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Issue 91 ***Spring Quarter, 2015***

We appreciate your confidence in us and are working hard on your behalf in 2015.

Please consider visiting our new website at www.wcamg.com. It is a great place to access the Fidelity icon to view your account. On the website we have a weekly blog with observations on financial issues, markets, etc. and you can also sign up to receive this automatically by email. Also, you can now like us on Facebook or follow us on Twitter if you wish.

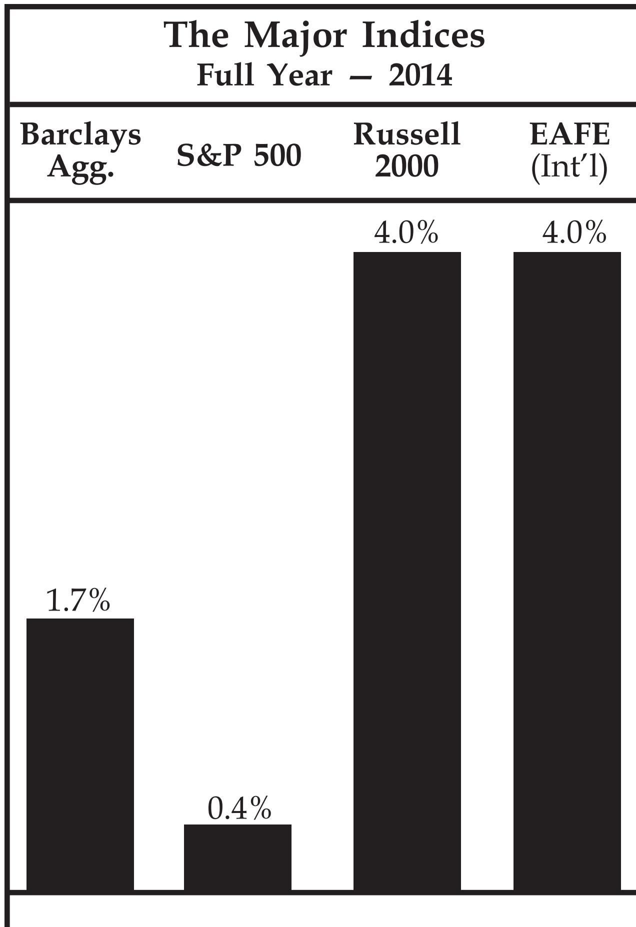
A good quarter for our clients. For the S&P 500 and most bonds, it was a slightly positive quarter. Long government bonds were again strong as foreign investors were attracted to U.S. government securities primarily to own U.S. dollars as our currency rose sharply against the euro and other currencies. The continuing euro decline accelerated due to the announced QE (quantitative easing) program for the Eurozone in January.

In accounts where your objective and risk tolerance made it appropriate, our move to healthcare and hedged European stocks is paying off with outperformance versus the S&P 500. The dollar strength, which we anticipated following the de-linking of the Swiss currency with the Euro in January, has enhanced returns. The hedged Europe position has largely shielded us from the risk of a falling Euro currency.

Is deflation in our future? The Fed has kept rates low primarily to fight that potential trend, and the recent disappointing job numbers have, in all probability, deferred the first rate hike that many had anticipated at in June to September, if indeed the Fed does it at all this year. We had anticipated additional changes to clients' fixed-income positions in portfolios when appropriate. However, the delay in the much-anticipated Fed rate hike has likewise delayed our anticipated changes.

Market Review and Forecast. As most of us people age, the appeal of roller coasters diminishes. The up and down can be nauseating. The same could be said of most investors' reaction to the stock market. And yet, that's where we found ourselves during the first quarter; on a stock-market roller coaster. The last day of the quarter, March 31, the Dow lost 200 points after gaining 266 the previous day. During March, the Dow gained or lost 100 points 73 percent of the time — 16 times out of 22 trading days.

Despite the volatile swings last month (and also in January and February), large-company U.S. stocks ended up just about where the year began. After losing 3% in January, gaining 5.5% in February, and dropping 2% last month, the broad-based S&P 500 eked out a 0.4% gain for the quarter. The Dow Jones Average was actually negative, dropping 0.3%.



Most investors with a diversified portfolio beat the S&P 500's minute gain. This was partly due to solid gains overseas. The index of international stocks, the EAFE, posted a 4% return. And despite the worst quarterly performance ever by the euro — losing more than 10 percent against the greenback — European stocks gained 4% in U.S. dollars. Small caps, as exemplified by the Russell 2000, also had a good quarter, gaining 4%.

It was the ninth consecutive quarter that the S&P 500 has been positive, only the fourth time that has happened since World War II. Amazingly, the tenth quarter in such streaks has averaged an 8% jump! And historically, second quarters during pre-presidential election years have returned a terrific 5% since 1945.

Even so, we wouldn't be surprised to see the market struggle this quarter. The S&P 500 ended the quarter down 2.5% percent from its March 2 all-time high. Another 5% fall or more wouldn't be surprising given two major problems — declining corporate profits and the worry over when the Fed will increase interest rates.

After corporate profits rose 8% for the fourth quarter of 2014, the current average forecast for this year's first quarter is a negative 3% — a so-called "profit recession." In fact the forecasts for all of 2015 expect profits to rise only about 1%. Of course, most of the problem is the 60% profit decline from energy companies since last summer and the strong dollar — up more than 20% since August — that reduces U.S. companies' overseas profits when converted to dollars.

The bullish case is that these low profit forecasts make them easy to beat. The bulls also point out that another bad winter caused the economy to slow last quarter and, just as it did last spring, it will have a strong bounce back. They point out that consumer confidence is at a seven-year high and that there is currently an all-time record number of advertisements for job openings.

Bulls also cite the low 5.5% unemployment rate and job growth that was over 200,000 monthly for a year until last month. The new job numbers for March tallied only 126,000, about half of the forecast 245,000. Obviously, the economy has slowed and many economists are predicting 1% GDP growth or less when first-quarter numbers are reported later this month.

"Will she or won't she?" is the other big question confounding investors. Of course, we refer to Fed Chairperson Janet Yellen and when the Fed will begin to raise interest rates. Will it be as early as June, or this September as most forecasters are now

predicting, or perhaps as late as December or even not until early next year?

The market's high sensitivity to potential possible interest rate hikes was demonstrated on April 6 and also on March 18. The disappointing jobs report on Good Friday, when the market was closed, normally would have caused a sell-off on Monday. However, the Dow rose 117 points on Monday, April 6, as investors reasoned that the weak job numbers would delay the Fed's planned interest-rate hikes.

Another classic example of possible interest rate increases affecting market behavior took place March 18. The Dow was down more than 100 points that day when Yellen faced reporters that afternoon. She went out of her way to indicate that the Fed was in no hurry to raise rates. The Dow then rose 300+ points in less than two hours!

Another drag on the economy has been lackluster retail sales, despite good new-car sales. Instead of spending their savings from lower gas prices, recent consumer-spending data indicates about one-third of it is going into savings and another third to pay down debt.

Still, lower oil prices are certainly an overall positive for our economy. Crude oil ended the quarter at $47.81 a barrel. We believe, given the near capacity of oil-storage facilities and the continuing supply-exceeding-demand worldwide production, that the per-barrel price could continue to fall, perhaps even below $40 per barrel. Saudi Arabia, Russia, and Iraq are all producing oil at multi-year highs.

Hopefully, worries about the near-term prospects for the market this quarter, despite the favorable historical precedents, will be unfounded. Regardless, it seems likely that stocks will be higher at year-end than they are now. A survey of more than 80 economists' predictions for 2015 returns earlier this year found that the most negative forecast was a 2% gain while the most positive predicted a 12% rise. The median prediction of a 7% gain for 2015 seems about right to us; of course, no one knows for sure.

Interest Rates. The Barclays Aggregate Bond Index returned 1.7% for the first quarter of 2015. Fixed income in general had good performance for the quarter. High yield, aka junk bonds, witnessed a 40% increase in purchases over the fourth quarter of 2014. Continued low interest rates aided investors seeking yield in their fixed income portfolio. Corporate bonds 2.3% gain was better than the Barclays Aggregate Bond Index by 0.6%. And the 10-year Treasury note closed the quarter yielding 1.93% resulting in a rise in U.S. Government Bonds for the fifth quarter in a row.

The seemingly perennial big question for fixed-income investors: When does the Federal Reserve begin to increase interest rates? Many experts had held the opinion that the Fed could move as early as June and no later than September. That was before the latest jobs number was released on April 3 indicating the economy may be weaker than

originally perceived. While a low interest rate environment has been good for bonds, a swift rise in interest rates is not. When interest rates increase bond prices decrease which is one of many reasons we are paying attention to Fed policy. Recent soft economic data, however, may result in continued delay by the Fed in raising interest rates, possibly even as late as next year.

U.S. Dollar. This year began with China gaining clout as the world's leading economy. But if Rocky and John Wayne have taught us anything, it is to never count out the United States. During 2014, the dollar rose approximately 12% against its international rivals. During the first two months of 2015 that rise accelerated, especially against the Euro, due to the European Central Banks announcement of their own version of quantitative easing.

March saw the dollar's ascent slow as a result of the Federal Reserve's lowered growth estimates, interest rate forecasts, and slightly-higher inflation. Yet, in spite of this news, the dollar's rise seems almost unstoppable. But that strength may be more about foreign weakness, and less about American strength. Overseas events, such as quantitative easing in Europe and Japan, unrest in the Eurozone (read Greece) and even Putin's penchant for conquest are all leading global investors to favor the greenback.

Foreign investors are also parking their money in the U.S. to take advantage of higher interest rates here. We know, 1.9% on the ten-year bond doesn't seem very high, but when compared to yields elsewhere, the U.S. government looks downright generous. This disparity in yields on short-term and even intermediate-term bonds in Europe is illustrative. Some cases in point:

- Tuesday, April 8, the Spanish Treasury issued short term debt with a slightly negative yield (-0.002). This means that an investor actually has to pay the Spanish government for the privilege of owning Spanish debt. Similar debt in the summer of 2012 was yielding 3.237%.
- German bonds up to seven years are selling in the secondary market sporting negative yields.
- Likewise, secondary-issue short-term debt (less than one year) in France, Belgium, the Netherlands and Austria trade with yields south of 0%.
- And the Swiss auctioned off ten-year debt on April 8 with a negative yield of -0.055%. This is the first time ever that any government has sold ten-year bonds with a negative yield.

While this may be bad news for investors searching for yield, this is the world in which we currently live. As a result, the U.S. greenback should continue to remain strong and vibrant well into 2016.

Please let us know if your circumstances, needs, risk tolerance, or objectives shift which may have an impact on the way we manage your assets. We can and will respond to your needs by tailoring the allocation to meet your criteria. We look forward to hearing from you and discussing any issues that would relate to our management of your assets. Please call us at 336-998-7000; we always look forward to talking to you.