Index I	-1.81	69	1.50	35	1.38	83	2.89	82
Benchmark 1: Barclays US Agg Bond TR USL	-1.68		1.86		1.83		3.35	
<b>US OE High Yield Bond</b>								
PIMCO High Yield A	-0.35	81	0.57	22	5.88	58	7.38	65
Benchmark 1: Barclays US Corporate High Y	0.00		-0.40		6.81		8.61	

\*Yellow highlights are for underperformance in the 3 & 5 Year periods, Orange is for significant changes in the fund.

## FREQUENTLY ASKED INVESTMENT QUESTIONS

### Q: What is Asset Allocation?

A: Asset allocation is how an investor elects to spread out their money among different asset classes and investment options. Simply put, this is the percentage of stocks and bonds that an investor's portfolio is comprised of. When it comes to investing the money you are setting aside for retirement, the most important decision you will make is the percentage of stocks and bonds you invest in. A quick rule of thumb is to use your age as the percentage of bonds to invest in. If you're 25, a portfolio of 25% bonds and 75% stocks is a good place to start. With 75% stocks, the portfolio is positioned rather aggressively, perfect for someone with a long investment horizon who can take on additional risk to gain higher returns. As you get older, your portfolio should become increasingly more conservative, which means raising your percentage of bonds and lowering your percentage of stocks. At age 75 a portfolio of 75% bonds and 25% stocks would be appropriate for a retiree looking for a more stable stream of returns.

### Q: What is Inflation and Deflation?

A: Inflation refers to an increase in the general level of prices for goods and services. It is measured as a percentage based on current prices versus prices from a year prior. As inflation rises, every dollar you own buys you a smaller portion of a good or service. For example in the inflation rate is 2%, then in theory a \$1 pack of gum will cost \$1.02 a year from now. As inflation rises your purchasing power decreases. Deflation is the opposite of inflation, referring to a decrease in the general level of prices for goods and services. When deflation is occurring, your dollars become worth more.

## HIALEAH FINANCIAL PLANNING EDUCATION PROGRAM

The City offers an expanded financial planning education program for new member enrollment and ongoing participant education as part of Hialeah's Financial Planning initiatives. The City schedules quarterly meetings, group classes, individual counseling, and online webinars. Please visit the Employees tab on the City's website ([www.hialeahfl.gov](http://www.hialeahfl.gov)).