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**MARKET COMMENTARY**

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<b>Dow Jones Industrial Avg.</b>	<b>17,042.90</b>	<b>Standard and Poor's 500</b>	<b>1972.29</b>
2014(YTD) + 1.29%	3 <sup>rd</sup> Qtr. + 2.8%	2014(YTD) + .62%	3 <sup>rd</sup> Qtr. + 6.7%

**Relief at Last** – “Pop, pop, fizz, fizz, oh what a relief it is.” Alka-Seltzer jingle

**It's Over!** - Yes, this is a reference to the political campaigning that finally and mercifully has come to an end. The repetitiveness, the persistence, the increasing negativity, and the shallowness have run their course. Does anyone think the \$4 billion spent on political ads was money well spent? Now the successful politicians will reveal just how empty their promises were. What is the likelihood a Republican Congress and a lame-duck Democrat President achieve agreement on anything of substance? What about 2015? The President wisely, but uncharacteristically, called the Congressional leadership together ostensibly to establish a positive relationship for the coming legislative session. However the apparent result of the confab was to magnify the extent of the challenge ahead for both parties, at least the media can look forward to a continuation of the political scrum in Washington. The rest of us will seek more satisfying activities. Go Pats!

**On a Roll** – Following a rapid descent from mid-September to mid-October, stocks have staged an impressive rebound, in spite of the hand-wringing over the elections. This whipsaw action resulting from the political campaign; ISIS in Iraq and Syria; and the Ebola scare provide clear examples of the distractions investors must learn to ignore. Each one represents a brick in the wall of worry, which causes even the seasoned investor to hesitate rather than act, yet as is often pointed out stocks have an uncanny ability to climb the wall of worry. This has been demonstrated once again by the recent stock market recovery. What factors should be the focus of attention for most long-term investors? Judging by the chatter on CNBC, Bloomberg or Fox business channels, economic growth and corporate profitability receive the most serious attention. The premise is by determining if the business environment is favorable, corporate profitability can be achieved and enhanced. A common pitfall is to pay too much attention to short-term variations in the statistics. Is it unwise to consider reacting to the periodic reports, such as the monthly employment reports, which are subject to revision. Some Investors choose to emphasize other valuable indicators, such as the strength of the balance sheet or a history of regular dividend increases.

**Digging Deeper** - A recent Wall Street Journal article suggests these statistics offer investors little insight into future stock prices. In fact the article refers to a study conducted by an economist at the Vanguard Group, which suggests these indicators have little or no correlation to the movement of stock prices. The simple conclusion is the highly compensated Ivy League MBAs on Wall Street do not possess any special insights or secret mathematical equations, which allows them to uncover winning ideas. Where, then, does an investor turn for an edge? The secret ingredients to investing success are an awareness of the ebbs and flows of investor psychology coupled with an appreciation of the role of investor emotion. Realize neither of these traits is easily quantifiable. Nevertheless, they are the disrupters because they are so unpredictable. Their impact on investor decision-making was noted as far back as Charles Mackay's classic treatise, “Extraordinary Popular Delusions and the Madness of Crowds” published in 1841. Some of the examples highlighted include the Tulipmania of the seventeenth century and the South Sea Company of the early eighteenth century, which illustrate the allure of fads and hazards of following the crowd.

**What Next?** – In the short-run, momentum is on the side of the bulls. In spite of the loose bricks in the wall of worry, stocks have continued to move higher. Economic expansion shows signs of accelerating and

this has been reflected in the continued growth of corporate profitability. If, as pointed out earlier, these statistics have little correlation with future stock prices, the best alternative may be a careful examination of a stock's valuation. Today many experts suggest stocks are fairly valued based on historic norms. Others, including veteran Jack Bogle, the founder of Vanguard, believe stocks are richly valued if not overvalued. Whichever camp is right, the path of least resistance between now and the end of the year appears to be higher.

**QE Retired** – Interest rates for savers and investors may finally be poised to move higher. It isn't quite time to pour the champagne just yet, however the cork has been removed from the bottle. As you may recall, quantitative easing (i.e., QE) has been a tactic employed by the Federal Reserve to push interest rates lower and keep them there. Their objective was to stimulate the economy and to encourage more borrowing by businesses and consumers. Initially, this was very popular with home owners, who used the opportunity to refinance and lower their mortgage payments. However, after several extensions of the program, the impact diminished. On the other side of the equation, QE has been a nightmare. Whatever benefit accrued to borrowers must be juxtaposed with the income lost by savers and investors. How bad did it get? For many years, money market funds were a safe way to keep funds available and still provide a reasonable return. However for the past two or three years the return on these funds has shrunk to zero. In order to achieve any return at all, investors were compelled to assume additional risk. Some older investors were uncomfortable making that leap, so they were forced to spend some principal to balance their budgets. Interest rates are not about to soar higher, yet it is likely we have passed the inflection point. As a result, savers can expect a gradual increase in their returns.

**A Ray of Sunshine** - The outlook for the economy is brightening as the employment level increases and consumer confidence follows. When these positive trends are combined with the rapid decline in energy prices, it bodes well for the approaching holiday shopping season. A majority of Wall Street connected economists have initiated growth expectations for the year ahead at the three to three-and-a-half percent range. Headlines will continue to be devoted to assorted world crises, yet as has been the case with ISIS, Ebola, and Crimea, their impact on stock price tends to be transitory. Our recommendation is for most investors to slightly overweight stocks in their assets mix, yet continue to be sensitive to valuation. Electric and telephone utility stocks have been relatively stable and provide attractive dividend yields. Energy stocks have been deservedly punished given the dramatic plunge in energy prices, yet this group includes several very large companies with excellent finances and healthy dividends. This presents an excellent opportunity for a contrarian willing to be patient. If interest rates begin to rise in earnest, bonds will fare less well, and in fact could easily provide negative returns. Short maturities (i.e., five years or less) offer the best defensive stance.

**Final Notes for 2014** - - If you have IRAs and have reached 70 ½, you must take your Required Minimum Distribution (RMD) based on the total of all of your IRAs before the end of the year. Another suggestion is to take advantage of any capital losses carried forward by offsetting them with gains taken earlier in the year or gains realized before year-end. You may also be able to write-off as much as \$3,000 of losses on your income taxes. We aim to make tax efficient decisions on your behalf, but we may not be aware of tax situations outside of our purview. You may decide to make gifts to children or grandchildren before the end of the year. The gift tax exclusion is \$14,000 per person for 2014. Remember your favorite local charities as well. They will be most appreciative of your support. Given the stock market's advance this year, it may be worth considering making any gifts to charities with appreciated securities. This allows you to write-off the full value of the securities while avoiding the gain you would incur with a sale. Be sure to check with your accountant or tax adviser regarding all of these matters.

Those of you who are interested in having old files shredded, please call us and drop them off no later than December 3, 2014. Files will be shredded by Shred King at our office on December 4, 2014.

Enjoy your Thanksgiving and have a Happy Holiday Season. --JML