RETIREMENT ADVISORS INC

Commentary

December 15, 2014

The Markets

Ouch!

It was no fun to be an investor last week. The week prior, a commentary in *The Wall Street Journal's* blog, *MoneyBeat*, offered this insight:

"Falling oil prices are thought to be good for stocks because they stimulate consumer spending and hold down inflation. The lower costs support economic growth, boost corporate earnings, and lessen pressure on the Federal Reserve to raise interest rates. The stock market loves that mix."

That was not the case last week. A selling spree, sparked in part by concerns related to energy, led to virtually every major world stock index (every one that *Barron's* follows, anyway) moving lower. The single exception was the Shanghai Composite and that was flat.

It seems the *International Energy Agency's* prediction that demand for energy would grow more slowly in 2015, combined with the fact supply of some resources has been growing, addled investors and they sold everything but the kitchen sink. Even industries that may be helped by lower energy costs – consumer goods, consumer services, health care, and others – lost value. In the United States, stock markets delivered their worst performance in more than three years, according to *Barron's*.

Have investors lost sight of the fact the United States has a consumption-driven economy?
The *Federal Reserve Bank of St. Louis* reported personal consumption – how much Americans are spending on goods and services – was 70 percent of gross domestic product (the value of all goods and services produced) in the United States during the third quarter of 2014. Lower energy prices tend to put more money in the pockets of consumers so they can spend more and that can help the economy grow. In fact, *U.S. News* reported, "…approximately every penny decline in the price of a gallon of gasoline translates to about $1 billion in additional disposable income for American households."

It's interesting to note consumers – a group that overlaps with investors in a Venn diagram – are more confident than they have been in almost eight years, according to data released by the University of Michigan and cited by Barron's.

Data as of 12/12/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.5%	8.3%	12.8%	17.4%	12.4%	5.3%
10-year Treasury Note (Yield Only)	2.1	NA	2.9	2.0	3.6	4.2
Gold (per ounce)	1.9	1.3	-0.4	-9.8	1.6	10.8
Bloomberg Commodity Index	-1.3	-11.9	-12.3	-7.7	-3.8	-2.6
DJ Equity All REIT Total Return Index	0.0	26.0	29.3	17.9	16.7	8.3

S&P 500, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT DOES THE FUTURE HOLD? The good news is most analysts expect economic growth in *the* United States to continue. *The Wall Street Journal, The Economist, The Federal Reserve,* and the *International Monetary Fund* all have forecast gross domestic product growth in the United States at 2.5 to 3.0 percent for 2015. That's not quite as good as the 7 percent growth forecast for China or the 6.5 percent growth estimated for India, but it's decent for a developed nation with a mature economy.

There are factors that could hurt the economic outlook in the United States. Economists participating in *The Wall Street Journal's Economic Forecasting Survey* said a negative global event was the biggest threat to U.S. economic growth followed by slower global growth. Three of the risks *The Economist* believes could keep companies from operating at target profitability during 2015 include:

- **Deflation in the Eurozone:** "A Japanese-style stagnation in the euro zone would have profoundly negative implications for global demand, especially at a time when growth in the emerging markets is also softening."

- **Spillover from Syria's Civil War:** "…The prospect of [ISIS] diverting its energies from Iraq and into Syria and its neighbors (such as Lebanon and Jordan) could prompt an uptick in oil's political risk premium once more."
- **Escalation of the Russia-Ukraine conflict:** "…The recently imposed trade restrictions have not only plunged Russia into recession, but also contributed to sinking industrial output in Germany… further sanctions could see Russia cutting off natural gas sales to Ukraine or the European Union (as is currently already reportedly occurring with supplies to Poland)… [these acts] would no doubt have a deleterious impact on the [Euro] region's economic recovery."

There are also factors that could improve the outlook. *The Wall Street Journal's* survey found economists believe tightening labor markets, higher wages, better consumer spending, and low energy prices could support U.S. economic growth during 2015.

Weekly Focus – Think About It

"The way a team plays as a whole determines its success. You may have the greatest bunch of individual stars in the world, but if they don't play together, the club won't be worth a dime.

--Babe Ruth, American baseball player

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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