American Radio Relay League

Treasurer's Report
Rick Niswander, K7GM
For the quarter ending June 30, 2015 and year-to-date

When it was all said and done, the markets in the second quarter were flat. Maybe not as flat as 10 meters to Japan when the A index is 75 and the K index is 10, but close enough. That's not to say that there was not a bit of excitement towards the end of the quarter as a result, not of an artery clogging substance, but of the country known for its antiquities and ouzo. Nonetheless, we pretty much ended where we started.

In the second quarter, stock markets were fairly choppy in a narrow band. They were poised to end the quarter with a small increase until a big 2-3% drop on the second-to-last day of the quarter. Markets convulsed when they thought that a possible Greek default might bring the world to its knees. If you own a bunch of Greek bonds (we don't) you might think that to be true, but, if you don't, maybe not so much.

In the bond world, interest rates rose and prices fell, partially in response to the Greek drama and partially because the markets are starting to realize that – yes indeed – the Fed is going to raise rates one of these days. Really, truly. The yield on five year treasuries increased in the quarter from 1.35% to 1.65% and the short-maturity index ended the quarter down just a bit (-0.06%). Long-maturity prices fell even more. A somewhat good outcome is that we can now buy good quality 5-year corporates around a 2% yield rather than about a 1% yield a year ago.

The only bright(ish) spot for the quarter was a 1% increase in the broad international index. For much of 2014 the dollar strengthened, causing international returns to be weak when converted to dollars. In the first and second quarters of 2015 the dollar weakened slightly, which contributed to international markets being the strongest component of our investment universe.

For the 2015 second quarter, the total return benchmark increased by almost as close to zero as you can get at 0.08% (8 basis points). The actual ARRL portfolio return lagged by 43 basis points at -0.35%.

Compared to the second quarter, the first quarter was absolutely crazy. At the time, I was saying that it was fairly benign, but everything is relative, some things more so. In the first quarter, domestic stocks and bonds increased by 1.8% and 1%, respectively, which is equivalent to an annualized return of about 7.2% and 4%, both numbers which many would welcome at year end. International returns were 3.8%, recovering some of the drop (largely attributable to the strength of the dollar) seen at the end of 2014.

For the first quarter, the benchmark total return came in at 1.46%. The total actual return on the ARRL portfolio was 0.66%, or 81 basis points less. The primary reason the portfolio lagged the benchmark was related to the stock market where growth stocks performed better than value stocks. Growth stocks increased 5.48% in the first quarter and value stocks decreased by 0.51%, primarily due to the drop in the oil-related sector. Our portfolio is tilted a bit towards value stocks.

The following chart illustrates the percentage change in various market and portfolio total return indicators for the first and second quarters of 2015 as well as calendar year 2014.

	Q1 2015		Q2 2015		Calendar Year 2014
Total Return Indices:					
US stock – Russell 3000 (broad market)	1.80%		0.14%		12.56%
Foreign stock – FTSE All World ex-US	3.80%		0.96%		(3.04%)
Bonds – Barclays US Agg 1-5yr Bond	1.03%		(0.06%)		1.69%
Vanguard Money Market	0.01%		0.01%		0.04%
Portfolio Benchmark (total return)	1.46%		0.08%		6.26%
Actual Portfolio Return (total return)	0.66%		(0.35%)		5.77%

ARRL Portfolio Analysis

As noted in Appendix A, the portfolio ended the second quarter of 2015 at $22,048,984. That is up $294,473 from year end 2014 and up $18,530 from the first quarter. In the second quarter, contributions of $96,327 were added to the portfolio somewhat evenly during the quarter and the portfolio incurred a small loss of $77,797.

The top of Appendix B provides detail concerning the dispersion of investment portfolio assets across investment classes. The composition of the investment portfolio conforms to the asset allocation policy.

The rest of Appendix B provides detail on the total portfolio return with respect to the portfolio benchmark. The portfolio benchmark is a blend of total return indices in proportions consistent with the asset allocation policy. The benchmark proportions are 45% broad domestic stock, 5% international stock, 45% bonds, and 5% money market.

When comparing benchmark return to actual return, variability from quarter-to-quarter or year-to-year should be expected. Comparisons should be made with caution over three-to-five year time horizon. Further, comparison indexes do not include any transaction/holding costs (trading commissions and annual ETF fees). While our transaction/holding costs are low, they are not zero.

Here is a little more detail about how I have allocated our stock and bond portfolios.

Bonds	Number	$	%
Individual Bonds	60 companies	$ 9.5 million	86%
Short term Bond Funds	3 funds	$ 1.5 million	14%
Total Bonds		$ 11.0 million	100%
Stocks	Number	$	%
Individual Stocks	57 companies	$ 5.2 million	53%
Stock Funds & ETFs	14 funds/ETFs	$ 4.7 million	47%
Total Stocks		$ 9.9 million	100%

In stocks, the largest fund/ETF holding is the Vanguard Total Stock Market ETF ($1.32 million) followed by the Vanguard S&P 500 ETF ($679,000). For stock in individual companies, the top five holdings are United Technologies ($277K), Berkshire Hathaway ($272K), Disney ($228K), Express Scripts ($222K), and Johnson & Johnson ($195K).

The majority of individual bond holdings are sized at $100K or $200K face value per company. The largest holdings, at $400K face value each, are Merck (rated by S&P as AA) and GE Capital (AA+).

Preferred Stock

The preferred stock portfolio is now only $99.6K continuing the long-term liquidation of this asset class.

Other

During the quarter, I continued to slowly reduce the proportion of the portfolio allocated to stocks from 47.3% at the end of the fourth quarter of 2014 to 45.2% at the end of the first quarter of 2015 and to 44.7% at the end of the second quarter of 2015, and moved the funds to bonds and cash. Going forward, 45% is around the bottom end of my desired range so there will not likely be much further reduction.

Appendix A

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Portfolio Flow de K7GM

	Investment Portfolio Market Value
Balance, June 30, 2013	19,825,656
Additions from contributions	89,178
Subtractions	(500,000)
Total Return	722,296
Balance, September 30, 2013	20,137,130
Balance, September 30, 2013	20,137,130
Additions from contributions	114,366
Subtractions	0
Total Return	905,579
Balance, December 31, 2013	21,157,075
Balance, December 31, 2013	21,157,075
Additions from contributions	161,681
Subtractions	0
Total Return (see note)	254,553
Balance, March 31, 2014	21,573,309
Balance, March 31, 2014	21,573,309
Additions from contributions	500,987
Subtractions	(525,000)
Total Return	667,835
Balance, June 30, 2014	22,217,131
Balance, June 30, 2014	22,217,131
Additions from contributions	336,193
Subtractions	(800,000)
Total Return	(18,775)
Balance, September 30, 2014	21,734,549
Balance, September 30, 2014	21,734,549
Additions from contributions	202,949
Subtractions	(500,000)
Total Return	317,013
Balance, December 31, 2014	21,754,511
Balance, December 31, 2014	21,754,511
Additions from contributions	182,444
Subtractions	(50,000)
Total Return	143,499
Balance, March 31, 2015	22,030,454
Balance, March 31, 2015	22,030,454
Additions from contributions	96,327
Subtractions	0
Total Return	(77,797)
Balance, June 30, 2015	22,048,984

Two-Year Summary	
Beginning Balance, June 30, 2013	19,825,656
Cumulative Additions from contributions	1,684,125
Cumulative Subtractions	(2,375,000)
Cumulative Market Returns	2,914,203
Ending Balance, March 31, 2015	22,048,984

Appendix B

American Radio Relay League de K7GM
Portfolio Composition as of June 30, 2015

	Fair Value	Percentage	Amortized Cost
Investment Portfolio			
Stock (of which $1,246,258 is international)	9,853,023	44.7%	7,138,583
Preferred	99,640	0.5%	100,000
Bond	11,029,382	50.0%	11,007,034
Cash	1,066,939	4.8%	1,066,939
Total Investment Portfolio	22,048,984	100.0%	19,312,556

American Radio Relay League
Portfolio Return and Total Return Metrics

	2015 1st Quarter	2015 2nd Quarter	Calendar Year 2014	Calendar Year 2013	Calendar Year 2012
Applicable Total Return Indices					
US Stock - Russell 3000 TR	1.80%	0.14%	12.56%	33.55%	16.42%
Foreign Stock - FTSE AW Ex US TR	3.80%	0.96%	-3.04%	15.63%	17.80%
Bonds - Barclays US Agg 1-5Yr TR	1.03%	-0.06%	1.69%	0.25%	2.21%
VG Prime Money Market	0.01%	0.01%	0.04%	0.04%	0.04%
Benchmark Blended Total Return	1.46%	0.08%	6.26%	15.99%	9.28%
(45% us, 5% intl, 45% bonds, 5% mmkt)					
Benchmark Bended Total Return (above)	1.46%	0.08%	6.26%	15.99%	9.28%
Actual Total Return					
In Percent	0.66%	-0.35%	5.77%	14.66%	11.04%
In Dollars (from page 1)	143,499	(77,797)	1,220,626	2,654,016	1,769,299

Notes:

Returns for greater than one quarter will be different than the sum of the quarterly returns because of compounding

The Russell 3000 Index is a measure of the total US stock market.
The FTSE index measures the World (AW) stock market, minus the US market
The Barclays index measures the aggregate US bond market for maturities of 1-5 years (the type of bonds in which we invest)
The Vanguard Prime Money Market is a proxy for the overall US money market

The Benchmark Blended Total Return is calculated from the above indexes in the proportions noted. It represents the expected return on the portfolio.

The Actual Total Return is calculated based on the dollar amount of Total Return (see page 1) relative to the original principal amount for the period calculated. If there are significant increases or decreases to the investment portfolio in the applicable period, the calculated Actual Total Return is adjusted accordingly.