

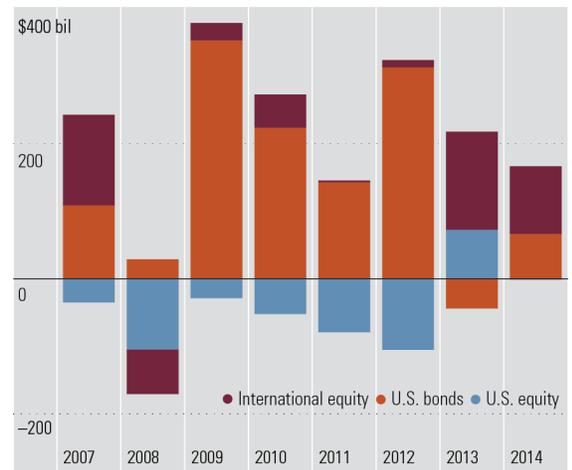


## Annual Asset Flows

Looking at where investor money is going may provide useful insight into what’s happening in a financial market. The image below illustrates annual flows for U.S. open-end mutual funds, divided by category: U.S. equity funds, international equity funds, and bond funds.

From 2009 to 2012, bond funds received the great majority of money because investors were shying away from equities after the crisis. That trend switched in 2013, as U.S. and international equity categories received strong inflows. In 2014, international equity and bond funds led the way. The trend since 2007 indicates that investors have been moving away from U.S. equity funds. Even though a few years have passed since the end of the crisis, it seems investor confidence is not that easily restored.

### Annual Asset Flows



Source: Morningstar Direct. Funds analyzed include U.S. open-end mutual funds. Data as of December 31, 2014.

The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. *Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should be read the prospectus and consider this information carefully before investing or sending money.*

Returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than bonds. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards.

### What's Happening at SWA



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Data security is a growing problem. As more information is sent in or attached to emails, it is vital to protect sensitive, confidential, and personal data. At SWA we use encryption software called AttachPlus to send confidential information to clients and other professionals. This software converts the original Word or Excel file to a PDF and then encrypts all contents of that PDF using 128-

bit encryption when it is attached to an email. The email recipient uses a password to open and view the attached PDF. AttachPlus costs about \$35 a year—a small price to pay to avoid the cost of rebuilding one’s credit history or tracking down stolen personal or financial data. Several other software and hardware options to secure data are available. Information on AttachPlus can be found at

www.AttachPlus.com or talk to your computer/IT technician for their recommendation.

# Monthly Market Commentary

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Even though it's always a guessing game, investor fears appear to have changed recently. They've shifted from the timing of a Fed interest rate hike and an overheated U.S. economy to slumping economic growth rates.

**GDP:** The halving of the GDP growth rate from 5% in the third quarter to 2.6% in the fourth quarter was a real dose of cold water. In many circumstances, a 2.6% rate would be something to celebrate. However, following growth of 4.6% and 5.0% in the previous two quarters, there is some worry on the Street that the economy is slowing. Morningstar economists still believe that the U.S. remains well within its trend line growth rate of 2.0%–2.5%, which is virtually unchanged over the past four years.

**Employment:** The most recent employment report probably surprised even the more bullish forecasters. The U.S. economy added 257,000 new jobs in January, showing that the fourth-quarter jobs momentum has continued into 2015. Upward revisions were applied to the data, particularly to the November and December numbers—revised up by 70,000 and 77,000 more jobs, respectively. The data now show that there were 752,000 jobs created in those two months alone, and 423,000 new jobs created in November, which is the best single-month result since March 2000. At the same time, looking at 2014 overall, the revisions amounted to only 164,000 more jobs, which by historical standards is not a drastic annual revision.

Year-over-year, three-month average employment growth continues to accelerate. Total nonfarm employment growth now stands at 2.2%–2.3%, while much better performing private-sector employment growth increased to 2.6%. It's not clear yet whether January's bullish employment data is a spillover from the high growth in the second and third quarters or actual proof of a further accelerating U.S. economy.

**Consumption and Income:** Given consumption is 70% of U.S. GDP, it is one of the more critical factors for detecting the direction of the economy. The income data helps determine if changing spending levels happened because of changing attitudes or lack of

ability to spend more.

Month to month, consumption numbers have been on a yo-yo, up 0.7% in November then down 0.1% in December. An unusually cold November followed by a warm December (shifting the timing of seasonal purchases and utility usage) may be responsible for the most recent bout of volatility. In addition, it is very hard to get the seasonal factors exactly right this time of year, further enhancing the already volatile sector data.

The more reliable year-over-year, averaged data shows a consistent pattern of modest acceleration in consumption growth and nicely accelerating growth in both wages and real disposable income. The data, at least at this moment, suggest that consumers are not spending all of their income gains yet again. Currently, wages are growing at a 3.5% annual rate, real disposable income at 3.1%, and consumption slightly lower at 2.8%. The high level of wage growth suggests that there is at least some potential for consumption to improve further in the months ahead.

**Trade:** The November to December data showed the trade deficit increased from \$39.8 billion to \$46.5 billion. Exports were down 0.8% and imports jumped 2.2%. That's not a totally shocking state of affairs, given that the U.S. economy is relatively strong and the rest of the world is slowing.

Pessimists are characterizing the trade report as the worst monthly deficit since 2012. And they will go on to say that the strong dollar can only make things worse and the U.S. competitive position has eroded badly. However, both the month-to-month category data and the year-over-year data suggest that things aren't so bad, and that changing oil markets are behind a lot of the apparent deterioration.

# Dollar-Cost Averaging: It's Not Just for Stocks

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Dollar-cost averaging—the practice of purchasing securities at fixed intervals and in equal amounts over time rather than in one lump sum—has long been used as a way to avoid jumping into the market at the wrong time.

To illustrate how dollar-cost averaging, or DCA, works, consider an investor wishing to buy \$10,000 worth of shares of a mutual fund. He could use the lump-sum approach and buy all the shares at once. However, there would be a risk that the market could turn negative shortly thereafter, resulting in an immediate loss on his new investment. Rather than try to determine when the time is right to buy, the investor could ease into the position—for instance, by purchasing \$1,000 worth of shares every month for 10 months. That way, if the fund loses value during the time period, less of the investment is exposed to this loss and the investor ends up buying some of the new shares at a lower price than he would have with the lump-sum approach. Of course, if the fund's shares continue to rise, dollar-cost averaging would impose an opportunity cost compared with the lump-sum approach, which, in hindsight, would have produced better results. But, of course, none of us invests in hindsight.

One of the primary benefits of DCA is that it may reduce volatility when buying securities. Rather than risk a purchase price that's too high, DCA allows an investor to buy more shares when prices are low and fewer when they are high during a given time period. It also offers investors a system that avoids the challenge of market timing. Even though DCA may not always result in the highest long-term performance, it may be a good strategy for investors jittery about where the market is headed.

DCA is most often mentioned with regard to stock-related purchases, probably because equity markets tend to be far more volatile than bond markets. However, this approach can be used when buying bonds or bond funds, as well. In fact, given the tapering of the Fed's bond-buying stimulus program and the uncertainty regarding interest rates, which some experts foresee rising some time this year, this might be a good time to use DCA when buying new

bonds or bond funds, or if rebalancing a retirement portfolio, to add to existing fixed-income holdings.

One option would be to sell some stock holdings and keep the money in a cash account before dollar-cost averaging into bonds. By putting the money into cash first, equity exposure is reduced in case a market downturn should materialize, and exposure to interest-rate risk is limited by not putting assets all into bonds right away. Instead investors can ease into bonds slowly, so if rates do start to rise and bonds lose value, they can avoid some of those losses while buying more bonds than they would have if they had jumped in with a lump sum.

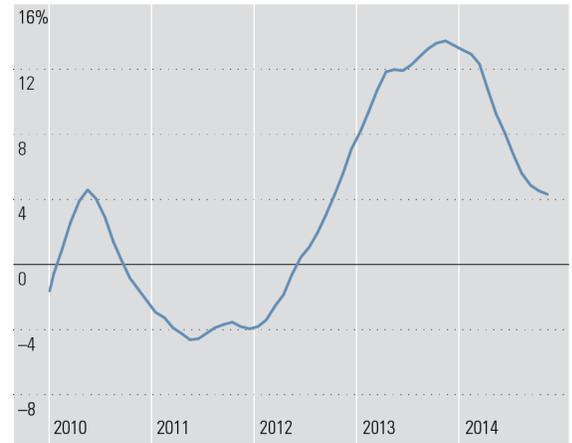
Given the unpredictable nature of the markets, it's easy to see why DCA appeals to many investors. It can help reduce volatility and the odds of buyer's remorse when investing a lump sum at what turns out to be exactly the wrong time.

Returns and principal invested in stocks are not guaranteed. Investing does not ensure a profitable outcome and always involves risk of loss. Dollar-cost averaging does not ensure a profit or protect against a loss in declining markets. Dollar-cost averaging involves continuous investment regardless of fluctuating prices. Investors should consider their financial ability to continue purchases through periods of high price levels. The investment return and principal value of mutual funds will fluctuate and shares, when sold, may be worth more or less than their original cost. Mutual funds are sold by prospectus, which can be obtained from your financial professional or the company and which contains complete information, including investment objectives, risks, charges and expenses. Investors should read the prospectus and consider this information carefully before investing or sending money.

# Home Price Growth Returning to a More Sustainable Rate

It is certain that, after a series of fast-paced increases that peaked in late 2013, the rate of home price increases is moderating. As of November, the Case-Shiller Index is showing that home prices are growing at 4.3% year-over-year, which is a much slower rate compared to nearly a 14% pace reported in 2013. The prices recovered about 82% of the previous high, and 14 states are currently either above or close to the previous 2006 peak. Nonetheless, Nevada, Florida, Arizona, and a few other states still remain 20% or more below the peak, and it will certainly take many years for those prices to return to their pre-recession level. On the positive side, slower-growing prices are good news for prospective buyers and for the health of the housing market in general, as they should improve housing affordability, providing an essential boost to this so far anemic housing recovery.

Case-Shiller Home Price Index Annual Change, 3-Month Average



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Source: S&P/Case Shiller. Data through November 2014.

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