Financial & Economic Review

All eyes were on the US Federal Reserve in the first quarter of 2015, watching for any sign they were going to raise the short-term Federal Funds rate. Guessing the timing of this hike has become an almost uncontrollable obsession among economic predictors and financial prognosticators. To little excitement, US Fed Chairwoman Janet Yellen announced she would be dropping reference to the department being "patient" when it comes to raising short-term rates leading many to believe the reversing course upward will begin in June. Normally, such an event would not illicit such high attention, except for the fact that this will be the first rate hike in almost a decade. On the contrary, European central bankers have begun launching their own rounds of simulative quantitative easing. Together with low energy prices and a weak Euro, many believe there are tailwinds in the European equity markets near term. These events together are putting the financial world in uncharted territory causing high investor anxiety and a heightened uncertainty that may lead to higher market volatility in the near term. Combined with continued conflict in the Middle East and Greece's attempts at avoiding default, the strength of the US dollar has caused stiff headwinds to earnings of multinational firms, leaving future growth forecasts largely uncertain.

The broader market's continued rise has left few value opportunities in equities. Valuation measures indicate the broader US market is moderately overvalued with only one sector, energy, appearing to be slightly undervalued. The S&P500 was essentially flat for the quarter, gaining 0.4% on a total return basis, while the Dow Jones Industrial Average fell 0.3% and the NASDAQ Composite Index rose 3.5%. The best sector performer of the quarter was health care gaining 8%, followed by consumer cyclicals up 5% and real estate gaining 4%. The worst sector performer was utilities down nearly -6%, followed by financial services and energy losing -3% and -2% respectively[1]. We are putting in extra time to do research to find "under the radar" stocks that have excellent earnings and revenue growth prospects and may appear undervalued at current levels. We believe we are in a stock pickers market. Continuing the plan in 2014, we're allocating larger portions of new client investable cash only when a 5% or greater broader market pullback occurs. There were four such incidences we capitalized upon last year. We're continuing to manage downside risk by reviewing and updating sell-stops as we journey through the tail-end of the current multi-year bull rally.

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Very Respectfully Submitted,

Jack A. Kennedy
Chief Investment Officer

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[1] Results referenced from Morningstar.com

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