November 12, 2014

Dear Fellow Investors,

So, what do you know about the future? Many people would say "almost nothing" and that would be logical. The interesting thing is we are always predicting the future with almost every decision we make. Investing is no different.

During 2013, the prediction of higher interest rates caused many investors to reduce their bond positions. It is possible the money from bonds flowed into the stock market helping create the huge rise in stock prices for that year. The prediction of higher interest rates never materialized to any significant degree.

In 2014, bond interest rates were predicted higher; again we have yet to see these higher rates. This year there seems to have been less bond selling and it is possible purchasers of bonds have out numbered sellers; again some predictions were wrong.

For the year to date, ending September 30, 2014, Google Finance reported the stock market, as measured by the Dow Jones Industrial Average, has increased only 2.81% since the first of the year. During this same period the bond market, as measured by the Bloomberg Corporate Bond Index, increased by 4.09%. [Check the Woodshed for more details.]

Who would have thought bonds could outperform stocks in 2014? The more important question may be, "What investment will be the winner next year and the year after?" Of course, your question and my challenge is where can we invest to make a reasonable return without taking undue risk?

Could it be that real danger and opportunity are hidden from the majority of people? If something is commonly known, we can assume many investors have already reacted to it and in doing so, reduced the danger or opportunity.

So, now that many are predicting a significant decline in the stock market, the volatility we are seeing may seem like proof that long-term decline is in our future. Likewise, Ebola, ISIS and European Union economics are areas of concern. My point is the scopes of these serious issues are largely known, possibly lessening their affect on investments. It is possible that interest rates in the United States will continue at lower rates as a response to our slow economy, but there is no way to accurately predict this important facet of our economy.

All of these factors are changing rapidly so we can no longer simply invest and forget about our money. I will continue to watch the known issues as I look for the less known factors. With each letter, I will advise you as best I can. By working together we can keep your investments in step with your needs and our turbulent world.

Kindest Regards,

Bruce W. Woods
President, Woods Financial & Insurance Services
Registered Representative, LPL Financial

Enclosure

- The economic forecasts set forth in the presentation may not develop as predicted.
- The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.
- All performance referenced is historical and is no guarantee of future results.
- All indices are unmanaged and may not be invested into directly.
- Bonds are subject to market and interest rate risk if sold prior to maturity and values will decline as interest rates rise.

THE WOODSHED

News and Commentary
From
Woods Financial and Insurance Services

October 1, 2014

Stocks Edge Out Bonds as Volatility Increases

According to Google Finance, the **Dow Jones 30 Industrial Average** increased by **2.8%** for the year to date ending September 30, 2014. Bond values, as reported by **Bloomberg Corporate Bond Index**, increased **4.09%** over the same period.

Unemployment Numbers Improve

Unemployment as of September 30, 2014, was little changed from the last Bureau of Labor Statistics (B.L.S.) report. In the B.L.S. reports U-3 & U-6 (seasonally adjusted), **unemployment was reported** as **5.9% & 11.8% respectively**. Also, the **"Participation Rate"** as reported by the B.L.S. declined again making some feel the improving unemployment numbers are not as positive as they first appeared. The Participation Rate was **62.7%** for month ended September 30, 2014 remaining at the lowest level in decades**.** (Remember that "Participation Rate" is the percent of people who are working or looking for work. A lower percent means more people have dropped out of the workforce.)

Stimulation May Be Exciting In the Short Term…But May End in Regret

In general, there have been two major programs intended to help our failing economy, The American Recovery and Reinvestment Act of 2009 and a series of programs run by the Federal Reserve Bank (The Fed), most of which were called Quantitative Easing or "Q.E.".

The "2009 Act" authorized spending 787 billion dollars. Much of these funds have been spent but not all. According to many reports, most of the money was spent on federal, state, and local government projects.

Quantitative Easing is intended to help the economy by maintaining low interest rates. In a report written by N. J. Michael, Ph. D. and S. Moore, August 14, 2014, published by The Heritage Foundation, the Federal Reserve Bank has **purchased** an enormous amount of bonds. This report states the "Fed's" balance sheet expanded from $850 billion to $4.4 trillion since 2008. Perhaps you have noticed my expression of concern over the amount of money being printed by the Federal Reserve Bank in previous Woodshed newsletters. The referenced article points out the Federal Reserve Bank now owns 5 times the bonds it had in 2008, or an increase of 3.55 trillion dollars worth of bonds. Nearly all of the purchases were made with "newly printed" dollars.

In my opinion, the beneficial effects of Q.E. will have little lasting effect on our economy. Since much of the money was used to support government programs, the impact on private business profit may be short lived. Now that these programs are ending, the economy will be "on its own". I suspect the economy will contract as the programs end. If no other programs are initiated by the "Fed", stock and bond values may decline as interest rates rise.

Required Minimum Distributions (RMD)

IRA investors must begin to take funds out of their Traditional IRA and various other retirement type accounts after they turn 70 ½ years old. The IRS has detailed publications which describe the specifics of this law. There are substantial penalties from failing to follow these regulations. So, if you are at or nearing 70 ½, I urge you to contact my staff and your tax professional to ensure your compliance with the law. Processing an RMD may take several weeks, so please don't wait. December 31st is right around the corner.

Bags, Bags, and More Bags – Free To You

Many communities are outlawing plastic grocery bags. Personally, I wonder what I'll stuff in my pocket when the dog needs a walk. That challenge aside, many of us need to consider what we will do when no bags are provided to load our newly purchased groceries. Well, we have an answer. Just call or write us and we'll send you up to five Woods Financial and Insurance Services bags.

More Important Information at Your Finger Tips

Go To: www.woodsinvest.com and "like" us on Facebook at https://www.facebook.com/WoodsFinancialAndInsuranceServices

- The economic forecasts set forth in the presentation may not develop as predicted.
- The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.
- All performance referenced is historical and is no guarantee of future results.
- All indices are unmanaged and may not be invested into directly.