Executive Economic Outlook And Summary

MULTOP FINANCIAL
Private Wealth Management & Tax Expertise

Spring/Summer 2015

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Renew your optimism. That's Multop Financial's official statement for the next six months. In our last Economic Outlook (published in October 2014) we anticipated a positive but volatile market with stocks ultimately ending higher. That forecast turned out to be accurate.

Domestically, US markets in the first quarter of 2015 saw a rather dismal performance. The Dow Jones Industrial Average (DJIA) finished the quarter at -0.3% and the S&P 500 earned a positive 0.47%. Currently stocks aren't expensive, nor are they cheap, implying the market is fairly valued and explains the rather flat start to 2015. Looking forward, we are still in a confirmed Bull Market according to the Dow Theory and unless the DJIA drops below 17,100 we will remain in the current trend. Given our present inflation environment, coupled with a "lowered bar" set for corporate earnings expectations in the 2nd quarter, it appears the stage is being set for a positive earnings season. Investors should be aware, however, that while volatility and/or a market correction (defined as a short, sharp market drop of -10% or more) can happen at any moment, it should not be viewed as a call to action unless the DJIA does drop below 17,100. Corrections are normal in bull markets; sometimes even a charging bull needs to pause and catch its breath. With any luck, 2015 could end up like 2014 – slow at the start but with a nice finish and a solid year overall for the market. Small Cap, Mid Cap & International sectors appear strong while bonds remain unattractive.

On the employment front, we have seen steady declines in the US unemployment rate since 2010 and we see no reason to expect this trend will change. Unemployment, along with a strong housing market, are two of the most prominent components to our continued economic success. Currently, both appear to be heading steadily in the right direction. Data suggests the US consumer is also relatively positive about the future, indicating economic growth.

Because of the reduced cost of energy as well as the recent strength in the US Dollar on the world market, inflation related concerns have decreased substantially. This means the Federal Reserve isn't likely to raise interest rates until September at the earliest but more likely not until 2016. This is good news for US stocks as cheap access to capital generally goes hand in hand with business expansion.

Here are a few economic figures we believe are worth noticing:

- **The S&P/Case-Shiller Index** reports home prices continue to rise with the index at 177.38 in February. Since hitting its bottom in February of 2012, the index is up over 29.5% showing a clearly upward direction for home prices.

- **The Conference Board Consumer Confidence Index®** increased in March but declined in April. The index now stands at 95.2, down from 101.4 in March. Even though the April figure shows a decline, it's important to note that the index can be fairly volatile. The overall trend however has been moving steadily higher since 2009.

- **The Institute for Supply Management's PMI® Index** reported at 57.8% in April, representing continued growth for the 69th consecutive month. The April figure was 1.3% higher than March indicating the rate of growth has been accelerating. According to ISM, the majority of respondents' comments are positive, stating that business remains strong and overall business is continuing to expand for 2015.

- **The National Federation of Independent Business** shows small business owners have been hiring at a notable rate during 2015; stating those who are hiring were more aggressive, producing an average increase in workers per firm of 0.14 workers. This continues a string of solid readings for the year.

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- **The Commerce Department** reported that consumer spending has increased 0.4% in March showing a turnaround in consumer spending since the 0.3% drop in January. Consumer spending as a percentage of US Gross Domestic Product (GDP) currently sits at one of the highest levels on record according to data provided by the Federal Reserve Bank of St Louis, meaning consumption of goods and services in the US relative to the overall GDP is strong.

- **The Bureau of Labor Statistics** reported the official unemployment rate dropped in April 2014 to 5.4%. However, if you add back in those who have quit looking for work or are "marginally attached to the labor force" the real unemployment figure sits at 10.8%, substantially lower than its peak of 17.4% in October 2009.

- **U.S. Real Gross Domestic Product** increased at an annual rate of 2.2% in the fourth quarter of 2014. Although there was an increase in real GDP in the 4th quarter, the deceleration in real GDP growth primarily reflects an upturn in imports, a downturn in federal government spending, a deceleration in nonresidential fixed investment, and a larger decrease in private inventory investment.

- **CBOE Volatility Index (VIX).** In December the VIX sat at 14.16, had a significant upturn increasing to 23.57 and since that time has continued to trend downward, sitting at 14.02 at the end of April.

International turmoil continues to dominate headlines. Whether it be Greece, Iran, Russia or the European Union's stimulus, the most probable catalyst for a stock market correction lies in the international space. Greece is on the verge of defaulting on its debt obligations (again). Whether they are eventually removed from the Euro or not remains to be seen, but if they do, it would ultimately make the Euro a much stronger currency over the long-term but cause a significant amount of volatility in the short-term as investors digest what it means to the stability of the Euro as a viable currency.

With the European Union announcing they are going to start a stimulus program similar to the latest one in the US, European Stocks should experience strong growth. Although a declining Euro vs US dollar works against this, we have already seen the Euro's value drop significantly and now appears to have stabilized on the world market, meaning that after weighing the positive and negative factors, the balance appears to suggest this could be a good time to add some level of international exposure into your portfolio.

What does this mean for your portfolio? The primary direction of the market is still positive, however investors should expect mild volatility as we move higher. This is especially true for the international markets. Large Cap domestic investments, while safer, will likely be eclipsed by the gains in Small Cap, Mid Cap and International sectors. So depending on your individual risk tolerance, you could accept a higher degree of risk and will likely see the rewards for taking that risk. Our clients' portfolios have already been positioned to take advantage of this, and those with larger exposures to our small-mid cap strategies have seen some pretty healthy gains so far this year. Diversification is the one "free lunch" on Wall Street, so always maintain a diverse & durable portfolio.

If you are not yet a client and would like to get access to these strategies please contact our team to find out what would be the most appropriate allocation for you.

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