<u>That was Then; This is Now</u>

(Looking back at 2014 and into 2015)
January 15, 2015 – DJIA 17,321; S&P 500 1993

Well, 2014 is "in the books" now – and what a year it was! ISIS, Ebola, mid-term elections, a dramatic drop in oil prices, domestic unrest (Ferguson, MO, etc.). If one had known all those things would occur in one year, they'd have probably avoided the stock market – certain it would be horrible, right? Thankfully, it was not. Here's a quick recap:

Large US company stocks gained 10.0 – 13.7% (DJIA, S&P 500)
Small US company stocks gained 4.9% (Russell 2000 index)
Large International stocks <u>declined</u> 4.5% (EAFE index)
Bonds gained 6.0% (Barclays U.S. Aggregate Bond Index)
Gold lost another 1.8%; Silver fell 20.4%
Crude Oil fell 42.6% (West Texas Intermediate)
Volatility returned during 2014

So, depending on one's particular mix of investment assets, many investors gained 6 – 12% - certainly a decent year by non-2013 standards. As long as they didn't get scared out of the market during October's nearly 10% swoon, they likely finished with an "up" year. Our guidance of favoring stocks over bonds and US stocks over foreign stocks – *and being patient* – helped our clients "see green" for another year.

But what have you done for me lately?! In other words, what's my take on 2015? With my usual disclaimers about opinions not being promises, here are my thoughts on investing in the New Year:

- I still doubt we'll see a recession in the US in 2015.
- In general, stocks will outperform bonds.
- The stock market may have a tough few weeks/month to start the year BUT end the year about 8-12% higher.
- I'm less clear on things like US vs. foreign and large vs small – which is why most long-term investors keep some exposure to all. As an example:
    - Over the last five years, US stocks have outperformed international stocks by a wide margin
      BUT, the five years prior to that, international did substantially better than domestic.
- I believe volatility will <u>increase even more</u> in 2015—so be psychologically prepared.
- We didn't quite get the 10% pullback I was looking/hoping for in 2014. The chances have increased that we will have a correction of 10-15% in 2015 <u>but I don't know when or from how high</u>**.** I do know when a correction comes, the media will freak out and try to scare investors into bad decisions. Don't fall for it!

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In summary, my boring and oft-repeated advice remains the same ***"Own quality, be diversified, invest in patience."*** That advice has served us well over the past 28 years. I see no reason to change now!