Dear Friends: January 12, 2015

2014 Year End Recap

Happy New Year! We wish you all prosperity in 2015!

The close of 2014 was about one thing: oil. Even if you had not been following the news about the precipitous 50% drop in the price of oil, you likely felt its effects when you went to fill up your car. While the lower price of oil is clearly a huge benefit for car driving Americans, the situation is a complex one. The major losers of depressed oil prices are countries dependent on oil as their main export, particularly Russia, Venezuela, and some Middle Eastern countries. Other losers include oil-producing regions where investment will slow as profit margins for future exploration and extraction dissipate. This includes U.S. shale development. Overall, however, this new price level for oil is a benefit to the U.S. consumer and a positive for the global economy!

Investors had additional reasons to celebrate 2014. Rising corporate earnings, improving employment, and a strong manufacturing sector helped the S&P 500 Index and the Dow Jones Industrial Average Index reach new highs and surpass key psychological levels of 2,000 and 18,000, respectively. Despite these market highs, valuations are still in line with historical averages as the forward Price to Earnings ratio of the S&P 500 Index is at 16.21X. Global mergers and acquisitions accelerated to levels not seen since 2007 and the number of IPO's was the highest since the start of the new millennium. These figures indicate that corporations are feeling confident about the strength of the economy and are willing to make aggressive investments to increase their long term profits. Justifying their corporate strategy was annualized 4th Quarter GDP growth which came in at a solid 5% level and the S&P 500 Index which finished the year up 11% to 2,058.90.

Despite the above referenced positives, there were a number of events throughout 2014 that threatened to derail the markets, resulting in significant volatility. Russia intervened in Ukraine, ISIS emerged as a force, Ebola broke out, and figures were released revealing slowing and negative growth around the globe. China's impressive growth slowed in 2014 with GDP growth falling from 9% to 7%, Japan entered a mild recession as it had two consecutive quarters of negative GDP growth, and analysts anticipate Russia's growth will take a big hit after the drop in oil prices. The EU sanctions on Russia also damaged its struggling economy. This global news led to a significant underperformance of world markets against domestic markets with the MSCI EAFE down 9% and the MSCI Emerging Markets down 6%. To combat this slack the central banks of Japan, China, and Europe implemented stimulus efforts to increase the growth in their economies.

There were potential pitfalls within the domestic economy that caused volatility in 2014, as well. In October, the Fed ended its bond buying program, which many thought had the potential to cause rates to rise and slow down our recovering economy. Fortunately for investors, neither of those things happened and the 10 Year U.S. Treasury rate ended the year at 2.17%, well below where it started the year at 3%. This drop in yields led to the rise of bond prices, with the Barclay's Aggregate Bond Index gaining 3.5% for the year.

As we move into 2015, markets will continue to be focused on oil and global economic recovery and stability. In addition, investors will also have their attention on Washington. The Fed's decision on raising interest rates as well as the new Republican controlled Congress could create headlines in 2015. The interaction between the Executive and Legislative branches may cause volatility if tensions grow.

As always, we look to forward to meeting with you in the coming months. Best wishes for a mild winter!

Index	**Index Close**	**Quarter Price Return (%)**	**12 Mo Price Return (%)**
S&P 500	2,058.90	4.39%	11.39%
DJIA	17,823.07	4.58%	7.52%
NASDAQ	4,736.05	5.40%	13.40%
Barclays Aggregate Bond	110.12	0.93%	3.47%
MSCI Europe-Australasia-Far East	60.84	-5.12%	-9.33%
MSCI Emerging Markets	39.29	-5.46%	-6.00%