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Looking back on 2014 and ahead to 2015

Dear Investor,

As I look back on 2014, it's interesting to note that most of the significant events and trends that impacted the markets and the economy were not even on the radar screen around this time last year. When it comes to managing investments, trying to predict the future is very difficult. Here's a quick recap of some of the important - and mostly unanticipated - events of 2014:

- **Unrest in Crimea and Ukraine.** Tensions rose following Russia's surprise annexation of Crimea and its increased intervention in Ukraine.

- **Collapse of the Ruble.** The recent collapse of the ruble has left Russia on the verge of a severe economic crisis.

- **The Rise of ISIS.** In the Mideast, the swift rise of the Islamic State in Iraq and Syria (ISIS) led the U.S. military to once again ramp up its operations in the region.

- **The Ebola Crisis.** The Ebola outbreak in West Africa provided a fresh reminder that modern medicine cannot yet cure all diseases and that even here in the U.S., we are vulnerable.

- **Plunging Oil Prices.** Rising domestic oil production created a supply glut that rattled the market for crude oil and gasoline. After peaking at an average of $3.70 a gallon in May, gasoline on average costs only $2.30 a gallon and in many states, it's below $2.00 a gallon.

With the U.S. economy hitting its stride, it may come as no surprise that 2014 was another positive year for U.S. stocks. The S&P 500 Index[1] gained 13.69%—the sixth consecutive year of annual gains for U.S. stocks. Overseas, however, both developed and emerging markets indexes struggled in 2014. The MSCI EAFE Index (which tracks developed international markets) fell 4.90% while the MSCI EM (which tracks emerging markets) was down 4.63%.

Within U.S. fixed income markets, interest rates again defied expectations and declined over the course of the year. The yield on the 10-year U.S. Treasury note fell from 3.00% in early January 2014 to 2.17% at year's end (when bond yields decline, bond prices increase).

This time of year the media is flooded with investors and economists making predictions for 2015. As 2014 demonstrated, trying to predict the future is always difficult. That said, I believe the following issues could play an important role in 2015 and beyond:

- **Interest rates may move higher.** The Fed has signaled that it may soon end its easy-money policy of keeping interest rates at abnormally low levels. History has shown that rising interest rates can increase market volatility. And I think this time will be no different.

- **Economic growth may return to Europe, Japan and other lagging economies.** Central bankers, specifically in Europe and Japan, are committed to reviving their economies much like the Federal Reserve has done in the US. The U.S. economy may help spur growth overseas and with a stronger dollar it makes foreign goods more attractive in the US.

- **Inflation may heat up.** Inflation has been low in recent years, but that could change due to lower unemployment, rising wages and strong demand for goods and services.

Over the last several years we have seen very low market volatility. This trend may not continue. I encourage you to consider how you may react if the markets do experience a higher degree of volatility. Understanding your personal risk tolerance and maintaining a portfolio that matches it can help you avoid costly knee-jerk reactions if and when the markets get bumpier. As we have seen in the past, it is possible that some unexpected issue will arise to throw the markets for a loop. If you feel your goals or risk tolerance have changed since our last discussion, feel free to give me a call to review your investment strategy.

Thank you for placing your trust in me and best wishes for a happy, healthy and prosperous new year.

Sincerely,

Mike Ovshak
CFP®

[1] The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. Diversification does not assure a profit or protect against a loss in declining markets.