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the Lonely Bull

January 2015

*a market **perspective** by Riverplace Capital*

Number 66

THE YEAR 2014

A good year following a great year; this is what we predicted. It's nice to get it right, but our process doesn't depend upon it.

We are willing to adjust when the fundamentals change. However, we need a basic view of the investing environment at all times in order to position your portfolios to benefit from the opportunities and trends that exist

Having said this, **last year was not an easy one for many investors.** It was extremely choppy with many contrary trends occurring at the same time. Basic economics did not predict an accelerating economy with interest rates declining, but this happened. It required us to make a determination as to what was the relevant signal and understand the deeper meanings; not easy. This example was only one of the challenges we faced.

We do not expect 2015 to be easier, there are likely to be periods of increased volatility and confusing market signals. Underlying this we see continuing strong trends (see the forecast section).

Fixed income presented the most surprises. As noted previously, interest rates declined while the economy accelerated. How was this possible?

What has become obvious is that the level of rates and the demand for fixed income instruments is divorced from the domestic economy. International money flows, perhaps seeking safety, have more influence on rates than domestic considerations. Therefore, the level of interest rates is not nearly as good a barometer of business conditions.

Business conditions have been good all year, except during the first quarter when extreme winter weather conditions dampened trade for everyone. After that, growth bounced back. In fact, the rate of growth is now higher than before. This trend should continue into 2015.

With this backdrop, it is hard not to be optimistic about the New Year; and so we are. To be sure, there will be events that cause volatility in markets. This past year potential for an Ebola epidemic scared the market and so did concerns about the unforeseen consequences of a rapid decline in oil prices. This increased the choppiness of the stock market making it difficult for many hedge funds and investment managers.

Most hedge funds did not have a good year last year. Many had negative returns and only a few produced results that exceeded the S&P 500. The same for investment managers; about 80% did not meet their benchmarks. Riverplace Capital is proud to say that we had another excellent year meeting or exceeding benchmarks for areas of the market where we participate. Performance is in our DNA and we will never be satisfied with mediocre results. ◆

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute."

— *William Feather*

TALK WITH US

Time to take financial stock; the New Year is the perfect time to do this.

Are you meeting your goals, wants and needs? Have you updated your expectations to reflect changes in your life? If not, we can help.

Our job is to help you meet your goals by producing strong returns commensurate with your means and risk characteristics. We also can help with free financial planning to better identify needs and set realistic goals.

Besides identifying needs and wants versus capability, we may identify financial inefficiencies that when corrected can yield substantial savings.

Tax considerations may also yield other savings.

Some individuals view planning as a straight-jacket constraint on their lives. This is not the case. The objective is to get more freedom and more alternatives through enhancing financial independence. A plan that does not do this is no help to anyone.

Some measure of financial independence should be part of everyone's goal. Having choices is always better than being restrained because of needs.

Money is not everything, but having enough certainly makes life a lot easier.

Besides your immediate needs you may want to provide advantages to your children or grandchildren. Perhaps supporting certain causes or organizations has great meaning to you. Let us help you plan for this too. So take a little time, sit down and take stock and ***Talk with Us.*** ◆

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FORECAST

ECONOMY

In early September, Riverplace Capital noted in *the Lonely Bull* blog that it appeared the economy had accelerated. Now with more recent evidence, this is clearly the case. From a growth rate in the 2% range, it is probably now well into the 3% plus range. The recent quarter grew at 5%, but the probable ongoing rate is in the 3% range.

Unemployment has decreased substantially. Wage gains are starting to show up and should accelerate. Exports have grown from about 8% of the economy to over 15%. Although the oil business is going through a set-back now, this is temporary and lower energy prices are another gift to economic growth.

The U.S. economy has typically been the engine for world growth; it is again. We expect our strength to help pull the rest of the world up, rather than the contrary. Expect China and Japan to benefit. Europe will also gradually improve. Once that happens, our strength will be reinforced by theirs.

EQUITIES

The safe forecast is to be modest in expectations. After all, the markets have come a long way. In fact, the Dow has almost tripled from the bottom in 2009. And that might indeed be the outcome, but that is not what we believe is likely. With more and more of the economy falling into line, we see the real possibility of another exceptional year, like 2013.

More and more of our economy has recovered and is contributing to growth. Energy prices have declined, a gift to growth, wages are picking up and unemployment is down. It is possible that the recent acceleration of growth will produce acceleration in revenues and profits for business. This is the lift-off we have been waiting for ever since the recovery started.

Just because we have been slowly recovering for five years does not preclude more. There is an old adage that recoveries do not die of old age, but die of excesses that get imbedded and need to be unwound. We are not at that point. Do not let the perpetual hand wringers scare you away from opportunity. For the most part, they did not forecast the phenomenal results we have experienced.

FIXED INCOME

It is clear that more and more international wealth wants to be in the U.S. dollar and in our fixed income instruments. That flow has served to keep interest rates down. Domestic economic activity has less influence. This will eventually change, but will take more time.

We have purchased shorter dated bonds where necessary, but have relied more upon our dividend strategy for income needs. This strategy again performed well adding capital gains to an excellent dividend return. We expect good results for this approach next year too.

The Federal Reserve has all but promised rising interest rates next year, but with the strong dollar and geopolitical unrest in many other important places in the world, inflows into our currency are likely to continue. This will put a damper on interest rate increases here. ◆

INVESTMENT STRATEGY

EQUITIES

With a favorable environment for equity investments continuing into next year, we remain committed to a fully invested posture. (Obviously this is dependent and adjusted for each client's circumstances and needs.) We believe exceptional returns will come from some new sources. We have some initial thoughts as to where those opportunities are and will be looking for more. This is application of process to a large extent, but also involves art. **The art in investing comes from creative thinking backed up by decades of experience.**

FIXED INCOME

We will continue to use our dividend approach for most income needs. Of course, where mandated we will use bonds. We see no reason why this strategy won't produce acceptable returns with low risk next year.

In time we will mix bonds into this approach, but rates are not yet at attractive levels.

WEALTH MANAGEMENT

This past year was not quite as favorable to this approach. This is because only one category, large-cap stocks, outperformed all other categories by such a great extent. Therefore, all other diversifying allocations reduced returns. This is very unusual and not likely to be repeated in 2015. In fact we expect some categories like emerging markets and even perhaps Europe to have returns that exceed those here. Of course, we will be constantly monitoring returns and making adjustments from time to time. ◆

MAJOR INDICIES

as of 12/31/2014

Large Cap Stocks (S&P 500)	11.4%
Dow Jones Industrial Average	7.5%
Mid Cap Stocks (S&P 400)	8.2%
NASDAQ Composite	13.4%
Small Cap Stocks (Russell 2000)	3.5%
MSCI EAFE	-7.35%
Barclay Aggregated Credit Index	7.86%
Inflation	1.7%

Equity indices are twelve-month returns excluding dividends

NOTICES

Check out our new web site. It offers a lot more information for you including weekly blogs on timely subjects. We look forward to your feedback. www.riverplacecapital.com

Riverplace Capital offers our clients free financial planning. We believe strongly in the value of planning as it helps document goals and objectives, and provides a benchmark to measure progress. Planning helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212.

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