

# WealthInsider

Your Investment News from TRUE Private Wealth Management

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## A Bullish Mood And Risks That Dot The Landscape

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hat a predictable and very unpredictable year 2014 was. Yet, that could be said about every year!

For starters, the U.S. economy picked up steam throughout 2014, and the S&P 500 Index racked up another double-digit gain following 2013's 30% advance. The economic forecast was reasonable. Though a call for another double-digit advance may have seemed to be a bit of a stretch, solid market fundamentals have yet to abate – more in a moment.

Still, who would have forecast utilities, which are normally a defensive sector, would lead the way if the S&P 500 Index had posted a double-digit gain? Credit the higher dividends they offer and falling bond yields.

Speaking of bond yields, there has been a rally in Treasury bonds and high-grade corporate debt. Weren't we supposed to see a continuation in the upward drift in bond yields? At least that was the consensus.

It's Exhibit A as to how markets can and do baffle the best minds. It also highlights why relative strength investing between asset classes is such an important principle to successful long-term investing.

Finally, few could have predicted the



Image Courtesy of: [agedu.org](http://agedu.org)

outright collapse in oil prices. We began the year near \$100 per barrel and ended just north of \$50 per barrel. When and where oil will stabilize is anyone's guess, but the decline in crude is responsible for the 10% drop in the S&P Energy sector. It was the worst performing of the 10 industry groups that make up the S&P 500 Index.

### The Galloping Bull

There were times when we hit a patch of volatility. October quickly comes to mind. But the fundamentals quickly re-asserted themselves, driving stocks to new highs. These included:

1. An acceleration in economic activity,

	MTD %	YTD %	3-year* %
<b>Dow Jones Industrial Average</b>	<b>-0.03</b>	7.52	13.41
<b>NASDAQ Composite</b>	<b>-1.16</b>	13.40	22.05
<b>S&amp;P 500 Index</b>	<b>-0.42</b>	11.39	17.86
<b>Russell 2000 Index</b>	2.68	3.53	17.59
<b>MSCI World ex-USA**</b>	<b>-3.40</b>	<b>-6.74</b>	7.41
<b>MSCI Emerging Markets**</b>	<b>-4.82</b>	<b>-4.63</b>	1.43

Source: Wall Street Journal, MSCI.com

\*Annualized

\*\*USD

which led a pickup in earnings growth. S&P 500 earnings improved from a modest increase of 5.6% in Q1 to a solid 10.3% by Q3, according to Thomson Reuters.

2. A pledge by the Fed to keep short-term interest rates at rock bottom levels for a “considerable time.” Without drowning you in the tedious details of discounted cash flows, low interest rates provide little in the way of formidable competition for stocks.
3. Stock buybacks by corporations continue to rise. According to S&P Dow Jones Indices, combined dividend and buyback expenditures set a new record of \$892.66 billion for the 12 months ended September 30, with stock repurchases representing 62% of the total. Stock buybacks reflect confidence as well as real demand for shares.

Jeremy Siegel noted at year’s end, “The last three, four years, I thought this was easy. I mean, it was a slam dunk. The market was so undervalued with the interest rates so low, and earnings momentum going up. ... Earnings momentum is going up, but we are closer to fair market value.”

Siegel is often a featured guest on CNBC and other national news outlets and is a professor at the highly-respected Wharton School of Business.

Siegel projected this time last year that the Dow Jones Industrials would hit 18,000 by the end of 2014; the index cracked that milestone on December 23. Of course, it’s easy to be a Monday morning quarterback when you’ve accurately called the game, but his analysis is spot on.

Looking ahead, Siegel sees 20,000 on the Dow as a possibility, but he’s quick to point out, “We’re close to fully valued...it gets hard.” His reasoning, “Interest rates are going to be...lower than what the Fed thinks...going forward.”

Before we get carried away with unbridled enthusiasm, it’s fair to point out that Siegel was relatively bullish on stocks as part of a panel discussion that was published by Business Week in May 2000.

And it highlights why I never pass up a moment to preach diversification between and among asset classes. No one has a crystal ball. No one can accurately foresee the unexpected events that may derail the most thoughtful forecasts.

### ***A Sneak Peek at 2015***

The fundamentals that have fueled equity gains in recent years remain in place. Even as the Fed ended its controversial bond-buying program last October, the fed funds rate is expected to remain at historically low levels through at least the end of 2015 and possibly beyond. I hope they raise rates in June, the stock market and the economy needs to begin the long climb up the interest rate ladder.

Moreover, the European Central Bank continues to hint that a more ambitious plan is in the works, as it battles a

severe disinflationary environment. Simply put, central bank generosity has historically been a tailwind for stocks.

But as I already cautioned, let’s not get carried away. Let’s keep a balanced approach. Let’s adjust our approach when changes in your personal situation or goals make our current stance less than optimal.

While strong fundamentals remain in place, risks never disappear, even in a diversified portfolio. We can manage but not eliminate risk. So that leads to the next question – what may be some of the events that could create volatility in 2015.

1. The year ended with oil near \$50 per barrel. I recently saw a story in Reuters that noted \$150 billion in energy projects around the globe face the axe. That means there will be winners and losers at current prices, though the net gain to the economy should be positive.



*Image Courtesy of: funpop.com*

Meanwhile, Russia is undergoing a wrenching adjustment, as its energy-dependent economy must adapt to the new reality. The Russian Ruble has fallen sharply this year, and Russia’s central bank said its economy could shrink by as much as 4.7% in 2015 if oil averages \$60 a barrel.

A 1998-like crisis that briefly walloped stocks doesn’t appear to be on the horizon, but any contagion that seeps out of Russia could create volatility at home.

Then there has been the steep selloff in junk bonds tied to the energy sector. While Treasury and investment grade yields fell last year, high-yield debt rose. Some of the rise can be blamed on expectations the Fed will eventually raise interest rates, which could crimp some highly-leveraged borrowers.

But a big part of the increase can be blamed on default fears in the energy patch amid a re-pricing of risk in high-yield energy bonds. If concerns were to seep into other sectors of the junk bond market, we could see a spillover into stocks.

2. One test the market faces early this year: Greece is set to elect a new president in January, and there are worries the far left could take the top spot.

While political leaders on the left favor staying in the euro-zone, they want to renegotiate the terms of the Greek

bailout. Markets rarely enjoy grappling with an added layer of uncertainty.

But just remember, that although this will be in the headlines, Greece's economy equals that of Rhode Island. And, Greece has been in default almost 50% of the time as a country.

3. Slowing growth in China and Europe's tepid recovery could dampen growth at home. Odds are fairly low as the U.S. simply isn't dependent on overseas demand to drive its economy. So far, U.S. growth has accelerated in the face of global jitters.
4. Will we get volatility around the Fed's first rate hike in nearly a decade? There are no guarantees when it comes to Fed policy, but if U.S. employment and economic growth continues at the current pace, the Fed has signaled rates will start rising in 2015. Although it is doing its best to telegraph its intentions, markets could get jittery in the interim.
5. Emerging market anxieties. A stronger dollar and a Federal Reserve that is expected to begin raising rates could pressure developing countries that have sold bonds in greenbacks instead of their local currencies, forcing them to repay loans in more expensive dollars. Foreign reserves (akin to a rainy day fund) could minimize any pressure, but it's something that bears watching.
6. Liquidity is like oxygen to the market. A brief surge in U.S. Treasury prices and the steep but short-lived stocks selloff in October can be partly blamed on a temporary lack of liquidity. Some cite well-intentioned regulations put in place after the 2008 financial crisis.
7. Cyber-attacks. North Korea's alleged attack on Sony quickly comes to mind. It's impossible to forecast, but the outside chance of a big event can't be completely discounted.
8. Geopolitical fears. War or geopolitical instability has historically caused short-term losses. Whether the Arab spring, Russia's incursion into Ukraine, or the rise of ISIS (ISIL) in Iraq, heightened uncertainty is not a friend of investors.

### **Bottom Line**

I always stress the importance of being comfortable with your portfolio. As we've talked about in our meetings, my goal is to help you mitigate that risk. But you must be comfortable with the level of risk you're taking as we set out to meet your objectives. If you are not, let's talk and recalibrate.

Stick to the plan. Markets rise and markets fall, but unless there have been changes in your circumstances or you've hit milestones in your life, such as retirement, stay with the plan. By itself, a record high in stocks isn't a good reason to bail out of stocks.

I hope you've found this review to be educational and helpful. Let me emphasize, it is my job to assist you! If you

have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

*Boye A. Sells*



*Image Courtesy of: History.com*

Few individuals in the history of mankind have had the lasting impact Dr. Martin Luther King Jr. has. There have also been few individuals more controversial than him. Regardless of your opinion, I believe that most view him as an inspiration. He is unarguably, one of the most influential individuals to have lived, in the United States or elsewhere.

In 2011, a monument to Dr. King was dedicated on the national mall in Washington DC. He's one of four individuals to receive a monument without either first serving as president or as a soldier. He's also the first African American to be honored in this way. But Dr. King's legacy came at a steep personal price.

He was arrested at least twenty times during his campaign for civil rights. He became a target of J. Edgar Hoover and the FBI. His home was fire bombed. He endured countless numbers of abuses due, in large part, to the Jim Crow laws of the time. When his detractors couldn't tolerate him any longer, his life was taken by an assassin.

Today, many individuals have forgotten the hardships he and other African Americans endured during that era. This isn't to say that some of those hardships don't still exist, because they do—far too many of them. But there's been progress. There's still work to be done, minds and hearts to soften, and healing to occur. Dr. King showed us how to do that; with Love.

Dr. King taught that Love was and is the only solution. Love for all mankind. Love of individuals—not of races, parties, agendas, or opinions. In his words, "We must develop and maintain the capacity to forgive. He who is devoid of the power to forgive is devoid of the power to love. There is some good in the worst of us and some evil in the best of us. When we discover this, we are less prone to hate our enemies."

As we celebrate Martin Luther King's life and legacy, it's my goal and my dream that we all find this love inside of ourselves, and share it with the world.



13220 Metcalf Avenue, Suite 365  
Overland Park, KS 66213  
913-653-8783

## Coaching Tip:

*File Form 8606 each year with your taxes if you make a non-deductible IRA contribution. If you do this correctly, your contributions come out tax-free and only your earnings are taxable.*



Investment Advice offered through TRUE Private Wealth Management, a registered investment advisor.

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*Making a Non-Deductible IRA Contribution and Forgetting to File Form 8606*

## Eleven Most Common Mistakes People Make With Their IRAs

*Part 5 of an 11 part continuing series*

*Every week we help people like you rollover or transfer assets to and from an IRA. There are a number of pitfalls and potholes along the way that can turn an easy transaction into an IRS headache. We hope this series of Eleven IRA Mistakes to avoid will help lessen any time you might spend trying to unwind a mess with the IRS or investment company...*



Everyone knows about Form 8606. Don't you? This is a little known tax rule that your CPA should be handling for you, or you have to do for yourself if you prepare your own taxes. Many people in our society are trying to save as much as possible for retirement and are making non-deductible contributions to their IRAs. If you make this type of contribution, you must report this on Form 8606 when you file your taxes. If you fail to report your non-deductible contribution, the IRS won't have any record of your contribution total. Without your total

contribution, later in retirement when you make a withdrawal all of the money is taxable as earned income. If you do this correctly, your contributions come out tax-free and only your earnings are taxable.

**Coaching Tip:** File Form 8606 each year with your taxes if you make a non-deductible IRA contribution. Keep track of the contributions that you make to your IRAs, and let your CPA know what you are doing each and every year.

### CRUNCHY COLE SLAW

1 lb. coleslaw mix      1/2 c. slivered almonds  
1/2 c. sunflower nuts    3 green onions  
1 pkg. Ramen Noodles

#### Dressing:

1/4 c. olive oil              1/4 c. canola oil  
1/4 c. sugar                 3 T. Red wine vinegar

In small bowl, combine oil, sugar, vinegar and seasoning packet from the Ramen Noodles. Set aside.

In a large bowl, mix the slaw and chopped onions. Pour dressing over salad and toss to combine.

Just before serving, stir in crunched up Ramen noodles and nuts.