American Radio Relay League

Treasurer's Report
Rick Niswander, K7GM
For the quarter ending June 30, 2014

In the first quarter, stocks took a bit of a breather after once-in-a-couple-of-decades stock market returns in 2013, rising almost 2% domestically and ½% internationally for the quarter. The overall modest first quarter US stock market return masked a 3% drop in January, a 4.7% increase in February, and a March that was pretty close to a wash. Were it not for the 0.9% domestic stock market jump on March 31, the quarter would have been even less exciting – almost half of the quarterly increase occurred on the very last day of the quarter. The bond market realized all its total return increase in January, with February and March being slightly negative.

The second quarter was solid for both stocks and bonds. Stocks generally did not exhibit the volatility seen in the first quarter with stock indices slowly climbing most of the quarter to record levels for the S&P 500, the Dow Jones Average, and the Wilshire 3000. Even the NASDAQ is within spitting distance of its all-time high set in March 2000. In the second quarter, stock markets were up around 5% both domestically and internationally. Bond markets registered another solid 2% gain in the quarter.

Thanks to the second quarter, stocks were up almost 7% domestically and 6% internationally for the first half of 2014. Bonds rose almost 4%.

For the first half, the benchmark total return (45% US stocks, 5% international stocks, 45% bonds, 5% money market) came in at 5.12%. The total actual return on the ARRL portfolio was 4.36%, or 76 basis points less. The primary reason the portfolio lagged the benchmark was related to the bond market where longer-term bonds performed much better than those with shorter-terms. For example, total returns on long-term corporate bonds (BofA/Merrill-Lynch 10+ year index) rose 6.2% in the first quarter and 4.8% in the second, while total returns on 1-5 year corporate bonds (what we invest in) increased 0.68% in Q1 and 0.87% in Q2. That is an extraordinary spread in each quarter for an investment which is generally much more mundane. Since the benchmark index is a broad market index we, effectively, owned almost none of the part of the bond market that went up the most. Over an investment cycle the plusses and minuses should even out, they often do not over a few quarters or a few years.

The following chart illustrates the percentage change in various market and portfolio total return indicators for the first two quarters and the first half of 2014.

	Q1 2014		Q2 2014		1st Half 2014
Total Return Indices:					
US stock – Russell 3000 (broad market)	1.97%		4.87%		6.94%
Foreign stock – FTSE All World ex-US	0.57%		5.35%		5.95%
Bonds – Barclays US Aggregate Bond	1.84%		2.04%		3.92%
Vanguard Money Market	0.01%		0.01%		0.02%
Portfolio Benchmark (total return)	1.74%		3.38%		5.12%
Actual Portfolio Return (total return)	1.20%		3.10%		4.36%

ARRL Portfolio Analysis

As noted in Appendix A, the portfolio was $22,217,131 at June 30, 2014. Contributions of $662,668 were added to the portfolio somewhat evenly during the two quarters and a $525,000 transfer was made to the general operating account on May 1. The total actual portfolio return (interest, dividends, realized and unrealized gains and losses) was $922,388 for the first half.

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.

For the 2014 first half, the total return benchmark increased by 5.12% and the actual ARRL portfolio return lagged by 76 basis points at 4.36%. For 2013 and 2012, the total portfolio return surpassed the benchmark return by 60 basis points and 75 basis points, respectively.

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 very low, they are not zero.

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

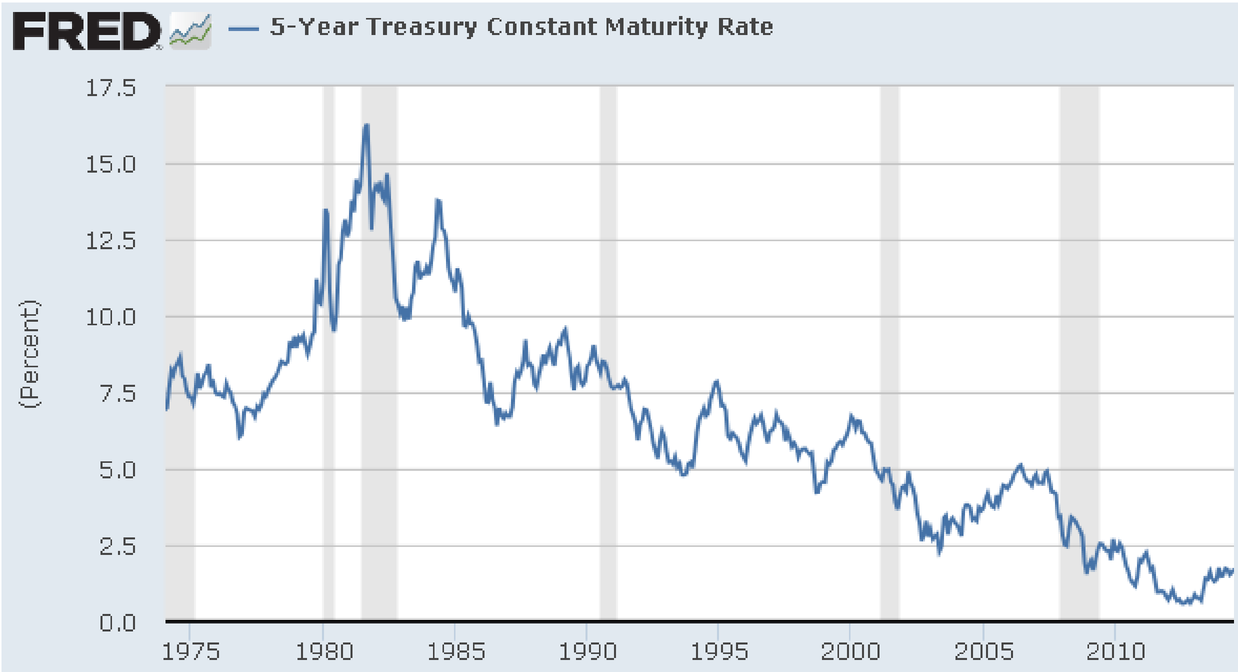
Bonds	Number	$	%
Individual Bonds	64 companies	$ 8.75 million	85%
Short term Bond Funds	4 funds/ETFs	$ 1.50 million	15%
Total Bonds		$10.25 million	100%
Stocks	Number	$	%
Individual Stocks	67 companies	$ 6.39 million	58%
Stock Funds & ETFs	14 funds/ETFs	$ 4.67 million	42%
Total Stocks		$ 11.06 million	100%

The relative percentages of individual bonds/stocks and funds/ETFs have remained fairly constant over the last two years.

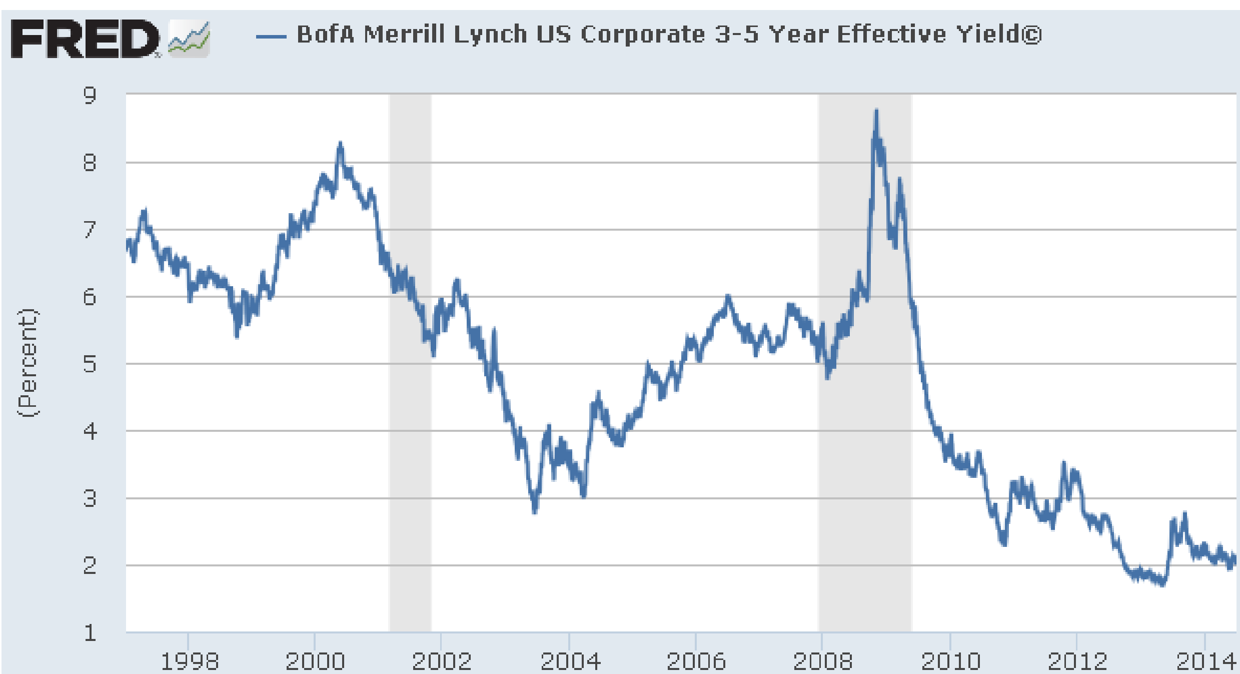
Interest Rates and Dividends

As you know, interest rates are at low levels not seen since the 1950's. While that is good news if you are a borrower, it is not good news if you are a saver.

The following two charts illustrate the long term drop in interest rates. The first chart is a 40-year look at the yield on 5-year treasuries. Rates peaked in the early 80's at about 16% (remember Mr. Volker?) and have had a fairly steady decline to about 1.7% today.



The next chart shows the yield on 3-5 year corporate bonds (the kind we invest in) from 1997 to today. The peak in 2009 was the result of the credit squeeze during the Great Recession. As with Treasuries, corporate debt is at lifetime lows, paying only a smidge over 2% today.



Stock dividends don't' provide any help with dividend yield on the S&P 500 at a paltry 1.88% at the end of June.

Preferred Stock

Over the last six months, the preferred stock portfolio decreased from $299K to $187K continuing the long-term liquidation of this asset class.

Other

During the first half, I purposefully reduced the proportion of the portfolio allocated to stocks from slightly over 50% (51.2%) to slightly under 50% (49.8%), and moved the funds to bonds and cash. As the stock market has climbed the last couple of years, I have been moving money out of the stock market to keep the stock proportion in line. This quarter I also changed the overall proportion and will likely continue to modestly do so. If stock markets continue on a tear we will sacrifice a bit of return, but a little more conservatism is probably warranted at this time.

While I expect to keep the stock portfolio in the 45%-50% range, I have no intention of taking a bigger swing to try to time the market. Remember that we are investing for the long-term so variations over a quarter or a year or even five years don't matter much. Market timing requires a person to make two well-timed decisions – when to get out and when to get in. Very few folks can make it work year after year.

Some indicators are flashing that the stock market is moving into pricy territory (the Case-Schiller trailing P/E ratio is one of those indicators). The huge market run-up over the last five years coupled with interest rates at decades-low levels means that total stock and bond returns over the next five years will likely not come close to matching the past five. We all need to be aware there is a significant likelihood that market returns over the next five or ten years are going to be modest at best.

Nonetheless, whether it is the ARRL portfolio or your own: Diversify, keep your eye on the long term, and turn off the screaming heads on TV.

Appendix A

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Portfolio Flow de K7GM

	Investment Portfolio Fair Value
Balance, December 31, 2012	17,724,259
Additions from contributions	149,589
Subtractions	0
Total Return	992,476
Balance, March 31, 2013	18,866,324
Balance, March 31, 2013	18,866,324
Additions from contributions	925,667
Subtractions	0
Total Return	33,665
Balance, June 30, 2013	19,825,656
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 (see note)	667,835
Balance, June 30, 2014	22,217,131

Appendix B

American Radio Relay League
Portfolio Composition as of June 30, 2014 de K7GM

	Fair Value	Percentage	Cost
Investment Portfolio			
Stock (of which $1,552,653 is international)	11,065,125	49.8%	8,040,864
Preferred	187,095	0.8%	187,500
Bond	10,250,681	46.1%	10,294,799
Cash	714,230	3.2%	714,230
Total Investment Portfolio	22,217,131	100.0%	19,237,393

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Portfolio Return and Total Return Metrics

	2014 1st Quarter	2014 2nd Quarter	2014 1st Half	Calendar Year 2013	Calendar Year 2012
Applicable Total Return Indices					
US Stock - Russell 3000 TR	1.97%	4.87%	6.94%	33.55%	16.42%
Foreign Stock - FTSE AW Ex US TR	0.57%	5.35%	5.95%	15.63%	17.80%
Bonds - Barclays US Agg Bond TR	1.84%	2.04%	3.92%	-2.02%	4.22%
VG Prime Money Market	0.01%	0.01%	0.02%	0.04%	0.04%
Benchmark Blended Total Return (45% us, 5% intl, 45% bonds, 5% mmkt)	1.74%	3.38%	5.12%	14.06%	10.18%
Benchmark Bended Total Return (above)	1.74%	3.38%	5.12%	14.06%	10.18%
Actual Total Return					
In Percent	1.20%	3.10%	4.36%	14.66%	10.93%
In Dollars (from page 1)	254,553	667,835	922,388	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
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.