# Market Commentary

4TH QUARTER 2014

## Economic Summary

2014 was a very interesting year. Equity investors were rewarded again as the stock market indices recorded another positive year, despite some major dips along the way. While index returns were more muted than the 30%+ experienced in 2013, 2014 marked the sixth year in a row that the S&P 500 was up. Chart 1 shows three main stock indices and their returns over the last one, three and six years.

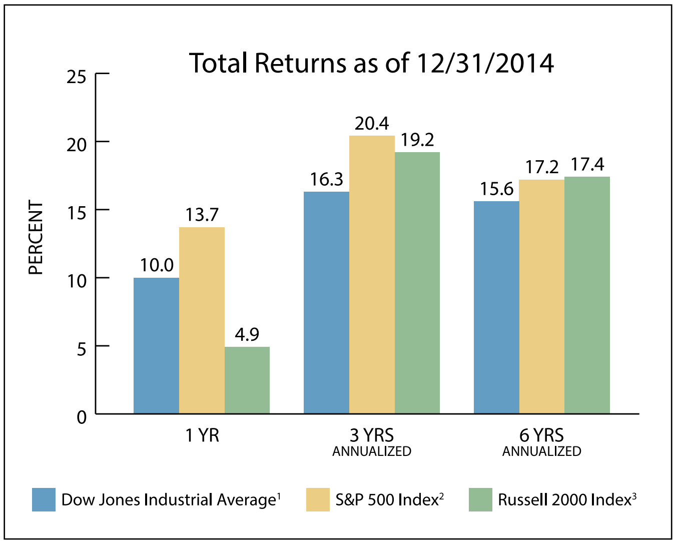


**Chart 1**

It has been quite a run for equity investors. There are four themes that we believe will be important for investors and the markets in 2015. All of them happen to start with the letter "E": Election, Energy, European Central Bank (ECB), and the Economy.

*Election*

The 2014 election was a complete repudiation of the current administration. Republicans won nearly every contested U.S. Senate race, picked up more seats in the U.S. House of Representatives and had strong gains across the country at the state and local levels, too (CHARTS 2 & 3). Now it is time to see if Republicans can lead and make progress with several issues hanging over the country and the economy. At the national level, tax reform and passage of Keystone XL pipeline are two areas where Republicans could build a bipartisan coalition. Obama could be using his veto pen a lot in his last two years in office, but the good news is that hopefully the Republican legislature can put the brakes on the socialist policies the President has been able to enact over these past six years. And, believe it or not, the 2016 Presidential election has already started.

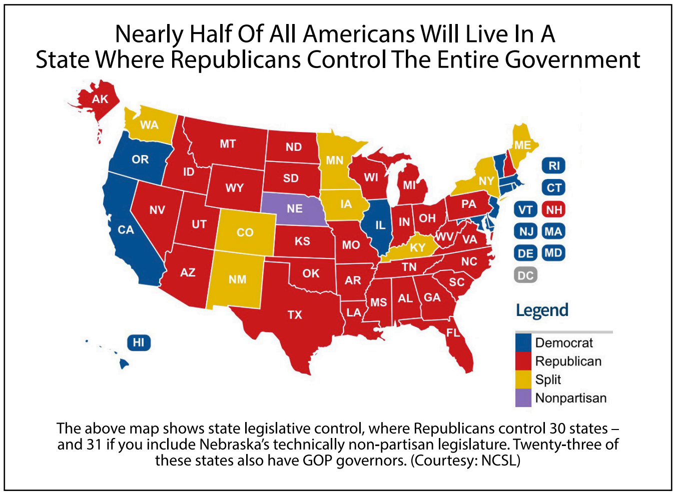


**Chart 2**

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", JANUARY 2, 2015

**Past performance does not guarantee future results.** You cannot invest directly in an index.

[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[2] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

## Economic Summary (CONTINUED)

***Energy prices plummet***

Perhaps even more important in the near term than the recent election results is the dramatic and swift drop in crude oil prices. The ongoing U.S. fracking boom which increased supply, coupled with the slowing global economy resulted in oil prices getting cut in half in a matter of months. In addition, OPEC announced it would not reduce production even though prices had fallen. This shook the markets. There are positive and potential negative consequences to consider. Domestically, low oil prices quickly translated into cheaper gasoline prices. For consumers, this is equivalent to an annual tax cut of $125 billion or more. (CHART 4)

On the other hand, there might be job losses and economic pain in the energy sector. Globally, the falling price of oil is sparking fears of deflation and geopolitical unrest. Putin is clearly the most hurt by the decline, but guessing what he will do is a fool's errand. Another area of the world to watch is the Middle East. Chart 5 on the next page shows the price of oil each country needs in order to fund their generous social programs. If oil prices stay in the current $50 – 60 per barrel range, it would not be surprising to see social tensions increase throughout the Middle East.

***European Central Bank is under the spotlight***

The Federal Reserve ended its asset purchase program known as QE in 2014. With the decline in oil prices, plus the uptick in U.S. GDP and the strengthening dollar working together, 2015 could be a good year for the U.S. economy and the equity markets. Globally, the economies in parts of Europe and China seem to be slowing. The Bank of Japan has been even more aggressive than our Federal Reserve at printing money while the ECB, headed by Mario Draghi, is now under pressure to also expand its balance sheet. The level of global money printing is unprecedented (CHART 6, NEXT PAGE).

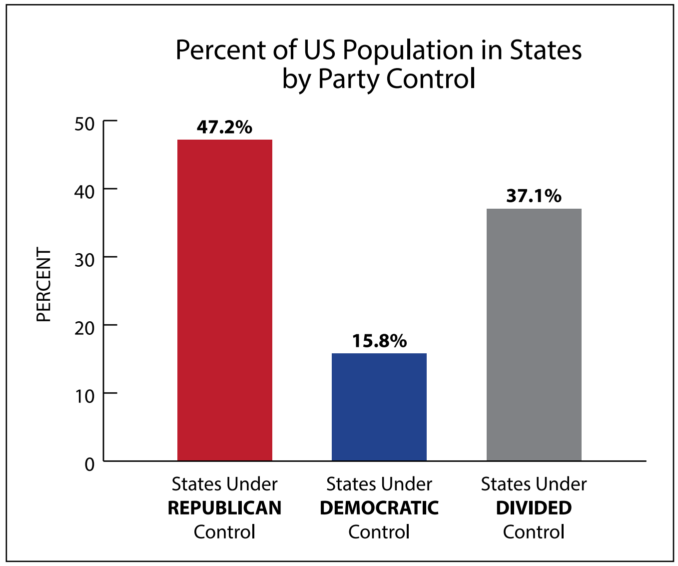


**Chart 3**

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", JANUARY 2, 2015

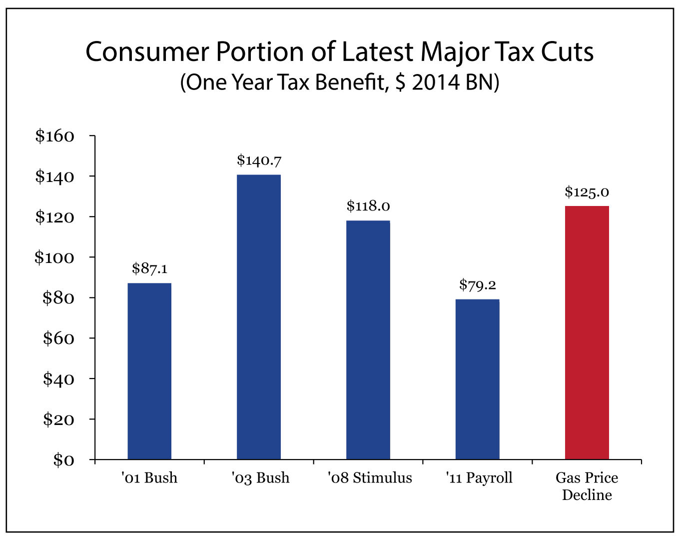


**Chart 4**

SOURCE: STRATEGAS RESEARCH PARTNERS
"POLICY OUTLOOK", DECEMBER 17, 2014

**Past performance does not guarantee future results.**

## Economic Summary (CONTINUED)

***Economy and outlook***

A slowly strengthening labor market combined with lower energy prices should provide the impetus for continued real economic growth in the 3%+ range. The Federal Reserve will likely raise short-term interest rates later this year. If the economy is humming along at a nice clip, it would not necessarily be negative for stock prices.

With stocks in general having risen so much over the past 6 years, bargains are not as plentiful as during the 2008 – 2009 financial crisis. The recent drop in energy prices has created attractive entry points for several stocks in that sector. We are also finding good values in select consumer products, retailers and technology companies.

We continue to favor financially strong, growing companies that have the ability to increase their sales, profits and dividends at above average rates. As always, we are sensitive to price and sell securities when they reach our estimation of intrinsic value and look to purchase securities that are trading below their true worth. Our long-term outlook for equities is bullish, but not so much for bonds. Interest rates will eventually rise, pushing bond prices lower. Investors are not being compensated for extending further out the yield curve or for taking more risk in lower quality bonds. For these reasons, we continue to keep bond maturities short and quality very high.

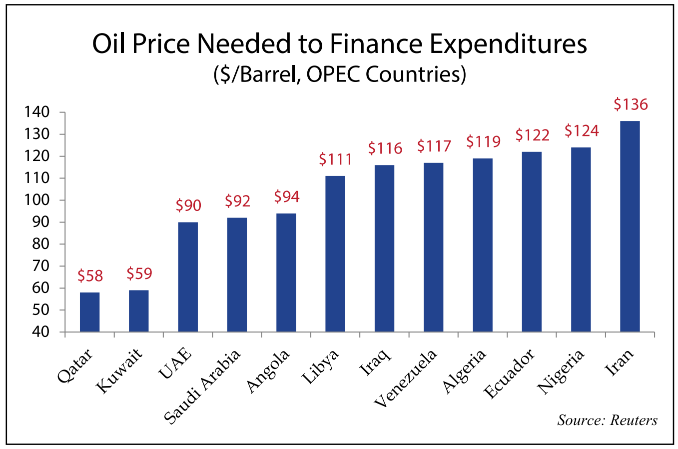


**Chart 5**

SOURCE: STRATEGAS RESEARCH PARTNERS
"INVESTMENT STRATEGY VIEWPOINT", JANUARY 9, 2015

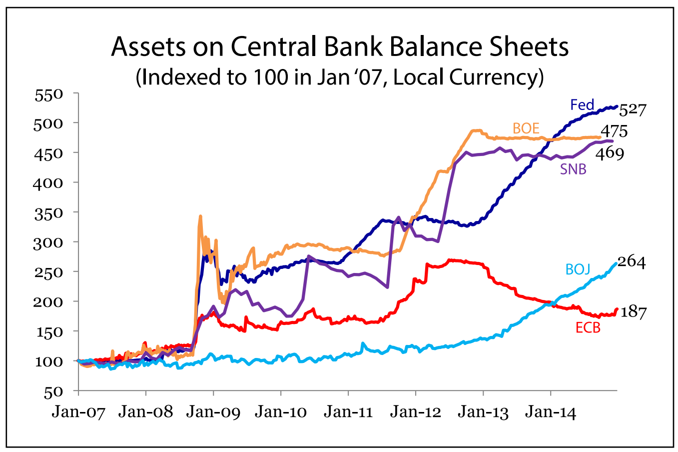


**Chart 6**

SOURCE: STRATEGAS RESEARCH PARTNERS
"INVESTMENT STRATEGY REPORT", JANUARY 7, 2015

**Past performance does not guarantee future results.**

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