

2015 1st Quarter Newsletter

Here's wishing everyone a healthy and happy 2015!

2014 turned out to be a pretty good year for some investors – although it didn't start that way. A lot of the leading companies in 2012 and 2013 paused to catch their breath; other sectors gained ground. Blue Chip stocks in particular enjoyed good news along with utilities, China, biotech and companies that use oil. Oil producing countries had a harder time of it.

2014 wasn't a particularly good year to be diversified. A lot more of the sectors we follow had double-digit losses than double-digit gains. Large US companies, on balance, led the market. Spreading the risk into different baskets like international or smaller companies generally dragged on performance.

I'm taking it in stride. Some years it goes the other way.

Deep down there is some very good news about the economy. The US is on the verge of becoming a net energy exporter because of new production technologies. Those technologies are controversial but the numbers are forcing the debate. Most exporting countries use oil revenues to support their national budget. When you factor in social welfare, infrastructure, and military outlays, their true breakeven per barrel is much higher than just the cost of pumping it out of the ground. They have to keep pumping to keep the doors open.

In North America, producers only have to cover their own costs and those costs are dropping fast. That gives them huge leverage in the world markets. Politicians have noticed that too. My record at predicting our elected officials' behavior isn't great ---- but we could see some significant defense savings over the next ten years from not having to guard middle-eastern oil fields.

Getting back to the markets, I still feel we are in the first half of a long-term bull market in stocks. US Equities are still my top-ranked asset class out of six categories. Stocks are fairly valued by some measures but the alternatives either seem more expensive or headed in the wrong direction. The S&P 500 has a dividend yield of 1.9% compared to the 10-year US Treasury Note yield of 2%. With only a tenth of a percent difference, I prefer the appreciation potential of the US economy over the next ten years.

On the other hand, bonds just moved into the number two spot replacing international stocks. Long-term bonds led the way last year.

I know, I know ...

I've been bearish on bonds for a while. It could just be money fleeing other countries for US dollars. Still, bonds EARNED their way into second position and our discipline gives them a place at the table.

International stocks dropped to third place but the world is a big place. I like emerging Asian economies. They stand to benefit from lower energy prices. That is a reversal from the beginning of last year when European markets looked like they were trying to break out.

Cash, currencies and commodities are four, five, and six – just like last year. Crude oil has lost half its value. That seems overdone so there may be an opportunity but I'm generally staying away from these areas.

Those are markets in theory. Then there are markets for real people. I like how this market suits OUR clients. With an overall uptrend, we can pursue opportunities and use short-term dips to look for bargains.

When our indicators turn decidedly negative – and we are nowhere near that now – we don't have to squeeze the last drop out of an uncooperative market.

Please forgive my football analogy: we can play like we have a comfortable lead in the second half. No guarantees, of course --- but on offense we run high-percentage plays to keep control of the ball. On defense; we try not to give up big losses.

You worked hard in your first half. Let's use that competitive advantage!

OFFICE NEWS

2015 is the year we go multi-media. This is our inaugural podcast and it supports a new website that is much more interactive. It will help us get general news and commentary out there faster for a wider audience. Our LinkedIn and Facebook presence is also expanding.

Please don't let that scare you. As always, talking one-on-one is how the important business gets done. Nothing will change there.

I hope you will let Audra and I know how you like the new format and tell us what changes you'd like to see. You're also welcome to forward this to folks you think might benefit.

That's all for now. Thanks for watching and enjoy the New Year with joy and optimism.

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