Wossamotta U – a world in turmoil

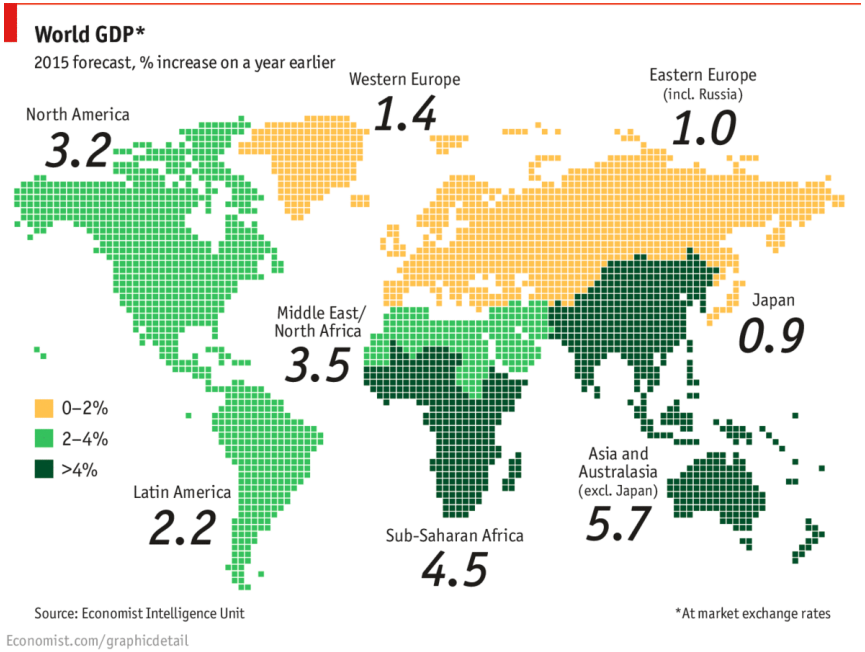
Greetings from the nurturing surroundings of a well-equipped farm incubator where ideas and strategies are developed to first protect client lifestyle and legacy objectives. I look forward to discussing these contents with you soon. Best wishes for an enjoyable and rewarding 2015.

Despite a dangerous spat of geopolitical risks, the world economy in 2014 is expected to have grown by 3.2% when the dust settles.[i] Currency flux created mixed results in financial markets. On a **US dollar basis** world equity indices produced modest gains, however slight losses were reported *overseas* (where US markets are excluded). Some of the best country-specific results were reported in China, India and the US. Bond markets were generally positive as deflationary pressures kept a lid on interest rates. The commodity complex decreased in value due in part to a 20% advance in the US dollar since June 2014. (Please reference page 4 for index comparisons.) Mainstream strategists anticipate smaller potential market gains in 2015 and increased volatility.

Is the world on track to sustainable economic development or basking in a temporary afterglow of artificial stimulation and smoke screen? Unclear at this point. Massive amounts of monetary policy helped lift the world from a dark financial hole several years ago, but further tinkering implies that structural problems remain. Over the past several years, equity and bond valuations in the US have been supported by abnormally low interest rates and super-sized earnings. This combination is unlikely to persist. While the US may be in better short-term shape than most of the world, our secret sauce has been attributable to an active US Fed policy which is now waning. Nevertheless, other central-bankers have taken note and are attempting to 'QE' their way to prosperity in similar fashion. Whether the world's policymakers have laid, or are laying, a foundation for future prosperity remains to be seen.

Despite a consensus which anticipates continued economic growth and advancing financial markets, we cannot ignore the potential impact of rising geopolitical threats. To us this suggests the need for conducting affairs in a manner where lifestyle-related capital is fortified. From a tactical standpoint, we intend to 'make hay where the sun shines' and hover a little closer to home (please reference page 17 and discussion outline for detail). This includes a preference for contrarian opportunities, US dollar inflows, dynamic resource management, and maintaining unique trigger points for prompt action. Too pessimistic? Too conservative? Please read on.

OVERVIEW



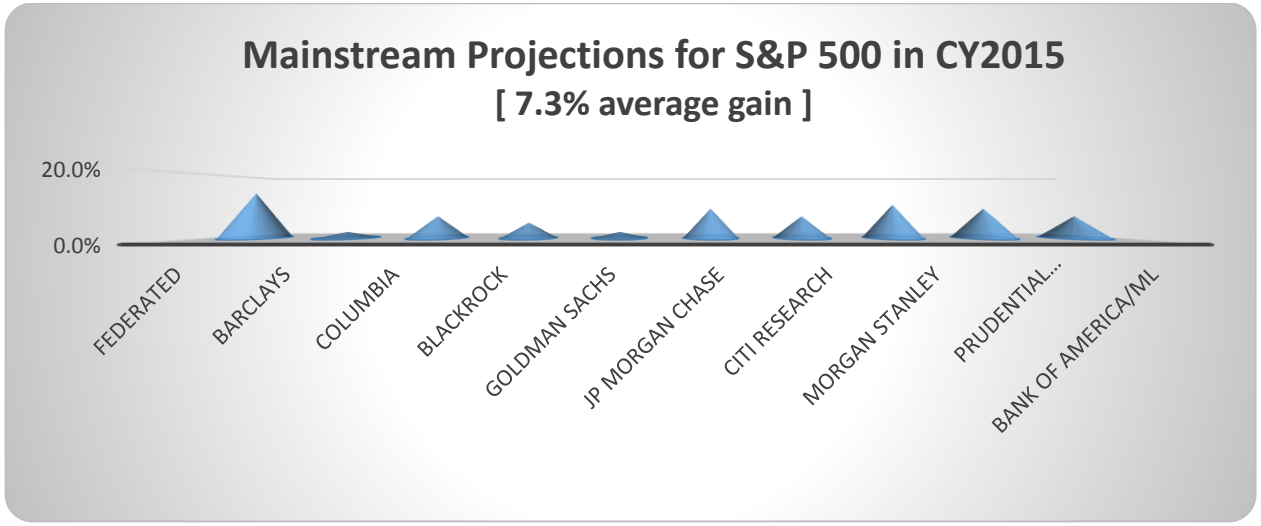
Even with the sharp oil price decline—a net positive for global growth—the world economic outlook is still subdued, weighted down by underlying weakness elsewhere, says the IMF's latest WEO Update.[ii] With an anticipated GDP growth of 2.3% in 2014[iii], the US has provided hints of maintainable growth, but structural problems continue to hamper growth prospects. Moreover, several of our largest trading partners continue to struggle. Japan and Europe, for example, are currently operating only slightly above recessionary levels and feel compelled to experiment with additional forms of monetary stimulus. China reports solid economic growth, but its rate of growth is slowing as it transitions from an export-driven to more of a consumer-oriented economy.

The United States, European Union, China, India and Japan represent the largest economies on earth and, by virtue of their size, are potential catalysts for world growth.[iv] Among these regions, the US is arguably in the best position to nudge global growth onward, however this scenario is losing viability. The World Bank recently cut its projections for the global economy, warning that the world cannot rely on the US as its single growth engine.[v] Significant economic contributions from other parts of the world seem unlikely. In essence, world demand for goods and services appears to be softening. Moreover, the Mideast is in turmoil, Russia is facing its worst economic downturn in 15 years[vi], subpar growth is expected in Latin America, and a well-funded faction of zealots has declared war on a reluctant world. These negative geopolitical activities, and their associated trends, run counter to the prospect of uninterrupted growth and prosperity.

We are well beyond the economic depths of 2008, but it is disconcerting that deflation is still a present risk in advanced economies six year hence. Deflation is undesirable because it causes debt service to become more burdensome, distorts consumption patterns, and hampers living standards—as wage increases are difficult to generate and greater taxation becomes less feasible. Highly indebted countries, such as Japan, Italy, Spain, Argentina, and Greece find themselves in a particularly difficult situation as they attempt to grow their economies while simultaneously reducing government expenditures in an attempt to appease creditors. Growth is a necessary ingredient to combat deflation, but it can't be created out of thin air. Purposeful currency devaluations can promote country-specific growth for a time—as this action helps

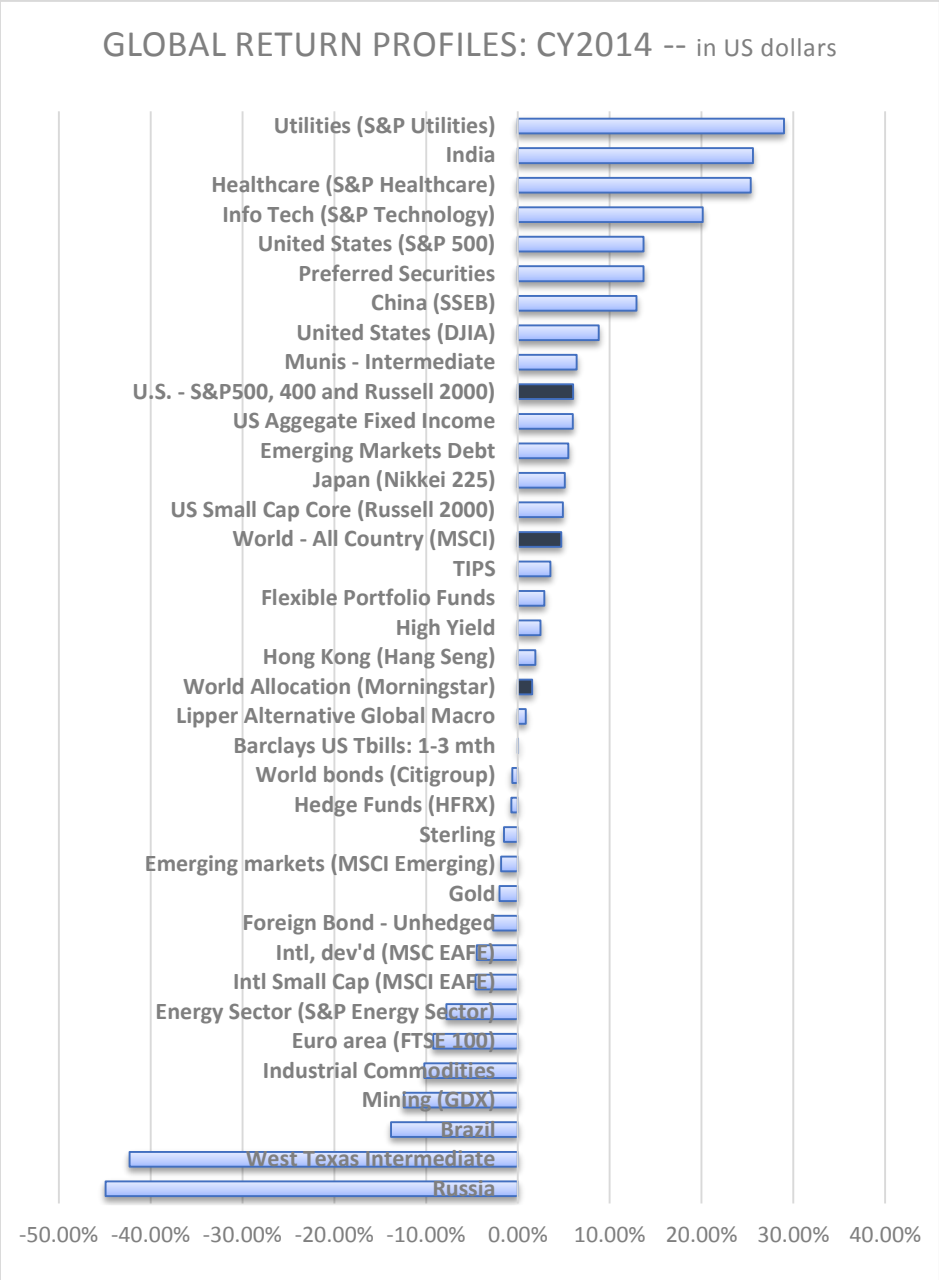
to increase exports while generating inflationary pressures at home. Japan and Europe are utilizing this tactic currently. However Japan's gains are hindering other exporters such as China. Taken to an extreme, currency manipulation can lead to economic friction and even war.

Government investment in infrastructure is another tactic to prompt economic growth. However this too has limits as success is subject to the return potential of the underlying investments as well as availability of credit. There is concern that China has over-invested in this manner for years with respect to its housing and portions of its infrastructure. When capital is acquired through borrowing and invested poorly, future growth prospects are compromised. Such is also the case with many western countries. Bill Gross expands on this phenomena by outlining the symptoms of a 'debt super cycle'—where downward spikes in the economy are met with additional credit expansion generated by lower interest rates, financial innovation and regulatory easing, or more recently, direct central bank purchasing of assets. This continues until such time as zero-based and in some cases negative yields, fail to generate sufficient economic growth—despite higher bond prices and escalating P/E ratios.[vii] He goes on to conjecture that debt super cycles are not favorable for future investment returns and that investors in the US should be cautious and content with low positive returns in 2015—something along the line of **5% equity returns and 3% bond returns**. LPL Financial anticipates equity growth in the 5% - 9% neighborhood along with minimal growth in bonds.[viii] This range is comparable to Wall Street projections. Mr. Gross's projections for 2015 are somewhat less than those offered by mainstream strategists and his underlying rationale differs, however his conclusions are akin to others I follow who are independent, non-mainstream, globally-oriented and geopolitically aware.



Barron's; December 15, 2014, p 36

At this pivotal period in our economic history, much attention is being directed to energy prices, central bank policymaking and geopolitical drivers. These areas will be addressed following this graphic on 2014 asset class performance.



Sources: The Economist, Morningstar, LPL Market Barometer, Lipper, Ivy Funds, Barron's and Market Vectors

INDEX CONSIDERATIONS

The S&P 500 and Dow Jones Industrial indices are often referenced as market barometers, however a more accurate depiction of US equity markets would also include smaller and mid-sized companies. Globally oriented equity investors need additional reference points in order to assess performance. So what's an investor to do? One approach is to combine indices or identify broader indices consistent with targeted asset models. To contrast relative performance, consolidating indices or viewing broader indices can be useful. Three equity indices from CY2014 are highlighted with this in mind:

- **US (S&P 500,400, and Russell 2000): 6%**
- **World All Country (MSCI) : 5%**
- **World Allocation (Morningstar): 2%**

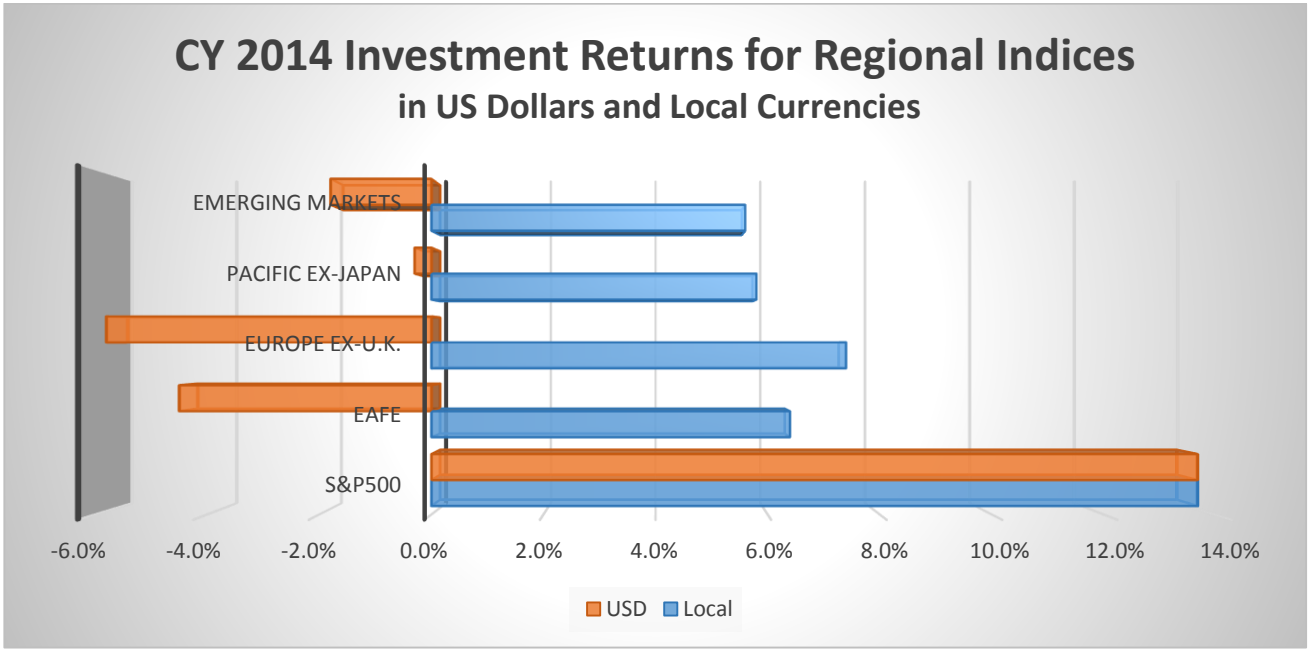
The graph on page 6 reinforces why a singular focus on the S&P 500 can be hazardous to financial health. Smaller companies, overseas opportunities, fixed income, real assets and currency are other spheres global investors should consider. Performance indices are available for these and many other classifications.

The dollar was strong against every major currency in the world last year. That hasn't happened in at least 25 years.[ix] A strong dollar had a negative impact on investments held in foreign currencies last year, but some currency diversification is still warranted in my view.

Currencies Matter – currency appreciation/depreciation can lead to profit or loss apart from asset performance

Many factors influence the valuation of a country's currency. Currency demand can be shaped by foreign investors, trade activities, economic performance, policymaking decisions, geopolitical considerations, etc. If you are an American traveling to Europe, and the US dollar falls in value relative to the Euro, your trip will become more expensive because your currency is not worth as much as that being used in your host currency. Of course the reverse is true as well. The same principle applies to global investing. If you invest in overseas markets, and the dollar rises against the underlying currency, you will realize a smaller return.

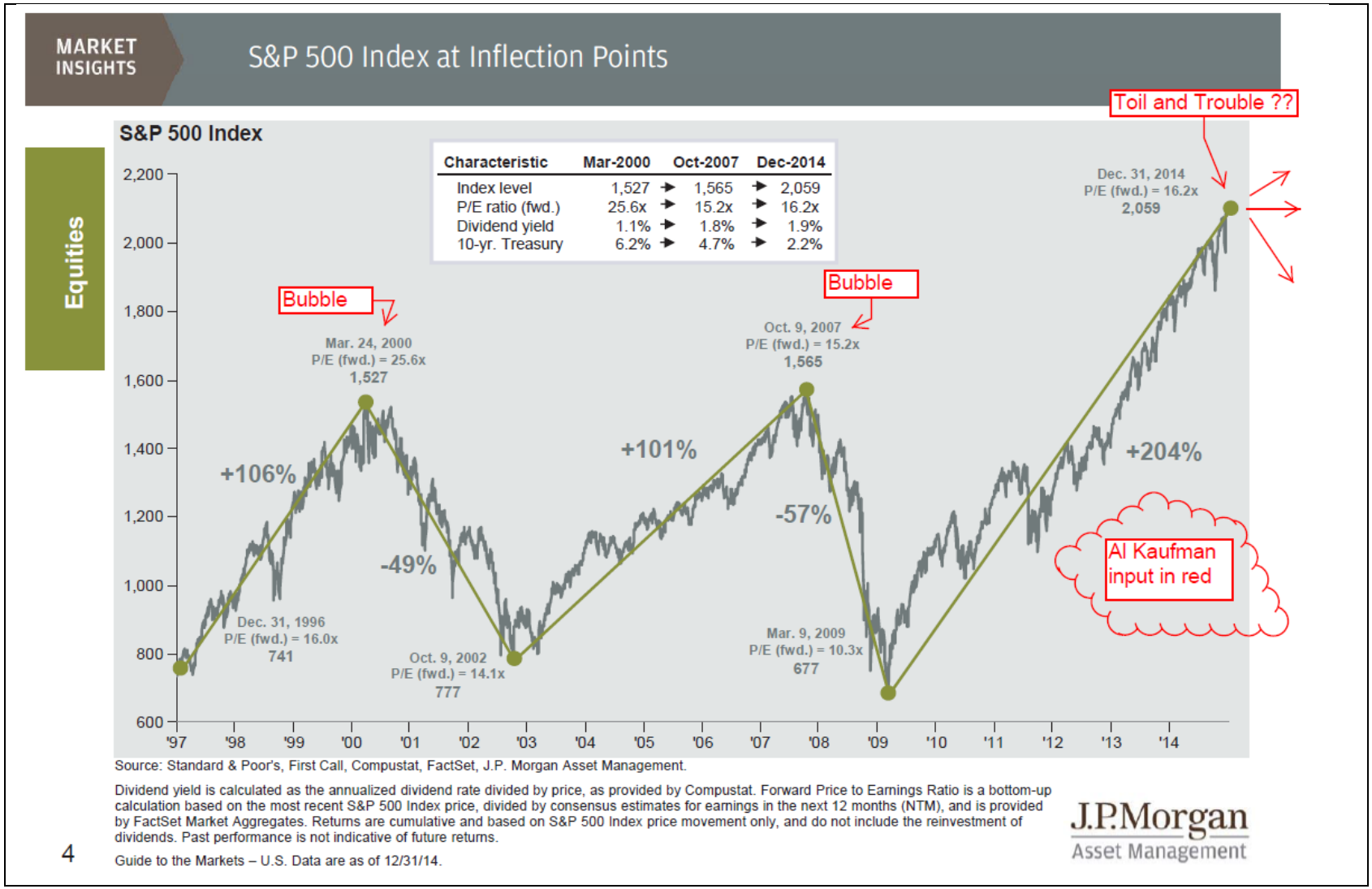
In 2014 the dollar rose in value relative to most of the other currencies in the world. For example, if an American investor invested in developed markets outside of the United States (represented by MSCI EAFE – an index representing companies domiciled in Europe, Australia and the Far East) they would have lost roughly 4% without a currency hedge. Local investors in those countries, on the other hand, would have enjoyed a gain of 6.4%. The difference has to do with the fact that the US dollar rose in value versus that particular basket of foreign currencies. In this instance, investing overseas worked against a US investor. However the US dollar can, and does, decrease in value versus other currencies. Therefore investing overseas in local currencies can be a helpful portfolio diversifier.



J.P. Morgan Market Insights; Guide to Markets; Qtr1 2015, pg. 42.

CENTRAL BANKS – trying to address structural problems with blunt instruments

The US Federal Reserve System (Fed) is the most powerful central bank in history and the dominant force in the US economy today. The Fed is often described as possessing a dual mandate to provide price stability and to reduce unemployment.[x] However its role has expanded to lender of last resort, bank regulator, occasional US policy representative, market purveyor and on it goes.



Characteristic	Mar-2000	Oct-2007	Dec-2014
Index level	1,527	1,565	2,059
P/E ratio (fwd.)	25.6x	15.2x	16.2x
Dividend yield	1.1%	1.8%	1.9%
10-yr. Treasury	6.2%	4.7%	2.2%

Since the global financial crisis of 2007-2008, trillions of dollars have been created by the Fed and other central bankers throughout the world in an effort to resuscitate economies, recapitalize banks, and create firmer economic foundations going forward. Liquidity was needed in order to allow for some breathing room, but there is concern that these and other temporary measures have morphed into something that may be difficult to unwind. Critics of strong Fed policy in the US point to historical patterns of behavior which have led to one asset bubble after another. We could be witnessing the creation of another equity bubble forming in the US.

Insofar as the financial crisis that began in 2007, *The Financial Crisis Inquiry Commission*, was created by Congress in 2009 to examine the causes of the recent financial and economic crisis in the United States. After examining millions of pages of documents, interviewing hundreds of witnesses, and extensive hearings, the commission concluded that regulatory failure was a primary cause of the crisis and that the Fed was responsible due to their laxity.[xi]

Going back to the economic collapse of 1929 economists Friedman and Schwartz (prominent in the 60s and 70s), in their book *Monetary History*, pointed to the nation's monetary missteps through the Federal Reserve. Ben Bernanke, former Chairman of the Federal Reserve agreed with their assertions at a conference in honor of Milton Friedman.

> For practical central bankers, among which I now count myself, Friedman and Schwartz's analysis leaves many lessons. What I take from their work is the idea that monetary forces, particularly if unleashed in a destabilizing direction, can be extremely powerful. The best thing that central bankers can do for the world is to avoid such crises by providing the economy with, in Milton Friedman's words, a "stable monetary background"--for example as reflected in low and stable inflation.
>
> Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.[xii]

Without question there are many brilliant and well-intentioned professionals associated with the Fed, but printing money does not solve solvency problems at a national level. If that were the case, Japan, with its aggressive central banking proclivities, would not be in its economic straits decades later. Nonetheless, Wall Street stands on edge with every imminent announcement of Fed policy direction. Will short-term interest rates be nudged up soon? How will bond and equity markets respond? Who's on first? Too much attention is being directed to the orchestrators of artificiality and not enough to things such as factors of production and infrastructure development. This alone would appear to be a dangerous signal. Should traditional economic forces give way to the machinations of a few? History does not support the proposition that we should place our faith in the Fed's ability to orchestrate a stable recovery and do so in a manner that allows for manageable inflation, steady economic growth, income equality and kumbaya in general.

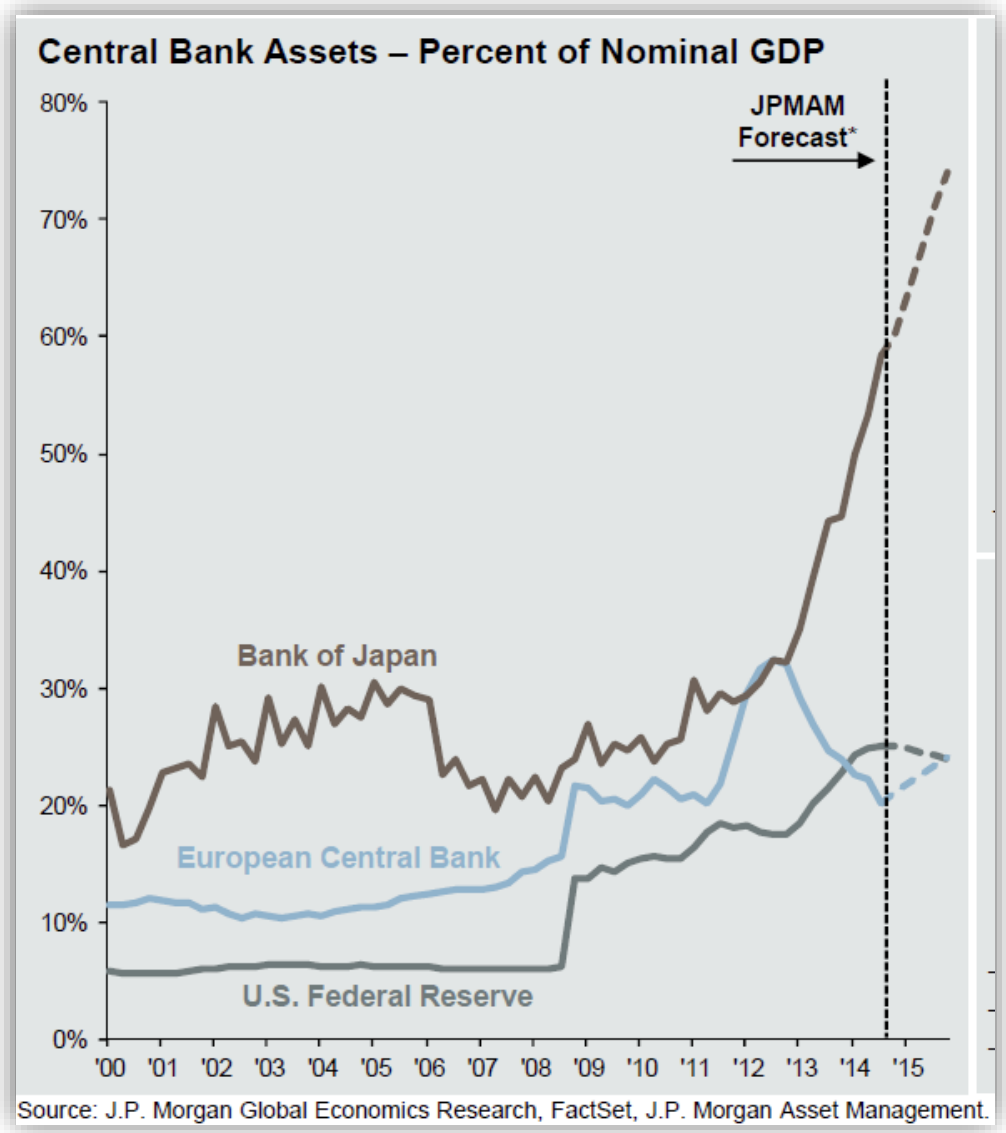
As it relates to central banking direction, James Rickards offers some reinforcing insights in his recent book, "The Death of Money":

> Central bankers control the price of money and therefore indirectly influence every market in the world. Given this immense power, the ideal central banker would be humble, cautious, and deferential to market signals. ***Instead, modern central bankers are both bold and arrogant in their efforts to bend markets to their will.*** Top-down central planning, dictating resource allocation and industrial output based on supposedly superior knowledge of needs and wants, is an impulse that has infected political players throughout history. It is both ironic and tragic that Western central banks have embraced central planning with gusto in the early twenty-first century, not long after the Soviet Union and Communist China abandoned it in the late twentieth. The Soviet Union and Communist China engaged in extreme central planning over the world's two largest countries and one-third of the earth's population for more than one hundred years combined. The result was a conspicuous and dismal failure. Today's central planners, especially the Federal Reserve, will encounter the same failure in time. The open issues are, when and at what cost to society? [xiii]

David A. Stockman, former Director of the US Office of Management and Budget during the Reagan administration, offered similar insights in a recent interview:

> On the subject of turmoil in the world and markets, "I think this market is just plain off its rocker. In fact it's not a market at all but just really a giant global casino run by the central bank engaging in a monumental fraud. They are buying worldwide literally trillions of dollars' worth of sovereign debt, government debt, that is the benchmark for almost all other financial issues and securities. The prices of government debt, not only ours but everywhere else in the world has been driven up to totally uneconomic unsustainable levels. The yields make no sense. . . " [xiv]

Almost every country in the world has a central bank and they try to work together when practical. However there are times when central bankers adopt different strategies in order to support national priorities—aiding exports by diminishing the value of underlying currencies for instance. Western countries are in that situation now. Central banks from the US and Great Britain are working to unwind previous policies whereby Europe and Japan are considering their own unique forms of quantitative easing. The consequences of their policies are unclear. Currency and market volatility could easily emerge.



J.P. Morgan Market Insights; Guide to Markets; Qtr1 2015, page 34.

"We have at this particular stage a fiat money which is essentially money printed by a government and it's usually a central bank which is authorized to do so. Some mechanism has got to be in place that restricts the amount of money which is produced, either a gold standard or a currency board, because unless you do that all of history suggest that inflation will take hold with very deleterious effects on economic activity… There are numbers of us, myself included, who strongly believe that we did very well in the 1870 to 1914 period with an international gold standard."[xv]

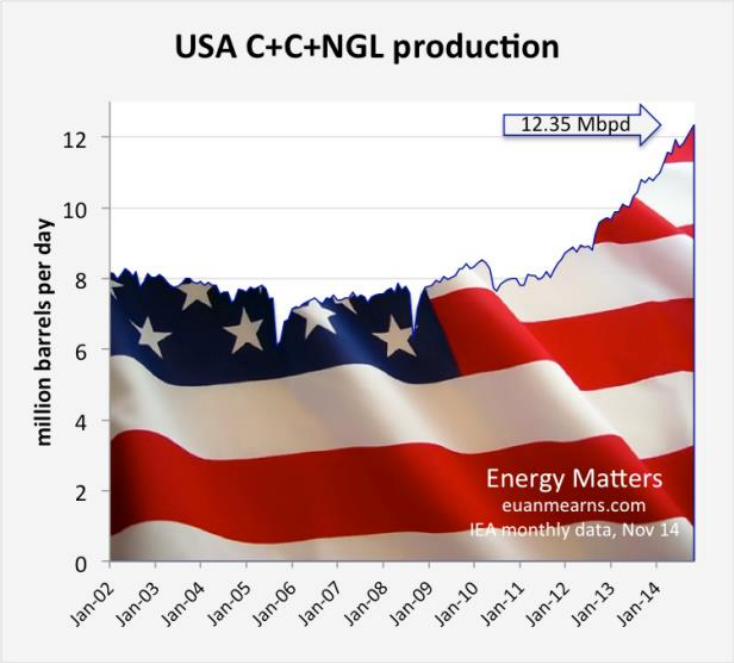
- **Alan Greenspan**
  January 2011

Suffice it to say that overreliance on the Fed, or other central bankers, is a sign that government leaders are not doing their job. With respect to the US, money is moving to the financial economy, not the real economy.[xvi] Lots of things are difficult to explain because the free market has been distorted by central bank actions to stimulate economies, lower currencies, and such.[xvii]

OIL – OPEC gambles in order to hamper competitive threats

Modern life is based on the ubiquitous use of fossil fuels, all of which have big disadvantages. However thanks to better technology and improved efficiency, energy is becoming cleaner and more plentiful.[xviii] Hydraulic fracturing and horizontal drilling serve as recent examples of the way in which new technologies can disrupt the delicate balance between demand, supply and the influence of price collusion among certain producers. Even coal, which the US possesses in abundance, is not inherently dirty. Rather than be burned, coal can be cooked instead to produce methane, which can then be used as a fuel or in petrochemicals.[xix] Natural gas, already considered a clean fuel and abundant in the US, is also being positioned to meet our needs as well as other parts of the world through LNG exports.

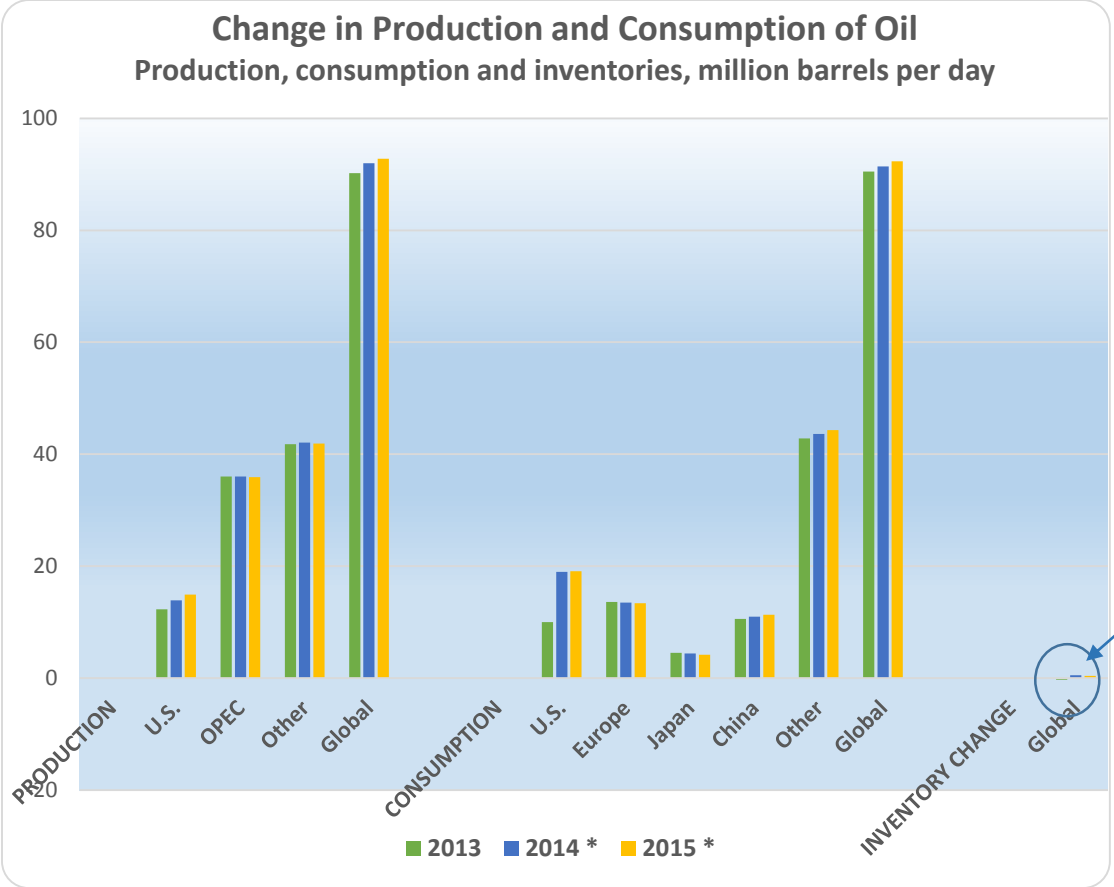
Within the energy complex, crude oil has taken center stage over the past six months due to a rapid drop in prices that took market participants by surprise. American *frackers* are now the world's swing producers reacting to price fluctuations in a way that was once the prerogative of the Saudis.[xx] Saudi Arabia's efforts to maintain existing OPEC production levels, in the face of rising supplies outside of the cartel, is currently creating discord among member countries such as Venezuela and Iran. Prices are expected to stay in a relatively low, narrow range throughout much of the year as producers respond to these developments. Throughout this sea of change, it is noteworthy that overall demand and supply levels have only been minimally impacted to date.



US oil production stood at 12.35 Mbpd in November, up 140,000 bpd from October. In September 2008, US production crashed over 1 million bpd to 6.28 Mbpd. That production crash was short lived as shale oil drilling got underway. US oil production has doubled since the September 2008 low. C+C+NGL = crude oil + condensate + natural gas liquids.

Geopolitical shocks can surface quickly, but the world is becoming less vulnerable to oil price manipulation from unfriendly countries courtesy of the United States. Goldman Sachs projects that oil prices will hover around $45 - $50 this year. If crude oil stays around $50 a barrel, that equates to a $150 billion tax break for consumers.[xxi] Savings and consumption in the US would both be affected favorably, however this presumes that oil prices stay in a relatively narrow range. Inasmuch as world tensions are growing, coupled with a recent change in Saudi leadership, a narrow price for oil may be too optimistic.

Crude Oil Inventory – global demand and supply are surprisingly in sync



Source: EIA, FactSet, J.P. Morgan Asset Management. *Forecasts are from EIA Annual energy Outlook and start in 2013.

The average daily inventory change of 500,000 barrels in 2014 and 400,000 barrels projected in 2015 is not much on a global stage. Saudi Arabia has the financial reserves to reduce its production by 500,000 barrels per day if it chooses to and prop up prices, however they have [temporarily] chosen to preserve their market share instead. Minor changes in daily inventory surpluses resulted in significant per-per-barrel changes in 2014. The western world is far from reliable crude supply sufficiency, but technology is closing the gap.

Global oil prices responded dramatically to relatively small incremental changes in crude inventory levels. Prices may fall further as Saudi Arabia, which has the means to sync supply and demand, appears to be maintaining production levels for political reasons. As a low cost leader, the Saudis have the means to hurt the economic prospects of Iran, ISIS and Russia (who are viewed as threats), reduce the attractiveness of alternative energy sources, and dampen drilling prospects for the US, its biggest competitor. Rather than allow this form of market meddling to continue, an impacted country may choose to take countermeasures. Russia and Iran, for instance, work together in many disruptive ways. Geopolitical risk and its potential impact on oil prices has certainly not gone away.

GEOPOLITICS – lots of agendas, different world views, little room to maneuver




Geopolitical developments can impact economies and markets quickly and powerfully, but the when's, what's and where's are difficult to pin down. Consequently, geopolitics is often glossed over or ignored altogether. This is unfortunate as foreign policy influences economic outcomes and financial markets. Since geopolitical insights can improve the odds of successful resource management outcomes, a disproportionate amount of my study time is devoted to this area. Like governments which employ the services of assorted intelligence agencies for guidance, numerous traditional and nontraditional sources are used to develop core insights.

A number of trusted sources point to 2015 as being a potential watershed year for the world. Similarly, leaders in Russia, Iran, Israel and the US are viewed as being particularly prominent in shaping near term events. Energy prices and supply, scale of war in the Middle East, currency volatility, financial market stability, EU stability, and global trade can all be affected by the actions of these men. Although specific outcomes are difficult to predict, Russia and Iran are developing closer relationships economically and militarily; this does not bode well for Israeli and US interests—which have much in common but whose leaders are currently at odds.

Vladimir Putin – President, Russia

Considered one of the most powerful men in the world. Putin's leadership in 2014 led to an annexation of Crimea, staging a proxy war in the Ukraine and inking a deal to build a more than $70 billion gas pipeline with China (the planet's largest construction project). Russia looks more and more like an energy-rich, nuclear-tipped rogue state with an undisputed, unpredictable and unaccountable head unconstrained by world opinion in pursuit of its goals. [xxii]

Trauma associated with the disintegration of the Soviet Union seems to be a constant echo in the mind of Vladimir Putin. His actions reveal a determination to protect and defend Russia from all threats real or imagined, maintain buffer space, and regain ground where possible. Between reinforcing relationships with foreign counterparts and enhancing military capabilities, he allows time to forge a strong

image and elevate his popularity with the people he governs. On one patriotically-themed occasion he was observed leading a motorcycle gang onto a Russian warship. The high council of Russian bikers voted him into a Hells Angels rank recently. His nickname is "Abaddon," a Hebrew word that roughly translates to **the Destroyer**.[xxiii] Sanctions, shaming, and various forms of intimidation are probably not the best way to bring him to the bargaining table.

> "All you hear is about sanctions toward Russia from America and the European Union.
> Have they totally lost their heads?"
>
> - Mikhail Gorbachev [xxiv]

Ali Khamenei – Supreme Leader of the Islamic Republic of Iran

The Supreme Leader calls the shots in Iran. More powerful than the President of Iran, he appoints the heads of many powerful posts in the military, the civil government, and the judiciary. Other roles include head of the armed forces and declarer of war and peace together with a two third majority of the Parliament. [xxv] Khamenei has a history of disdain for Israel and the US in both word and deed.

With the conquest of Yemen, Iran now effectively controls the Gulf of Aden. Together with the Straits of Hormuz, **Iran now controls the region's two maritime outlets to the open sea**. (The Energy Information Administration calls the Strait of Hormuz "the world's most important oil chokepoint.")[xxvi] From the Golan Heights to Gaza, from Yemen and Iraq to Latin America to Nantanz and Arak, Iran is boldly advancing its nuclear and imperialist agenda. As Charles Krauthammer noted, the nations of the Middle East allied with the US are sounding the alarm. [xxvii] Revolutionary Guards Brig. Gen. Amir-Ali Hajizadeh told Press TV that Iran has been exporting missile technology to its allies fighting "the Zionist regime, [Islamic State], and other Takfiri groups." [xxviii] Moreover, Iran has apparently produced an intercontinental ballistic missile whose range far exceeds the distance between Iran and Israel, and between Iran and Europe. The missile and the launch pad indicate that Iran's ballistic missile program, which is an integral part of its nuclear weapons program, is moving forward at full throttle. [xxix] As nuclear talks continue to drag on, Iran continues to strengthen its military assets and presence throughout the Middle East. Not exactly a sign of good faith negotiations and peaceful intent.

Benjamin Netanyahu - Prime Minister of Israel

Upon graduating from Cheltenham Township, Netanyahu returned to Israel to enlist in the IDF where he trained as a combat soldier and became a team leader in an elite Special Forces unit. He was wounded in combat on several occasions while serving in the IDF. Later he earned degrees at MIT in architecture and management along with political science studies at Harvard. At MIT, Netanyahu graduated near the top of his class. He returned to Israel shortly thereafter where he ran the Jonathan Netanyahu Anti-Terror Institute for several years making connections with several Israeli politicians along the way, including Minister Moshe Arens, who appointed him as Deputy Chief of Mission at the Israeli Embassy in Washington, D.C. Several political progressions later he found himself elected as the first Israeli Prime Minister to be born in the state of Israel and the youngest at that position.[xxx] Having served in various leadership capacities since, he now finds himself as Prime Minister working to ensure Israel's survival in the face of tremendous pressures from Iran, its satellites, and an assortment of other terrorist organizations. Meanwhile, the West continues to press for land acquiescence while offering conditional support and vague promises. Interestingly, the current alignment of nations is comparable to the Biblical scenario outlined in Ezekiel 38. Whether you agree with this parallel or not, Russia and its allies certainly appear to be preparing for events that could lead to Middle-Eastern domination while threatening Israel's very existence.

Insights from Stratfor – a geopolitical intelligence and advisory firm

2014 was the year in which the world was finally shaken out of complacency. Ukraine triggered Russia's inevitable confrontation with the United States and Europe. Economic malaise in Europe became impossible to ignore, with anti-establishment groups growing louder with each passing election. An intensifying anti-corruption drive in China exposed how far and deep the Chinese leadership is willing to go in trying to manage political resistance amid a slowing economy.

Stratfor has long emphasized that two of the three pillars of the international system – Europe and China – were in structural decline while the United States, buoyed by an energy boom, would maintain a position of relative hegemony. As Robert Stevenson would remind us, **sooner or later, we will sit down to a banquet of consequences**. Indeed, as we begin 2015, the price of Brent Crude oil has been slashed by more than half of what it was a year ago and now hovers around $50 a barrel.

While energy traders, politicians and producers alike scramble to find the bottom of the barrel – the nadir of global oil prices – the world's ability to cope with or exploit an oversupplied oil market will shape many of the trends we are looking at in

2015. The standoff between OPEC swing producers and US oil producers will wind down as low oil prices reach a point where US production growth will stall. At the same time, OPEC's key producers – Saudi Arabia, Kuwait and the United Arab Emirates – have shown little interest in pulling back on their own production levels in order to increase oil prices (which would have them effectively subsidizing US shale oil producers), leaving the oil market oversupplied.

The global energy climate will help bring about a de-escalation in the conflict over Ukraine. Russia can tolerate more economic pain than most countries, but deep cuts into energy revenue combined with sanctions are too much for even Russian President Vladimir Putin to bear as he tries to manage an increasingly shaky Kremlin. Russia maintains energy leverage over Kiev and can temper a frozen conflict in eastern Ukraine to sway the Europeans toward easing up on sanctions. The United States will not let up as easily and will continue beefing up military ties with states along the former Soviet periphery, but Washington will also be mindful of the consequences of unraveling Russia.

. . . As we look at what 2015 holds in store, we know the oil markets are oversupplied, Europe and China will continue to stagnate, and Russia will work under heavy constraints to deny the West a strong foothold in crucial areas of its periphery while the rest of the world deals with the repercussions of these trends. [xxxi]

Insights from Joel Rosenberg – a brilliant author, world traveler, confidant to world leaders, and Mideast expert

Despite America's perceived strengths, there are signs that our country is in a general state of decline and oblivious to various impending threats. Massive debt, the assault on traditional marriage, violent crime, drug use, sprawling pornography, economic deterioration within the middle class, child poverty rates, and educational gaps point to weaknesses in our moral fiber and capabilities. President Obama recently declared that the state of the union was strong. The US needs to be strong on behalf of the world, but some housekeeping may be in order first. Relative to our current leadership role and status within the world, consider these comments from Joel Rosenberg—a dual citizen of Israel and the United States.

He was not the first American President to declare the state of the union "strong." But with all due respect, the President is wrong. When a nation murders 57 million innocent babies, the state of the union is not strong. When a nation overtaxes and overregulates and over burdens the economy and drives manufacturers and other businesses overseas and leaves 92 million Americans out of the labor force with no jobs and few prospects to get a good-paying job, the state of the union is not strong. When a nation heaps $18 trillion of national debt on the backs of our children and grandchildren, and keeps creating more and more national debt with no end in sight, the state of the union is not strong. When a leader says, "no challenge — no

challenge — poses a greater threat to future generations than climate change," the state of the union is not strong. When a leader ignores the rising and existential threat of Radical Islam, the state of the union is not strong. When a leader does not take decisive action to neutralize the Iranian nuclear threat, the state of the union is not strong. When a leader does not take decisive action to crush terrorist movements like al Qaeda and ISIS, and refuses to even mention "Islam" or "Islamism" or "Radical Islam" or even "al Qaeda" is his address to the nation, the state of the union is not strong. When the leader of the free world cannot see the gathering storm — and believes that "leading from behind" is true leadership in a world that is dark and getting darker — the state of the union is not strong.[xxxii]

Meanwhile:

- Russia and Iran have just signed an historical military alliance.
- The leader of Saudi Arabia has died.
- There's been a coup in Yemen.
- Genocidal conditions are emerging in Syria and Iraq.
- Hezbollah is threatening to launch a massive attach on Israel's northern tier.[xxxiii]

Personal Conclusions - Al Kaufman

Putin is committed to maintaining geographic buffers between Russia and the West. Economic pressure from the West will strengthen his resolve to distance the world from US economic dominance. Traditional war with Russia is unlikely in 2015, however counter-measures could lead to market volatility. Varying tactics such as financial transaction manipulation, political alignment with Greece (thus fomenting political factions within the EU), additional expansion in Eastern Europe, and stronger economic bonds with India, China and Iran may be used to support Russia's standing. Iran's growing strength in the Middle East, and its ability to affect oil supplies and political stability in the region, is disconcerting. This could be a year in which Iran and Israel address their grievances militarily.

The ability for central bankers to affect aggregate demand is diminishing. Additional liquidity-oriented programs may do more harm than good to otherwise healing economies. Currencies may also be influenced in a manner that proves disruptive to global trade. Businesses are less likely to invest in this era of policy uncertainty. The US interest rate yield curve will likely remain little changed, despite a Fed that would like to inch them higher, as wage growth and inflation are likely to stay below target this year.

As financial pressures mount, the West may be reluctant to commit adequate resources to counter growing threats such as Iran and ISIS. **How all this plays out is anyone's guess, but we need to be prepared for extreme risk scenarios along the way**.

RESOURCE MANAGEMENT – application and considerations

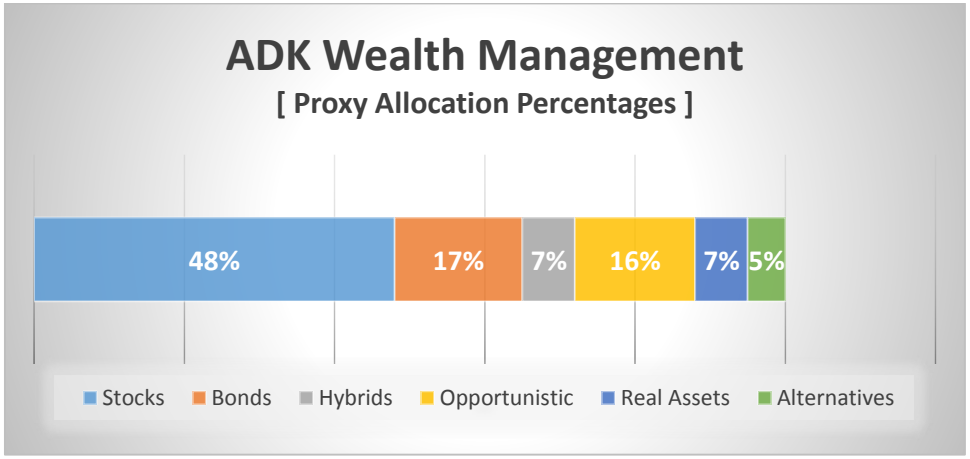
Forecasters were consistently wrong in their projections for oil prices and US interest rates last year.[xxxiv] Who could blame them? Stuff happens. Predictions for the timing of world events is far more difficult. There are just too many complexities and variables to contend with, some of which are unknowable. The same is true with financial market predictions of course. Despite the many challenges just outlined, financial markets could still march forward in lock-step with central bank drumbeats, even if the music is getting old. Either way, we intend to position for many scenarios and insulate resources from damaging events to the best of our ability.

Please keep in mind that lifestyle planning, risk management and investment management are part of a *holistic lifestyle allocation framework* we adhere to—in that order. The first two prongs are foundational in nature. Once established, investment management activities can be designed to flow in accordance with unique lifestyle/legacy pursuits while maintaining appropriate risk/reward balances throughout. This allows us to increase the odds of favorable outcomes—as you define them. The underling processes and disciplines serve to set us apart from other practitioners and, more importantly, allow you more time to focus on things you enjoy.

Insofar as portfolio construction, we continue to emphasize global diversification, dynamic management, multi-faceted, multi-talented expertise, contrarian valuation and low costs. Core holdings are blended with a range of tactical ideas designed to address near term threats and opportunities. Some of the drivers which impact recent changes to the composition of your portfolio(s) are presented below.

Tactical Biases/Attributes in 2015

- ✓ Stable cash flows
- ✓ US dollar transactions
- ✓ High quality assets
- ✓ Minimal use of leverage
- ✓ Life-preserving services
- ✓ Life-enhancing services
- ✓ Technology facilitators
- ✓ Real assets w/value-add advantages
- ✓ Ample liquidity
- ✓ Contrarian opportunities
- ✓ Marginal cost advantages
- ✓ Developing markets



In an era of massive experimentation with economic policy and inherent global instability, capital preservation and risk management should be at the heart of any lifestyle/resource management framework. We continue to prioritize our efforts along those lines. Thank you for the opportunity to assist. Please let us know how we can be of further help to you or others in the future.

Where there is no counsel, the people fall;
But in the multitude of counselors there is safety.

Proverbs 11:14

No strategy assures success or protects against loss.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Economic forecasts set forth ay not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Commodities: The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Securities and financial planning offered through LPL Financial, a Registered Investment Advisor. Member FINRA/SIPC

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