## January 2015

Investors have wrenched their hands and worried for every year of this most recent bull market and 2014 has been no different. 2014 marks the 6th birthday of this bull and even the volatility has been muted. The markets have also entered an area that we haven't seen since earlier record market highs and that is fair valuation. There is always a way to justify either side of a decision but it does appear that, by many measures, the markets have hit fair value. This isn't a precursor to doom and gloom but it does mean that allocation decisions need to be revisited and expectations need to be reviewed.

| Valuation Measure | Description | Latest 12/31/2004 | 1-year | 5 year average | 25 year average |
|---|---|---|---|---|---|
| P/E | Price to Earnings | 16.2x | 15.4x | 13.5x | 15.6x |
| P/B | Price to Book | 2.9 | 2.7 | 2.3 | 2.9 |
| P/CF | Price to Cash Flow | 11.4 | 10.8 | 9.3 | 11.3 |
| Div./Price | Dividend Yield | 1.9% | 2.0% | 2.0% | 2.1% |

*Data as of 12/31/2014 - Current price divided by consensus analyst estimates of earnings, book, cash flow, sales and earnings growth for the next 12 months. Data provided by J.P. Morgan Asset Management

### Equity

2014 was a low volatility year in the equity markets overall. The S&P 500 finished the year up 11% (13.8% including dividends) and experienced a 7% pullback from the intrayear highs. The average annual pullback is roughly 14.2% but the S&P500 has not experienced a pull-back greater than 10% since 2010. Although volatility should play a larger role in the U.S. stock markets during 2015, domestic markets still offer an opportunity to invest in a stable country with an expanding economy.

### Fixed Income

It looks like the first interest rate hike since 2006 could be just around the corner or more specifically in the back half of 2015. We have had every indication for years now that rates would rise and bond prices would fall and allocating accordingly has been wrong. This is very similar to the late '90s when responsible investors realized that technology stocks were just too high, yet they were wrong not to invest. Well, they were wrong until proven correct and the NASDAQ fell more that 50% over the next 8 months and fell further over the next few years. The bond markets have been overpriced for a while and I have been worried about a fall that just hasn't happened but that doesn't

mean that things aren’t overpriced.  Avoiding the bond markets at this time is much like telling a child not to run with a stick.
I don’t know of a child that has ever poked his eye out but it is still a good idea not to run with a stick.

**Economic Overview**
The United States gross domestic product finished 2014 up approximately 2.5%.  The third quarter of 2014 GDP grew 5.0% quarter over quarter.  The United States’ economy is improving and is getting closer to normal economic growth.  The unemployment rate is almost back to normal and consumer confidence is normalizing.  There are plenty of things to find wrong but the column of pros is beginning to out-weigh the cons in many respects.  The severe drop in oil prices should be good for the consumer but could also cause a drop in domestic economic growth as energy production becomes a bigger part of our economy.  Economically, there aren’t many indicators that are going the wrong way.  We will continue to monitor the economic landscape for trouble but the U.S. economy is becoming a bright spot in a world of relatively weak economies.

**Summary**
Typically the stock market is a front-runner to the economy and that is what we have seen over the last six years.  The markets have priced in the economic recovery that we have seen slowly take place.  The equity markets are at a point where easy returns will be hard to come by but we are still far from a place where a bear market is likely.  2015 will be a year where most investors should maintain current asset allocation levels.

Rick Sanford
January 10, 2015

# Financial Planning Corner

Have you ever heard of Filial Support Laws? These laws impose a legal obligation on adult children to take care of their parents' basic needs and medical care. Today 28 states (including NC) have these laws on their books.

What does it mean for you if your parents are elderly? The short answer is that it is not clear cut. We would like to educate our clients about this topic because these laws can enable a nursing home or your state's Medicaid program to pursue adult children for the unpaid bills of their parents. This action has been prevalent in Pennsylvania for years but now it is spreading as nursing homes grapple with higher and higher expenses. Generally, Medicare only pays for the first 100 days of care in a nursing home. Once a patient becomes impoverished, Medicaid will begin but Medicaid does not pay all of the costs. Nursing homes often start by going after life insurance proceeds upon the death of a patient. Patients are supposed to liquidate the cash value of their policy before Medicaid begins, so there usually isn't much of an insurance payout anyway.

Nursing homes and Medicaid are more likely to act aggressively if they suspect assets were transferred from the parent to the children in order to qualify for Medicaid. However, children can attempt to prove that their parents spent money recklessly or foolishly and it should not be their responsibility to foot the unpaid bills. Children can also claim they do not have enough income or assets to help. Adult children with sizeable assets who have a parent or parents with low assets need to explore this topic and think about how their parents will pay if they end up in a nursing home.

You are welcome to call Rick and I with questions. We can refer you to an elder care attorney if we feel that is the most appropriate step.

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