HAAS Fydroski Financial Services, Inc.
Investments - Planning - Education

IPE Insights

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Jim's Journal

2014 Look Back—2015 Look Forward

Almost every year produces its share of surprises and 2014 was no exception. Among the bigger geopolitical stories of 2014 was the world's largest Ebola outbreak in history, civil unrest in the Middle East which led to the rise of the Islamic State (ISIS) and Russia's "proxy" invasion and subsequent annexation of the Crimea.

There was no bigger story in the financial markets than the plunge in oil prices and a general global collapse in commodity prices. Did you ever think gasoline would fall below three dollars per gallon and then below two dollars per gallon? Was it logical that the stock market could experience another year without a normal 10% pullback (last one was 2011) in 2014? It did just that. There was also unusual strength in the U.S. Dollar and long term U.S. Treasury Bonds - never expected at the beginning of the year.

Stories like these could have led and contributed to a major stock market decline but the remarkable U.S. bull market continued to new highs in 2014. Impending doom was deferred by the continuing stimulus programs of the Federal Reserve, at least, for another year. The Fed successfully tapered back its massive Quantitative Easing stimulus program in 2014. This program was pumping, at its maximum, $85 billion a month into the U.S. economy in 2013. The Fed began reducing the stimulus by ten billion dollars per month in early 2014 and the program ended in October. Some Fed watchers estimate that the cost of the entire stimulus program was upwards of three trillion dollars. It is now history and the withdrawal took place without any discernible impact on the economy or lessening of confidence in the stock markets in 2014. However, the long range impact is still unknown.

Alas, despite the turmoil both here and abroad, the major U.S. Stock Indexes enjoyed solid but not spectacular returns in 2014. The Dow Jones Industrial Average (DOW) gained +10.04% for the year, the S&P 500 index was up +13.69 % and the NASDAQ gained +13.40% (Source: Morningstar). In a pattern similar to 3rd Quarter 2014, however, the Average U.S. Stock Fund came in below the major indexes with an average year end return of +7.6%. The explanation is that very few funds outperformed the S&P 500 in 2014. As an example, Small-Cap Growth funds averaged only a +2.2% return for the year and Balanced Funds averaged +5.9% in 2014. Consequently, unless your portfolio was only concentrated in large company funds and ignored diversification, you would not have experienced the index returns of the DOW, NASDAQ and S&P500.

Individual sectors always seem to produce bigger winners as well as bigger losers - 2014 was no exception. Health Care/Biotech was the clear sector winner with an average return of +27.8% and Natural Resource Funds were the clear loser at -14.8%. The Natural Resources sector reflected the downturn in oil prices and weakness in commodities mentioned above. The Average Taxable Bond Fund was up +2.8%. High Yield Municipal Bond Funds led all bond categories with a very lofty and unusual average return of +14.2% (Source: Wall Street Journal 1-6-2015).

There was great risk potential in 2014 that kept the Money Management Program in a more conservative mode much of the year. This, in turn, lessened the returns in the growth and aggressive growth models. In contrast, the capital preservation models had a very competitive year. In my opinion, there are times, irrespective of investment returns, when the market is too risky for a retiree to be fully invested. For clients who would like to assume more risk/volatility and potentially higher market returns, I ask that you to reread my November 2014 newsletter article entitled, "What's Your Number?" The average market risk/volatility of the S&P 500 over the last 34 years is about -14.2%. What this means is that if you are looking for market returns as measured by the S&P500, in an average year your account could expect to drop -14.2% at some point before possibly recovering. In the worse year the drop was -49% and in the best year the drop was only -3%. I am willing to manage to your risk tolerance number but I need to know what that risk number is.

As we Look Forward to 2015, stock markets are experiencing a rather rude introduction to the New Year. Volatility has returned with a vengeance and markets have experienced both large gains and large losses often within days of each other. The calming effects of the Federal Reserve stimulus packages are gone and the markets must now stand on their own. Europe introduced its own version of economic stimulus on January 22. It drove the major indexes into positive territory the first day of the announcement but a pullback took place the second day. As I write this article, the DOW and S&P500 are slightly negative for January and the NASDAQ is slightly positive. It will be interesting to see how January ends. According to the Stock Trader's Almanac, every down January on the S&P500 since 1950, without exception, preceded a new or extended bear market, a flat market or a 10% correction. Only time will tell what really happens in 2015. Take good care!!!

New Year Wishes – 2015

As has been my custom for many years now, the January newsletter offers some inspirational thoughts that came my way during the past year. Hope that you enjoy the uplifting passages that I have included here:

To clients, friends and family who are on MY TRAIN:

We all get so much "stuff" in the US mail and e-mail - some good, some bad, some truthful, some not, some thought provoking, some just plain dumb. This was passed on to me from my sister. It contains some thought provoking ideas about our journey through life. The words flow like a gentle breeze and are dedicated to you...my clients and friends.

> At birth we board a train and meet our parents. We believe they will always travel by our side. However, at some station, our parents will step down from the train, leaving us on this journey alone.
>
> As time goes by, other people will board the train, and they will be significant - siblings, friends, the love of your life, children, and many others. Some will step down and leave a permanent vacuum. Others will go so unnoticed that we won't realize they vacated their seats.
>
> The train ride will be full of joy, sorrow, fantasy, expectations, hellos, good-byes, and farewells. A successful ride requires having a good relationship with all passengers. We must give the best of ourselves.
>
> The mystery to everyone is, we do not know at which station we ourselves will step down. So, we must live in the best way, love, forgive, and offer the best of who we are. It is important to do this because when the time comes for us to step down and leave our seat empty we should leave behind beautiful memories for those who will continue to travel on the train of life.

I wish you a joyful journey on the train of life. Reap success and give lots of love. More importantly, thank God for the journey.

Lastly, I thank you for being one of the passengers on MY TRAIN.

Some other words of wisdom —

- *There aren't any bad days, some are just better than others.*
- *Keep your mind clean; change it occasionally.*
- *Just because you are moving swiftly, it doesn't mean you are going anywhere.*
- *Many people who give admirable advice are totally incapable of taking it.*
- *Always do right; this will gratify some people and astonish the rest.*
- *Life's heaviest burden is not having anything to carry.*
- *When you flee temptation, be sure you don't leave a forwarding address.*
- *Life is 10 percent what happens to us and 90 percent how we respond.*
- *There is no tranquilizer in the world more effective than a few kind words.*

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