A Recap of 2014 and a Preview to 2015

Boom! That’s how 2014 ended. The U.S. market continued its bullish streak (six plus years and counting) as the U.S. economy showed some really good signs of strength. Before we break down our stance on the global markets we need to recap the global returns from 2014.

As you can see in the table below, the U.S. market completely destroyed the rest of the globe in terms of market performance. The struggles of Europe worsened the last half of the year while Russia and Brazil’s own issues slowed down the Emerging Markets. The global markets as a whole as represented by the MSCI All World Country index (which many use as the global benchmark) lagged the U.S. again this year.

Global Markets	2014 Return
U.S. Market	12.37%
Developed Non-U.S. Markets	-7.69%
Emerging Markets	-2.24%
All World Country Index	4.71%

For the past two years the U.S. market has outpaced the rest of the global markets. Our economy, despite what you may see and hear in the press, is growing to the tune of 4.5 to 5% per year (in terms of real GDP). It seems as though good U.S. economic news keeps coming out each and every week. While all of this is great the important question to consider is **will 2015 be another positive year in the stock market or will the six year bull-run finally come to an end?**

As we break down each major area of the globe with our stance please understand that no one knows for sure what the market will do in 2015.

United States of America: It is our belief that the U.S. markets will continue to outpace the rest of the globe over the next year. We have no reason to believe otherwise. *For our U.S. allocations we will maintain our overweight stance for the following reasons:*

- **Stock Market Valuation:** While the U.S. is no longer in the undervalued (which we enjoyed thoroughly a few years ago), we are by no means in the overvalued. Right now stocks are trading at around 15 times earnings (based on 2015 estimates) which we believe is around fair value. When the market rises above 20 times earnings, then we will have reason to roll out the yellow caution tape.
- **Economic Growth:** As stated above, the U.S. economy continues to grow at a healthy clip. GDP continues to surprise and corporate profits are at a 12.8% annual growth rate which is a record high. The only signs of weakness in the reports that come across our desks seem to be related to weather. When it’s really cold people like stay inside . . . including us!

- **E is over:** When the Fed stopped its Quantitative Easing (Q.E.) program many thought that it would be the end of the bull market. Without the so called printing press rolling the market couldn’t go any higher. Since the end of Q.E. the U.S. stock market is up 4.3%. This is good news in the sense that it removed the Q.E. = bear market argument.
- **Historically speaking this tends to be a bullish year.** As you know we love probability investing. Aligning the probabilities to work for us is important in any strategy. According to our friends at S&P Capital IQ, the third year of the Presidential cycle (which we are in now) tells us that there is an 88% probability that we will see positive gains this year (see S&P Capital IQ’s table below). While there is never a guarantee that the market will produce positive returns, we do like aligning the probabilities on our side.

PRESIDENTIAL CYCLE: S&P 500 Returns by Quarter & Year

S&P 500 Average % Price Changes and Frequencies of Advance During the 16 Quarters (and Four Years) of the Presidential Cycle (12/31/45-11/28/14)

Year of Pres. Cycle	Average S&P 500 % Changes (w/o dividends reinvested)					Batting Averages (Frequency of Price Gains)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Year 1	(0.4)	2.6	1.1	3.7	7.6	50%	56%	61%	78%	59%
Year 2	1.2	(2.1)	(0.3)	7.0	5.3	50%	50%	56%	82%	59%
Year 3	7.0	5.0	1.0	2.9	16.1	88%	76%	59%	71%	88%
Year 4	1.2	2.3	0.4	1.7	6.1	59%	65%	53%	76%	76%
All Years	**2.2**	**1.8**	**0.6**	**3.8**	**8.8**	**61%**	**61%**	**58%**	**77%**	**71%**

Source: S&P Capital IQ. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no indication of future results.

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Developed Non-U.S. Markets (Europe, Asia and Australia): These areas of the globe have been hammered in 2014. Here’s a few of the returns: Germany -9%, Australia -3.9%, United Kingdom -6.4%, and Japan -4.5%.

Our stance is the same as we last wrote it. *We are underweight these areas of the globe and will remain so until we see some sort of positive growth news.* Our eyes are on these Developed Non-U.S. markets simply due to the fact that it is cheap and hated. When things are cheap and hated is often when you find the best investment opportunities. However, we do need to see some sort of positive sign from these countries. We will not buy something just because it’s cheap . . . it may get cheaper.

Emerging Markets: There are a few bright spots in the Emerging Markets, but not many. China and India continue to do well. China is up 10% in the last three months alone. These positive returns have been muted within the Emerging Markets due to Russia (-26% in the same time frame) and Brazil (-21%).

Because of the strong headwinds the Emerging Markets are facing, we are under weight this area of the globe. It continues to trade at attractive multiples but until we see some sort of good news coming from the Emerging Markets (similar to what we are looking for in Europe) we will remain underweight.

As you start your path to investing in 2015, we at IGGA wish you a successful and prosperous New Year!