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INDEPENDENT WEALTH MANAGEMENT SOLUTIONS℠

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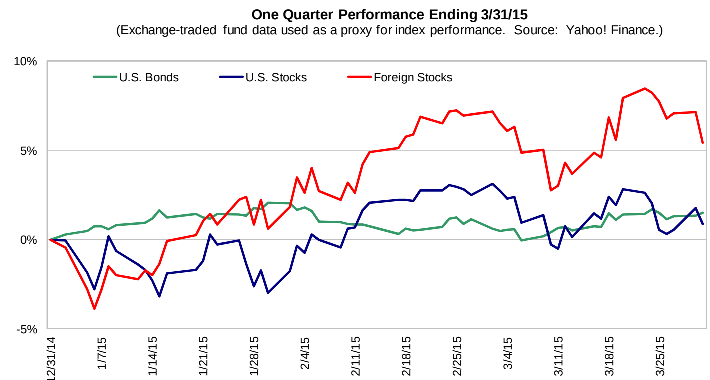
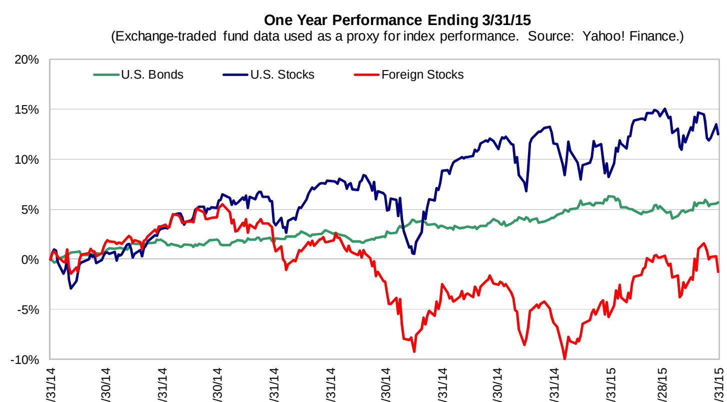
First Quarter 2015 Update

April 2, 2015

Happy spring! We are pleased to send you our commentary on the first quarter of 2015. Your performance reports will be mailed within the next 10 days. What a difference a quarter makes. Just 90 days ago, pundits and clients were wondering why anyone should bother with foreign stocks and diversification. Well, the red line in chart below shows you why.



According to the Wall Street Journal, at least 17 indexes reached new highs, including those from the US, UK, Germany, and India. The German DAX 30, for example, shot up 22%. Japan's Nikkei 225 rose 10%. Another 29 indexes hit their highest levels in more than a year.



Of course, as you can see above, one quarter doesn't make a year, but it illustrates a shift in financial dynamics and where investors perceive the bargains to be going forward. It also illustrates how quickly things can change and the importance of diversification.

We want to share with you why this shift has occurred and its far-reaching ripple effects. ***We believe there are two basic reasons: interest rates and energy prices***.

1. Lower Interest Rates Overseas

- To stimulate their stagnant economies, major central banks, especially in Europe and Japan, eased their monetary policies and started purchasing certain kinds of debt instruments. The money supply increases and interest rates drop, sometimes to below 0.0%!

This Drives the US Dollar Up

- Money flows into higher-yielding US dollar denominated assets, driving the dollar up, US bond yields lower and bond prices up.

With a Stronger Dollar:

- The products of foreign companies become cheaper in the US, which helps foreign companies and their stock prices.
- Overseas investors seeking better returns purchase riskier assets such as stocks and higher-yielding corporate bonds.
- Lower interest rates abroad stimulate foreign economies by creating demand and lowering the financing costs of overseas companies, thus making them more profitable.
- Large US companies are hurt when their overseas earnings are converted back into expensive US dollars. Small exporters are also hurt.

2. Lower Energy Prices

- US oil shale/fracking, weak demand, and oversupply drive energy prices lower.

With Lower Oil Prices:

- Consumers everywhere get a boost, but especially to those in countries that rely heavily upon imported energy.
- Costs for most companies worldwide decrease.
- Regional US economies and US companies involved in energy exploration and production are hurt.
- Foreign energy-producing countries, such as Russia are hurt.

So what does all of this mean?

We view these changes as positive developments, especially if the stimulus measures can get many of the sluggish overseas economies moving forward. A stronger world economy benefits all and increases the likelihood of geopolitical stability. The US has had a very good run the past six years. With the exception of overvalued small company stocks, we see equities in the US as fairly valued, but not screaming bargains they used to be. The improving economy, continued low interest rates, low inflation, and lower energy costs create a benign environment for stocks. Perhaps as some observers note, it is time for other markets to shine. The underperforming foreign markets—especially with lower interest rates and energy prices—now appear to have better growth prospects.

According to *Forbes*, the average bull market during periods of economic recovery is 3.8 years and the longest on record was 9.5 years. We are now beginning the seventh year of this bull market, and based on economic and market valuation data, we still believe that this bull could last longer.

However, statistically, we are overdue for a correction, but that isn't necessarily a bad thing. Corrections of 5-10% are normal and they give the markets a chance to catch up with themselves,

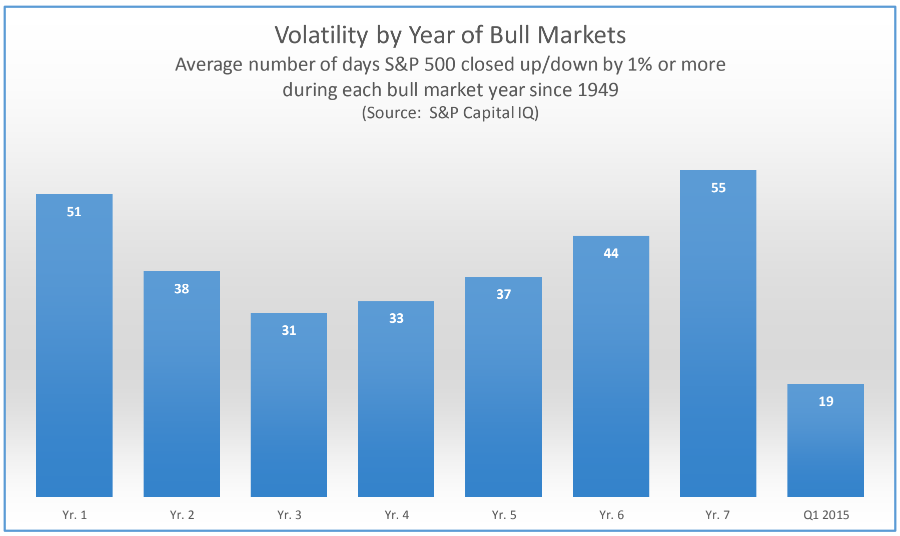
pruning out excesses. According to S&P Capital IQ, we've had 58 corrections like this since 1945, about every 18 months on average. ***(A 10 % correction now would mean a drop in the Dow of about 1770 points.)*** Since then, we've also had 19 corrections of 10-20%, and 12 corrections of 20-40%, the so-called bear markets. They are relatively brief and recover within a few months. The mega melt-downs, such as 2007-2009 are rare, only 3 since 1945.

As for bonds?

The high demand for the US dollar and dollar denominated assets continues to keep interest rates low and bond prices high. The Fed has hinted at short-term interest rate increases this year, but it now appears to be later rather than sooner, especially with inflation kept in check. We have been able to add value by underweighting the lower government bond class and overweighting the higher-yielding corporate bonds.

Volatility

When shifts occur, we usually see more volatility in the financial markets. In our March newsletter we cautioned that, based on past history, the stock market gets more volatile in the later years of a bull market. So far in the first quarter, we had 19 days when The S&P 500 closed up or down more than 1%.



If this trend continues, it could be a very volatile year, with both good (up) and bad (down) volatility. While the first quarter had more than usual days of high volatility, the size of the swings weren't as bad as they felt. It was only the fourth time in the past 16 quarters when there were no swings of 2% or greater. By the way, since 1970 the average volatility per day is 0.65%.

Portfolio Actions

Nearly all of our manager selections outperformed their benchmark indexes. Most portfolios had positive gains for the quarter, and we attribute that mainly to our asset allocation weightings. Also, early in January we sold high and bought low by rebalancing the asset classes back to their target percentages. For example, we took some of the profits from the large company class (the blue line in the bottom chart on page one) and placed them into the foreign category (the red line).

We also made small changes to our Socially Responsible Investing (SRI) portfolios by changing the small cap manager because the prior holding was closed to new investors.

Asset Class Weightings as of March 31, 2015
(Compared to our normal long-term allocations)

Asset Class	Underweight ⟵		Neutral	⟶	Overweight
FIXED INCOME					
Government	X				
Corporate					X
Foreign			X		
EQUITIES					
US Large Cap				X	
US Mid Cap			X		
US Small Cap		X			
Foreign			X		
ALTERNATIVE					
Real Estate			**X**		
Commodities			**X**		

Other Items

- The financial markets and our office will be closed for Good Friday/Passover April 3. If you need funds for taxes, the soonest we could raise the cash would be Monday, April 6.
- Our annual "Summary of Material Changes" to our Form ADV 2A on file with the Securities and Exchange Commission (SEC) will be included with your performance reports next week. Regulations are such that we cannot send it via email.
- You can find weekly economic, market commentary, and our latest blog posts at www.TheHGroup.com. We have interesting topical posts 2-3 times per week on our Facebook page at https://www.facebook.com/TheHGroupInc. (Please like us!)
- We are proud to announce that Brenna Baucum just finished her final exam to complete the 5th CFP education course. This one was on estate planning. Next up--a capstone course and heavy review over the next few months and she'll be ready to sit for the board exam in November. The exam is far more comprehensive and difficult than when Larry, Ron, and Mary took it years ago.

We welcome the opportunity to discuss this commentary with you in greater detail and to answer any financial planning questions you may. We wish you all the best for a fun and beautiful spring. Thanks for your continued confidence!