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**VIEWS FROM CAMELBACK MOUNTAIN**  
*Rising Interest Rates. . . About Time*

We have been writing to you for some time regarding our frustration with Ben Bernanke, Janet Yellen and the Federal Reserve Board. We think the Fed did a magnificent job by lowering interest rates after September 11, 2001 and throughout the financial crisis on September 15, 2008. They correctly lowered interest rates in an attempt to offset the impact of the turbulent events that occurred during those times. Unfortunately, the Fed has become so set in its ways that they have been too slow to allow interest rates to return to equilibrium levels, even though these crises have long since passed.

Fast forward to today and we find a Federal Reserve Board that has been discussing a potential increase in interest rates for the past several years. They raised interest rates  $\frac{1}{4}$  of a percent this past December, but they continually failed to take action at any of their meetings since then. Each time they met they found a new reason not to raise rates, such as a decline in financial markets, one or two pieces of disappointing financial data, or world events like the Britain vote to exit the European Union. The Wall Street Journal recently ran an article discussing the Federal Reserve Chairman who cried “wolf”. At this point, the Fed’s credibility is at risk.

Central bankers around the world followed the Federal Reserve’s path to 0% interest rates, with some continuing to negative interest rates. As we have been writing to you, there is little evidence that these policies have been effective. The impact of 0% and negative interest rates around the world has been to place further downward pressure on interest rates here in the United States. For example, an investor who is looking at an opportunity to purchase a 30-year Swiss government bond with zero interest for 30 years and not even the return of all of their principal, would not find this very appealing. A potential Swiss government bond investor might be more enthusiastic about purchasing a 10-year United States Treasury yielding about 1.5% or slightly higher. We think a 10-year Treasury near 1.5% is a terrible investment, but it is probably better than a 30-year negative interest rate Swiss government bond. In any event, the bond markets in the United States and around the world have priced in ultra low interest rates, and in our opinion has not priced in the U.S. Federal Reserve finally raising interest rates. This leaves financial markets vulnerable to some adjustment if the Federal Reserve does raise interest rates in September.

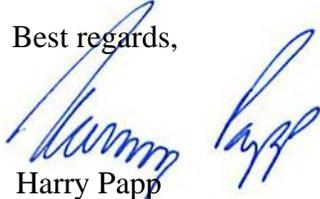
Various Federal Reserve members have been giving interviews over the past 2-3 weeks, which have been progressively more “hawkish”. In our opinion, it now appears possible that the Federal Reserve will raise rates a  $\frac{1}{4}$  of a point on September 21, 2016. As mentioned above, we do not think the financial markets have this fully priced in. We believe this is what led to the market decline on Friday, September 9, 2016 of nearly 400 points. We expect the financial markets could be choppy leading up to the September 21<sup>st</sup> meeting and there may be additional adjustments should they raise interest rates at this meeting. We think these disruptions will be relatively short-term in most cases. There are some securities which we and our clients do not own that are more vulnerable to serious or longer lasting disruption as interest rates inevitably are allowed to increase towards an equilibrium level. Only time will tell how slowly or quickly these events unfold, but this is why we do not own utility stocks, most real estate investment trusts, master limited partnerships, telecommunications companies and long-term bonds of any sort. If you own these

investments in accounts held elsewhere, please give one of us a call so that we can discuss with you the potential problems that some of these investments face.

We are not advising our clients to take any action at this time. We anticipate additional volatility and some weakness, perhaps lasting through the end of 2016, due to the November election and the prospect of interest rate increases.

We will keep you posted as conditions develop. If you have any questions, please give any of us a call.

Best regards,



Harry Papp  
Managing Partner  
September 12, 2016