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MARKET COMMENTARY

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Dow Jones Industrial Avg. 17,823.07
2014(YTD) + 7.52% 4th Qtr. + 4.58%

Standard and Poor's 500 2058.90
2014(YTD) + 11.39% 4th Qtr. + 4.39%

For Democracy to Succeed – “The only title in our democracy superior to that of president is the title of citizen.” Louis Brandeis, U.S. Supreme Court Justice

Hope Springs Eternal - A new year brings with it the promise of progress and new accomplishments. Many individuals seek to capitalize on this renewed energy by making New Year's resolutions. Most will soon admit they are easier to make than to achieve. Investors approach financial markets with similar anticipation. History has shown if the stock market does well in January, it is likely to do well for the entire year. According to the Stock Trader's Almanac, this “January barometer” has registered only seven significant errors since 1950! Added to this impressive record are what are termed eight flat year errors (less than +/-5%). Both the S&P 500 and the Dow Jones Industrials fell more than three percent last month, so 2015 falls into this grey area. The stock market will now have to work hard to overcome this unfortunate start, just like many of us who falter with our New Year's resolutions.

Politics and Spending – Before I get to the serious matters of what the year ahead may bring, it is important to acknowledge the miraculous Super Bowl victory by our New England Patriots. Hollywood could not have scripted a more exciting finish. The game was the highest rated television program in terms of viewing audience ever, and it was reported to have attracted four times the audience of President Obama's State of the Union (SOTU) address. Does this great discrepancy reflect the lack of civic responsibility or is it message fatigue? In spite of the President's reputation as an accomplished orator, his message appears to be falling on deaf ears. His tone to Congress did more to alienate the Republican majority than to enlist their support. Rather than inviting compromise, he promised to veto any of their initiatives. The President's budget request was released last Friday and to no one's surprise, it met mixed reviews. As he highlighted in his SOTU address, his primary objectives during this budget cycle are to provide some additional new programs and benefits for the “middle class” and this largess will be paid for with increased contributions from the “one-percenters” and large corporations. Notably missing from his remarks were the challenges this country faces on the international scene. Unless achieving détente with Cuba qualifies as a significant foreign policy accomplishment (it is not), then his approach to foreign policy can best be summarized as benign neglect. Yes, his Secretary of State, John Kerry, has accumulated more frequent flyer miles than any other person alive, even the President's supporters would be hard pressed to list any agreements of substance.

A Man in Search of a Legacy – President Obama must be hoping his legacy has already been achieved. His crown jewel is Obamacare, also known in Washington, DC as the Affordable Care Act. Some of his other more notable accomplishments are his attempt to engineer a military exit from Iraq and Afghanistan for which he must accept a grade of incomplete. He is quick to point out his administration guided the economy out of the worst recession since the Great Depression, even though the Federal Reserve shouldered most of the load. The President did actively advocate for a more robust regulatory framework targeting the country's largest financial institutions. Since his re-election in 2012, all of his efforts have been thwarted by a divided Congress, so he has improvised by resorting to his highly controversial rule by executive fiat. Nothing embodies this better than the hotly debated waiver of immigration regulations for millions of undocumented (illegal) workers. With the stroke of his pen, he reshaped immigration law because Congress refused to pass legislation that met his criteria. As a result, one of this country's thorniest problems is likely to remain unresolved because the two parties are now more polarized than ever. There is little hope for any change of

consequence in the final two years of the President's second term. Has he squandered his opportunity for a highly-rated presidential legacy? It remains an open question.

The Economy Matters – At long last, domestic economic growth is approaching a satisfactory level. There are many reasons it has taken the economy so long to heal. Compare the time it takes to heal a scratch to that of a deep wound, which requires stitches - the former will heal in a week or less, while the latter may require multiple weeks to heal properly assuming no complication, such as an infection. There is no doubt the Great Recession was a serious wound to the economy, and the implosion within the financial sectors required a prolonged recovery period. Leverage, the misapplication of debt, nearly led to catastrophic consequences. Everyone can recall the horror tales of distressed mortgages and the havoc they inflicted on borrowers, lenders, Fannie Mae, Freddie Mac and the purchasers of mortgage securities. Pain was widespread. Only drastic efforts by the Secretary of the Treasury and the Chairman of the Federal Reserve were able to stem the bleeding. After five years, their extraordinary efforts finally yielded a satisfactory level of job creation, and unemployment has fallen to an acceptable level. Consumers are finally beginning to feel confident the economy is back on track and this is being demonstrated by their increased willingness to spend. Even economists (after all economics has been referred to as the dismal science) are predicting a more rosy outlook as they have lifted the growth projections for 2015 to two-and-a-half to three percent.

Energy – Feast and Famine – Last year investors were hailing the benefits of the shale revolution. Energy independence was within our grasp; owning energy stocks was a must. Now a year later all participants in the energy arena are experiencing considerable stress, as the world's energy market suffers a supply glut. Energy investors have had to adjust their tactics, while consumers have been provided some welcome relief at the gas pump and with their home heating bills. Once again, investors are reminded of the danger of following the hottest stocks. There is another lesson as well, which has to be the advantage that can accrue to a contrarian. Any company even vaguely connected to energy has been pummeled over the past six months, yet the world's need for energy is only going to continue to increase, particularly in the developing nations. If growth in this country continues to improve and European and Japanese economies finally stabilize, a vigorous rebound in energy price can be expected. For long-term investors underweighted in energy, now is a good time to build or add to positions.

Have You Heard the One about Rising Interest Rates? – I feel like I have been trudging up to the widow's walk for the past few years searching the horizon of Nantucket Sound in search of the first sign of rising interest rates. It has been to no avail. Rates have stubbornly hovered near zero for all short-term instruments. This year a sighting is much more likely as the Federal Reserve has telegraphed its intention to raise rates later in the year. However any increase is expected to be tentative and modest. Savers and investors will have little reason to cheer, and they will continue to be forced to look elsewhere for investment income. Their only consolation is they are not being forced to accept negative returns as are investors in Japan and some European countries. Domestic investors must continue to scour stock market listings for good quality companies with respectable dividends. Utilities, financials, and the aforementioned energy stocks continue to be popular sectors. We continue to favor Massachusetts municipal bond funds as a source of modest income with some interest rate risk.

Paying Uncle Sam - As we find ourselves in the middle of the tax filing season, it is important to account for all sources of income. If you need assistance accessing any Schwab reports, please contact us. When you do file, make sure to determine if any quarterly estimates are sufficient to cover your anticipated 2015 earnings. Your accountant can clarify these issues for you. When making your year-end review of your IRA, 401(K), 403(B) and other retirement accounts, be sure to check your beneficiary selections as well because those forms usually determine who inherits those assets, not your will. If you have concerns about the disposition of your estate, it is wise to check with your attorney.

When Will Snow be Gone? - Join our intra-office contest to identify the date all the snow disappears from our office property. Win a \$25 gift certificate to Wimpy's or Crisp. 02/15/2015 -JML