REFLECTIONS ON JANUARY 2015

MARKET AND ECONOMY CONDITIONS

FEBRUARY 5, 2015

The more things change, the more they stay the same. For those with a relatively "long" memory, you will recall that January 2014 was a down month. We had come out of 2013 with the S&P up over 29% and January 2014 delivered an uninspiring 3.6% loss. This January, the S&P was off 3.1%, so if you are an optimist, things look better in 2015!! After all, 2014 eventually turned around and we saw an 11.34% increase in the S&P. Really, all this performance regurgitation right after Super Bowl Sunday?

There are also innumerable goofy statistics about how markets do in Election years, Congressional elections, who wins the Super Bowl, and on and on and on. The most relevant stat for me is that in years ending in "5," the market rises something like 92% of the time. The only time it was actually down, was a mere .61%. Combine that with this being the 3rd year in the second term of a sitting President and the probability that equity markets rise increases. All this aside, we do not allow such statistics to alter our decision making process in portfolio management. We continue to factor in our clients' risk tolerance, time horizon and objectives when making allocation decisions.

Now that we have completed the Super Bowl, we can offset the last claim with the most popular Super Bowl statistic in that, since it was started by the New York Times in 1978, reportedly, it has been accurate 80% of the time. If this is the case, since an AFC team won (the New England Patriots), the market should fall in 2015. We now have a serious tug of war between two indicators. Maybe that explains some of the volatility we have seen in January. I would expect more of the same in the months to come.

All of this is nice, but then we return to reality, our equity and for that matter, some of our fixed income markets are facing some serious headwinds. Wait, Doug, I'm paying $2/gallon (I actually just filled up for less than $1/gallon with a discount), so I have more money to spend and thus stimulate the economy. That is true for many Americans and for that reason, we are adding to and introducing Consumer Discretionary investments to many clients' accounts.

The freefall in gasoline prices as a result of oil falling below $50/barrel has brought euphoria to consumers and some of the financial networks. However, not all is golden and the drop in energy prices may be symptomatic of bigger issues. For example, all the efforts of our domestic alternative energy producers is now on shaky ground as oil can now compete more closely and now the luster of natural gas and fracking has worn thin. But, the bottom for oil prices has to be somewhere and that somewhere might be right around $45-$50/barrel. If this is the case, we are nearing that point, or arguably there.

There are other headwinds hitting our economy. The fourth quarter GDP numbers were less than anticipated, especially since the price of gasoline had already begun to fall, with the expectations that those savings would immediately be placed back in the economy, particularly during the Christmas season. Alas, that may not have been the case. As indicated, we do expect the discretionary consumer spending to increase throughout 2015, barring a complete rebound in gasoline prices. In fact, this week, gasoline prices have begun to inch up, so stay tuned. Party of cheap gas might be short lived.

Our next major headwind has been there for some time. The Federal Reserve seems to be in a difficult position. On the one hand, the economy is better and annual GDP growth of 2 1/2% is not terrible and might be high enough alone to have them consider finally raising interest rates. Combine this growth with 5.6% unemployment and the case becomes quite compelling for the Fed to raise rates some time in 2015. In addition, the gasoline price drop as we have already discussed, should "pump" more money into the economy, prompting potential additional growth in GDP, so that is a third argument in favor of raising rates. However, central bankers across the world have still been reducing rates (Europe, Japan) indicating that they are not convinced that there is solid global growth. I don't think our Federal Reserve wants to be the first to raise rates and also believes that our current recovery is relatively weak.

In conclusion, I can empathize with clients who are concerned with the recent volatility and downward movement in the US equity indices. However, we must remember that since March 2009, the Dow is up over 11,000 points. We have indicated to clients that there is a correction in the works –we just don't know when it will occur. However, it is possible that it occurs some time in 2015. A 10% correction from the high on the Dow, would bring that index to about 16,000.

Stay tuned in 2015. As indicated, we expect continued volatility and uncertainty as markets and the Fed try to decipher exactly where we are in this recovery. One silver lining of the recent volatility is that it is a good stress test for clients' true appetite for volatility and stands as a good measure of their risk tolerance. If the recent volatility is bothersome to you, please feel free to reach out to our firm. We are here to guide you through the good times and the not so good times.

In the meantime, during our meetings with clients this year, we are going to concentrate on making sure they are on track to meet their financial goals and also in making sure they are as educated as they wish to be in all things financial. Knowledge is power and if clients have a better understanding of their financial status as it relates to all the "financial noise" that is out there in the world, they will feel more confident about attaining those financial goals.