Ashwood Advisors, LLC®

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Truth, Knowledge, Experience *2nd Quarter 2015*

Hi Everyone,

Spring is finally in the air. The current bull market is now 5 years running, making it the sixth longest since 1928. The lingering question remains, when will the Fed begin to tighten and raise rates.

Sincerely,
Steve Geremia

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- **What do Lower Oils Prices Mean?**
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- **5 Steps to Maximize your IRA**

What Do Lower Oil Prices Mean for You?

Presented by Stephen A. Geremia

Since mid-2014, crude oil prices have been on the decline, causing gas and other oil-product prices to drop significantly. Although the long-term economic impact of falling oil prices remains to be seen, this dramatic price change is affecting Americans' everyday lives in a number of ways.

Big savings at the pump
The most notable change, of course, is that it costs a lot less to fill your car's tank these days, with the average gas price in the U.S. hovering just below $2.30 per gallon. Overall, U.S. consumers save about $1.5 billion for every penny that the price of gas falls, according to Gluskin Sheff & Associates.

Thanks to the extra cash in Americans' pockets, personal spending jumped 4.3 percent in the fourth quarter of 2014, up from 3.2 percent in the third quarter. In January, consumer confidence was at its highest level in more than seven years.

So what are Americans doing with all this newfound cash and confidence? Spending has increased in two key areas:

New cars: Auto sales climbed in January (typically a slow month), and the Conference Board reported an uptick in the number of people planning to buy a new car in the next six months. According to Kelley Blue Book, sales are expected to rise 13 percent, to 1.14 million, in 2015.

International travel: Combined with the strong dollar, lower international airfares have many people planning trips abroad in 2015.

What isn't changing . . . yet
Of course, lower oil prices aren't translating to lower costs across the board.

Domestic flights. Unfortunately, although traveling internationally or filling your tank for a road trip might be cheaper, domestic airfares remain largely unchanged. If oil prices continue to drop, fares may start to tick down later in 2015, but don't look for them to budge in the near future.

Real estate. In communities where oil-related industries provide many local jobs, falling prices have the potential to put a damper on the real estate market. In other communities, however, the savings from oil costs (in terms of home heating, transportation, and the like) might actually boost homeownership. In any case, there tends to be a substantial lag before the real estate market reacts to such a price drop.

For most people, a welcome boost
Along with positive economic factors, lower oil prices have bolstered Americans' purchasing

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-Paul Allen, 64, a self-employed software developer in Dallas

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Outlook 2015: Growing Economy, Mixed Markets

Presented by Stephen A. Geremia

Where are we now?

We start 2015 in a much better place than we did 2014. Employment can actually be described as booming, with job increases at levels last seen in the mid-1990s. The housing market has continued its recovery, and prices have grown throughout the past year. The consumer is much stronger, and the government has actually started to contribute to growth, rather than detract. In response to this ongoing improvement, the stock market posted another strong year in a string of strong years.

As we look into 2015, I believe we can expect the underlying economic trends to continue. Growth in most areas has moved back to levels consistent with the mid-2000s, but with a difference. Although growth then was based on unsustainable borrowing—by both consumers and businesses—growth today is based on actual jobs and income growth. This is true in consumer spending, housing, and other areas. Unlike the mid-2000s, when businesses were investing at (unsustainable) high levels, business investment today is at normalized levels and should continue. And where government spending and hiring were growing substantially in the mid-2000s, with no place to go but down, they are at reasonable and sustainable levels today. The economy, therefore, is poised for continued sustainable growth.

With all of these solid fundamentals, a very low oil price should add additional fuel to the fire. By putting extra money in the pockets of consumers, low energy prices will fuel the two-thirds of the economy that depend on consumer spending. Although there will be an offsetting decline in business investment as drilling slows, the net effect should be positive.

All things considered, I expect to see real economic growth of around 3 percent, with the possibility of stronger results. With wage income growing at around 4.5 percent on a nominal basis, business investment growing at around 8 percent, and government spending showing slow growth around 2 percent, this 3-percent figure appears both reasonable and achievable. Combined with inflation of around 1.5 percent for the year, nominal growth should approach 4.5 percent—even better than we saw in 2014.

There are risks both ways here, however. If wage growth increases, consumer spending power could increase even faster. If consumer borrowing were to pick up—and there are signs that it is starting to—spending could grow even faster. Business investment could respond to improving demand and rise more than expected. Local and state governments could increase investment and hiring more than expected.

On the downside, risks are primarily external, with Europe as the biggest. As I write this, Germany and Greece are going head to head, and a Greek exit from the eurozone—and potentially from the European Union itself—is a real possibility. Even if differences are papered over once more, the real issues will still be there. China also remains a risk factor, as growth slows and debt rises. The other major risk factor also concerns Europe, with the Russian invasion of Ukraine continuing even after a recent ceasefire agreement. Any of these could result in systemic damage, with consequent negative effects on the U.S. economy and financial markets.

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The major domestic downside risk involves the effects of rising interest rates when the Federal Reserve (Fed) finally starts to raise them. Although expectations vary, there is general consensus that rate increases should start in 2015. Should rates rise too far too fast, the economy could slow, but the Fed is aware of this, however, so the most probable case remains continued economic expansion.

The stock market, on the other hand, will face larger challenges this year. I expect the U.S. equity markets to end 2015 with moderate appreciation, at around 2,200 for the S&P 500 as a base case. Although earnings should continue to grow, growth has slowed with the effects of lower oil prices on energy companies and the stronger dollar on major international companies. With slower earnings growth, valuations are unlikely to expand much further over the year. That lack of multiple expansion could also come with a rise in interest rates, making bonds more attractive as an investment and lowering the present value of the slowly growing earnings stream even more.

Unlike the economy, I believe the risks to the market are mostly on the downside. Valuations are at high levels—higher than they were in 2007, for example. Profit margins are at historic highs, and the tailwinds that got them there are disappearing as wage growth picks up and stock buybacks stabilize or decline. Unlike in the real economy, market-related debt has increased back to 2007 levels and above.

That said, the market could also rise higher, driven by continued stock buybacks by companies, which would increase earnings per share faster than expected. Retail investors might also continue to buy into the market, pushing prices higher. These factors would drive valuations even farther above historic norms, creating what could be considered a “bubble effect.” Although this could certainly happen in 2015, it would only set the stage for a more severe adjustment later on.

In conclusion, I expect that the recovery will continue to accelerate this year. Low oil prices are likely to provide additional stimulus, driving the recovery even faster. As the economy normalizes, the Fed will continue to step back, which should lead to slowly rising interest rates.

In terms of U.S. financial markets, although they are priced at high levels—with all the commensurate risks that entails—moderate appreciation remains likely as earnings continue to grow and valuations generally increase with an improving economy. 2015 should present more of an opportunity for foreign markets, however, as the effect of quantitative easing on those markets takes effect.

Disclosures: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor’s. Emerging market investments involve higher risks than investments from developed countries and also involve increased risks due to differences in accounting methods, foreign taxation, political instability, and currency fluctuation.*

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“in the end it’s not the years in your life that count. It’s the life in your years.”
-Abraham Lincoln

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power, allowing people to spend more (or save more). So far, the drop in oil prices has had mostly favorable consequences for the everyday consumer.

Five Steps to Help Maximize IRA Savings

Presented by Stephen A. Geremia

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As we have so often discussed, when it comes to planning for retirement, the more you save today, the better prepared you'll be tomorrow. That's why I'm sharing with you five easy steps to take right now that could make all the difference in reaching your goals.

Maximize your annual IRA contributions. For 2015, the maximum amount you can contribute to a Traditional IRA or a Roth IRA is $5,500. Individuals ages 50 and older can make an additional catch-up contribution of $1,000—for a total contribution of $6,500.

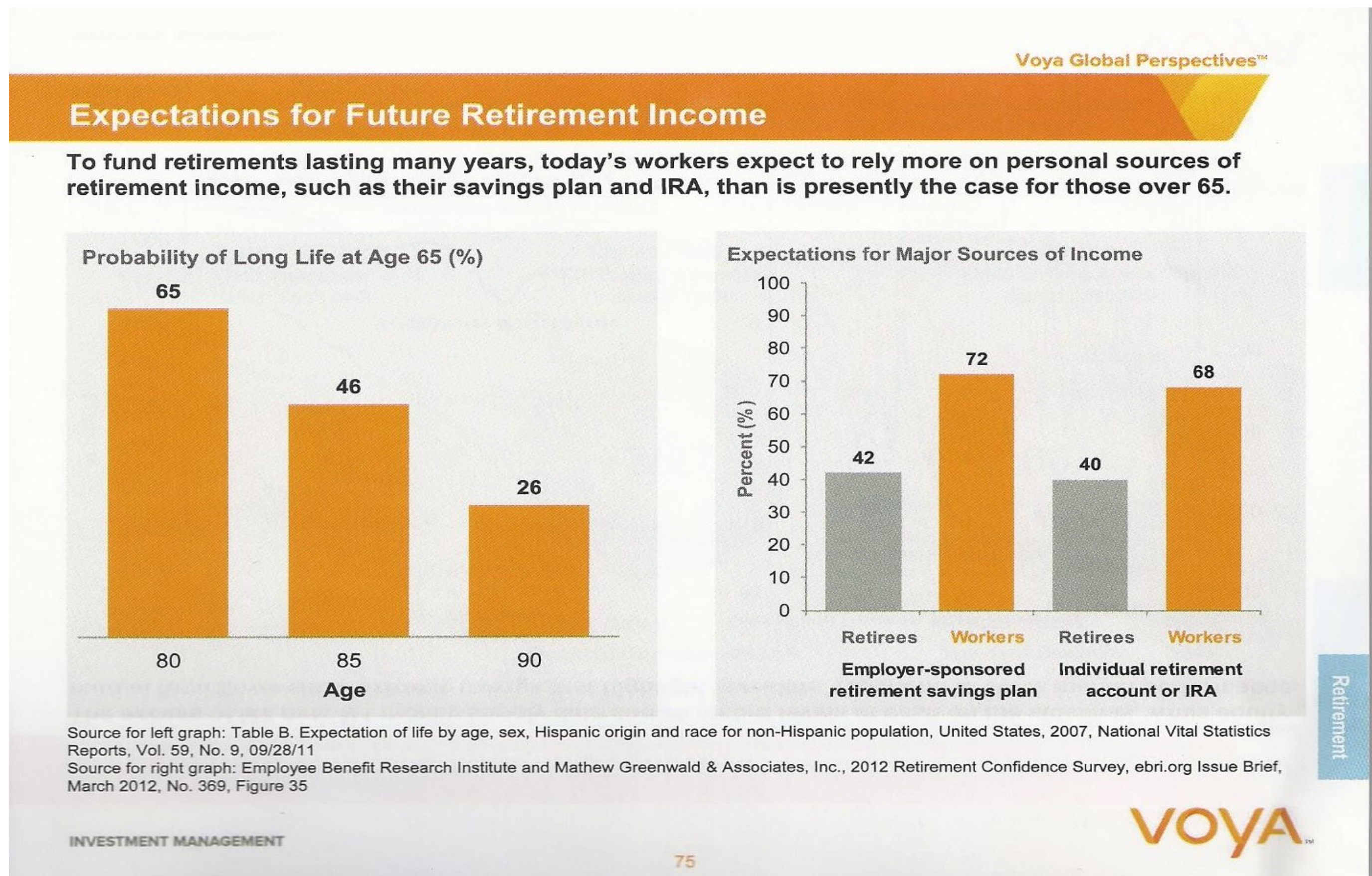
Invest on a regular basis. Making regular monthly contributions to a brokerage account or a 401(k) can add up over time. A $250 monthly contribution could potentially grow to $127,601* after 20 years, assuming an average annual rate of return of 7 percent.

Set up automatic investments. Establishing a periodic investment plan* is easy to do and helps put your retirement savings on autopilot. Set up direct deposit to put a portion of your paycheck into your IRA.

Consolidate IRAs. If you have multiple IRAs at several financial institutions, consider transferring them into a single account. You'll have a more complete look at your financial picture, and it will be easier to manage those assets. You'll also reduce the number of statements and tax forms you receive, and potentially reduce fees.

Roll over 401(k) accounts from former employers. If you've changed jobs or plan to retire, why leave your 401(k) account behind? Although there may be good reasons for keeping an old 401(k) intact, rolling over the account to an IRA has its advantages. For one, you'll have better control over the management of those assets and more flexibility to access those dollars.

- Periodic investment plans and dollar cost averaging do not assure a profit or protect against losses in declining markets. Such plans involve continuous investment regardless of market conditions. Markets will fluctuate, and clients must consider their ability to continue investing during periods of low price levels. The hypothetical example above illustrates the potential value of regular monthly investments and assumes an average annual rate of return of 7 percent. The end value doesn't reflect taxes or fees. Earnings and pretax contributions from Traditional IRAs are subject to taxes when withdrawn. IRA distributions taken before age 59½ may also be subject to a 10-percent penalty.



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