2015 Outlook

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Comprehensive Wealth Management & Retirement Planning

Quarterly Economic Update - Fourth Quarter 2014

While market participants and forecasters had their share of surprises and disappointments in 2014, many investors were rewarded as U.S. stocks had a solid year overall. The Dow Jones Industrial Average was up 7.5% in 2014 while the S&P 500 experienced its third straight annual increase of over 10%. These two major indexes outperformed the broader market—the NYSE Composite Index rose a little more than 4% for the year.

Perhaps one of the more telling signs for 2015 was that the bull rested on the last two days of the trading year. In fact, U.S. stocks took most of the last week of 2014 off, finishing more than 1% lower. This prompted many market analysts to predict that 2015 could bring a return to more volatility than investors experienced in 2014.

Bond investors also fared well in 2014. Thanks to slowing economic growth and declining inflation—especially in Europe—bond prices rose and yields fell. Bonds were also helped when the Federal Reserve signaled that even though they ended their stimulus efforts, they were in no hurry to raise short-term interest rates. This added to the year's bullish rally for income investors whose holdings were in government or investment grade bonds. Those who invested in sub-investment grade bonds did not fare as well.

Financial experts are pointing to the fact that we are experiencing falling unemployment, rising stock prices and an uptick in housing starts. Although at first many predictions for 2014 were met with skepticism, it would be difficult to argue with the average strategists' 2013 prediction for a 10% rally in 2014.

2014 Market Returns

	Beginning Price	Ending Price	Gain	Percent Gain
DJIA	16,576.66	17,832.07	1,246.41	7.52%
S&P 500	1,848.36	2,058.90	210.54	11.39%
Russell 2000	1,163.64	1,204.70	41.06	3.53%
NYSE Composite Index	10,400.33	10,839.24	438.91	4.22%

Source: yahoofinance.com

Office Happenings

Tax Season is quick approaching. One of our major goals is to help our clients identify opportunities that coordinate tax reduction with their investment portfolios. In order to achieve this goal, we stay current on ever-changing tax reduction strategies.

We are more than happy to help current clients with their tax needs and are welcoming new clients for the 2015 tax season.

Call today to make an early appointment, 215.886.2122.

Save the date:

Identity Theft Lunch & Learn

Join us for complimentary lunch and discuss Identity Theft. Topics of discussion will be: common trends and scams, what you can do to protect yourself, signs that someone is using your personal information and how to recover if it ever happens to you.

Date: March 28, 2015
Time: 12:00 p.m. to 2:30 p.m.
Location: Jenkintown Public Library
460 Old York Road, Jenkintown PA

Please RSVP by calling our office 215.886.2122 or visiting the events page on or website schwartzfinancial.com.

Looking Ahead to 2015

Although there are still some strong contrarians, the consensus for 2015 appears to be bullish:

- The U.S. economy will move forward
- Unemployment figures will go lower
- The European economy will get better
- Japan's recession will ease
- The Fed will raise the federal funds rates
- Stocks will remain attractive compared to U.S. Treasuries

Bob Doll, senior portfolio manager and chief equity strategist of Nuveen Asset Management, believes 2015 will be a good economic year, with low inflation, consumer spending picking up, an improving job market, and solid earnings growth. The biggest risk, however, is the risk of deflation outside the U.S., led by a decline in oil prices. *(Source: WealthManagement.com, 1/2015)*

While it's easy for investors to want U.S. stocks to have another strong year in 2015, we still need to remember that the current bull market started in 2009. In fact, some analysts conclude that stocks are no longer cheap—and under certain financial metrics valuations, are high. According to Bloomberg, after gaining 10% in 2014, consensus earnings-per-share growth for U.S. corporations is expected at 8% in 2015.

Interest Rates

Interest rates will play a role for investors again in 2015. The Federal Reserve has already signaled that it plans to raise interest rates and phase out the easy money policies that were designed to stimulate the faltering economy from the 2008 financial crisis. Having said that, their timeline for doing so still remains uncertain and financial experts are split on whether interest rates will actually go up in 2015.

(Source: Wall street Journal 12/2014)

1	Many analysts feel U.S. markets will rise.
2	Federal Reserve and interest rate uncertainty could bring more vitality
3	Oil prices could create market disruption.
4	International concerns need to be monitored.
5	The U.S. political landscape has changed.

Jurrien Timmer, Director of Global Macro in Fidelity's Global Asset Allocation Division, says that "Federal Reserve uncertainty could mean more volatility for investors."

Remember—in many cases, bonds are supposed to provide portfolios with stability and hopefully help against stock market swings. Conservative investors should not try to chase speculative returns in bonds. In their 2015 Investment Outlook, Delaware Investments wrote, "We believe returns will be lower than they have been in recent years." They say that bond investing "will be transitioning into a new reality, one in which return expectations ought to be tempered."

Oil Prices

Energy stocks have been among the year's worst performers, as oil prices declined almost 50% from their mid-year peak of over $100 a barrel. Many investors are questioning if there are bargains in beaten-down energy shares. Some analysts see value, while others fear that oil prices still have to stabilize. Lower oil prices help consumers at the pump, but they can wreak real havoc on unemployment, capital spending, loan collateral values, energy-company balance sheets and the junk-bond market.

"It's not clear that anyone can answer how low [oil

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This year, our goal is to offer our services to several other clients like yourself. We would be honored if you would:

- Suggest a friend to receive our mailings
- Share this newsletter with a friend or colleague
- Bring a guest to one of our workshops
- Share the news of our complimentary consultations

Those clients who do any of the above will be entered into our Client Advocate Program which includes our sincere gratitude and a special event this fall.

If you are currently not a client of Schwartz Financial, we would like to offer you a complimentary, one-hour, consultation with one of our professionals. Please call, 215.886.2122.

prices] will go," said Ed Morse, global head of commodities research for Citigroup Inc. Oil prices and their fluctuations can create market disruption and uncertainty. Oil prices will be on the list of items that we will monitor in 2015.

(Source: Bloomberg.com, 1/2015)

International Concerns

For many market strategists, the bullish case for equities includes a stronger European economy and the end of the current recession in Japan. Most analysts feel that the European Central Bank will follow the Federal Reserve's example and provide Quantitative Easing and an asset buying program. These measures allow the European Central Bank to bolster their countries' money markets.

(Source: Barron's, 12/2014)

Russia and China also present concerns for investors. Russia "is in bad shape, due to lower oil prices, but it wants to remain relevant on the world stage," according to John Praveen of Prudential International Investment Advisors. He and others also caution that China will be another concern—investors will need to see if the Chinese central bank can provide sufficient stimulus to help their economy continue its expansion in 2015.

(Source: Barron's, 12/2014)

U.S. Politics

As we head into 2015, the political landscape in the U.S. has changed dramatically. Following six years of gridlock and brinksmanship, 2015 could prove to be a very interesting one, with Republicans taking control of both the House and the Senate. Analysts are predicting an active year in Washington. President Obama only has 24 months remaining to cement his legacy. Analysts feel that comprehensive tax reform, especially closing some loopholes and revamping corporate taxes, could prove to be a big win for investors.

(Source: Barron's, 1/2015)

Conclusion: What Should an Investor Do?

Although the U.S. stock market isn't filled with bargains, most analysts see the potential for U.S. stock market gains in 2015. Jurrien Timmer, Director of Global Macro in Fidelity's Global Asset Allocation Division, encourages investors to "continue to view the U.S. market as the best house on the street. As we all know, the best house is usually the most expensive, and for good reason." While many analysts are predicting growth for U.S. stocks, that growth might not come easily. In the last three years the S&P 500 has risen from a humble 11.7 times next-four-quarter earnings estimates to an ambitious 16.5 times. Investors might be best served structuring their portfolios to weather stock market turbulence.

(Source: Barron's, 12/2014)

Continue to be watchful. Even the most optimistic investors need to be aware of some of the warning signs.

Focus on your own personal objectives. During confusing times it is always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly. Understanding your personal commitments and categorizing your investments into near-term, short-term and longer-term can be helpful.

Be cautious with income investments. While some income investors did well in 2014, this year the menu could be less attractive. With the Federal Reserve and interest rates in the spotlight, this is a good time to understand your true income and cash flow needs.

Don't try to predict the market. Investment decisions driven by emotion can cause problems for investors. Discipline and perspective can help investors remain committed to their long-term investment programs through periods of market uncertainty.

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Help us Grow in 2015

This year, our goal is to offer our services to several other clients like yourself. Refer a friend and become part of our Client Advocacy Program.

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Quarterly Economic Update
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