

Market Review and Outlook—March 3, 2015

The easy gains are behind us, or are they? In the table below, with the exception of real estate, stocks' 3- and 5-year results are stronger than their most recent year. It is said that the best time to invest is when there is 'blood in the streets.' In 2012 and in 2010, the economic future was far less certain than in 2014. As a result, stock prices were much lower the closer you get to 2008-2009. Two questions remain for stock investors—are US stocks fully or overpriced, and are foreign stocks at bargain levels that warrant 'loading up.'

Most often, stock markets fall after sharp climbs in prices, and with substantial 'flows' into stock funds. There is no fever in US stock investors, although many of my clients are FAR more comfortable with their US stocks and with their foreign stocks. While stock prices have climbed sharply since 2009, their climb has paralleled the increase in the individual companies' earnings growth. The price per unit of growth has not grown in US stock markets enough to justify a high level of concern. I conclude that we are not in the ninth inning of the game, however we are well past the fourth.

What is a precondition for when you should 'load up' on foreign stocks? When I ask you, "would you like to add to your foreign stocks?" and you respond "Heck no!" I think that we are close to that point. In the past decade, large US stocks have doubled in value, while foreign stocks have gained less than 5% a year, which is not far from what bonds have delivered. In the past five years, foreign stocks are up 42% while US stocks are up 97%. While you are unlikely to read it in any headlines, there are several strong reasons for foreign companies to see their earnings rise in the next year or two.

The US dollar has jumped in the past year. This makes it much easier for foreign companies to grab market share from their US competitors. The price of oil has fallen sharply in the past year. The US imports close to as much as it exports, and thus the oil price drop has little overall impact. In regions such as Europe and Japan and India, oil imports are substantial, and the recent drop in oil prices results in financially stronger consumers, companies, and governments.

We continue to study bonds closely, and we continue to feel that quality bonds are the section of the bond market most at risk at this time, with the risk of falling prices from rising interest rates. We are therefore strengthening our commitment to opportunity bonds, those most exposed to the economy, here and abroad.

Our bottom line is constant, **stick to your long-term stock allocation, and rebalance, rebalance, rebalance.** This served investors well through the hardest of times, and we like the odds of this continuing to be a good strategy going forward.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.01%	+0.01%	+0.02%	+1.58%
Intermediate Term Bond	+1.06%	+4.31%	+3.21%	+4.60%	+4.53%
Intermediate Muni Bond	+0.88%	+4.69%	+2.79%	+4.11%	+3.84%
Large-Cap Stock	+2.19%	+12.73%	+16.41%	+14.57%	+7.28%
Mid-Cap Stock	+3.46%	+9.05%	+16.23%	+15.12%	+8.19%
Small-Cap Stock	+4.07%	+5.05%	+15.02%	+14.86%	+7.86%
Foreign Large-Cap Stock	+2.34%	-0.06%	+8.34%	+7.30%	+4.86%
Real Estate	+4.62%	+21.66%	+14.29%	+16.86%	+8.44%
Natural Resources	-0.04%	-11.83%	-2.95%	+2.64%	+4.97%
Technology	+3.96%	+12.25%	+15.97%	+15.51%	+9.65%
Moderate Allocation (60% stocks)	+1.77%	+7.17%	+10.12%	+9.96%	+6.18%

The data in this table comes from Morningstar and is as of February 28, 2015

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