Year End Report - 2014

Last year was full of surprises. As the year unfolded, the equity markets became more volatile than in the recent past. Overall, large cap US stocks were the place to be in 2014, as detailed in the following table.

Index	2014 Total Return
Dow Jones Industrial Average	10%
S&P 500	13.7%
Russell 2000	4.9%
FTSE All World	4.8%
Barclays Intermediate Govt./Credit	3.1%

Surprises of Last Twelve Months

In January of 2014, the Wall Street Journal surveyed 49 economists on the ten year US Treasury rate. At the time, the rate was around 3.0%, and 48 of the 49 economists predicted that the rate would go higher in 2014. The consensus average was that ten year Treasuries would end the year yielding 3.5%. Instead, the yield fell under 2.2% in December.

Almost no one predicted the dramatic drop in oil prices. Prices declined by 46% last year. The decline has continued into the new year. Most economists predicted prices would rise slightly in 2014. The OPEC meeting on Thanksgiving day was the major turning point, as the Saudis refused to cut production in the face of weakening global demand growth. Supply continues to increase as the US fracking revolution and the Canadian oil sands continue to lead to increased production.

Finally, no one foresaw the ebola disaster in Africa, and its spread to the US certainly spooked the market in the fall.

2015 Predictions

Having been blindsided by surprises in 2014, what does the crystal ball show for 2015? A muddled picture, to be sure. Interest rates will continue to be low even as the Federal Reserve promises to raise rates later this year. US Treasuries are the highest yielding "safe" investment on the global market right now. German ten year yields are around 0.5%, Japanese yields are at 0.3%, and French yields are below 1.0%. US yields look very attractive in comparison. Couple that with the fact that the US dollar is appreciating against most every major currency, and it is apparent why global funds are flocking to the US.

The oil price decline is causing havoc in places like Russia and Venezuela, where the economies and currencies were already weak. For much of the world that are net importers of oil, the price decline will be a major economic shot in the arm. Overall, the world economy should strengthen on the oil price decline.

US equities have been relative outperformers for the past six years. While our economy is stronger than most, we've recently been adding stocks of foreign companies through the purchase of American Depository Receipts (ADRs). US stocks are more fully valued than when the bull market started, but still much more reasonably valued than they were in March of 2000. Developing markets have significantly unperformed and have more attractive long term growth characteristics than the US.

No one can predict with certainty the path of the US or global economy. History has shown that, over time, both will grow. Conditions seem to be favorable for continued growth in 2015, which would justify current valuations and lead to an overall increase. But, as the experience of 2014 shows, surprises are likely, leaving the course of markets over the next 12 months difficult to predict. That is why we work with our clients to set an appropriate asset mix, rebalance to the mix, and stay the course.