American Heritage Financial

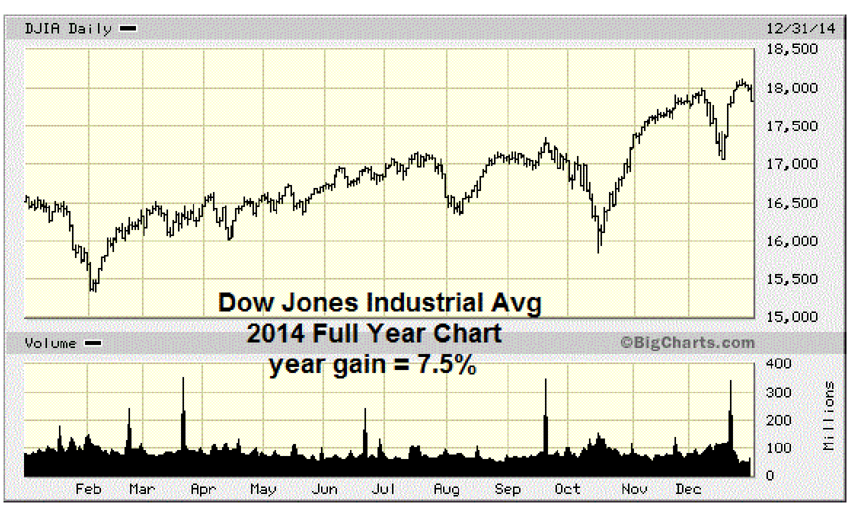
January Update **January 5, 2015**

Ground Hog Day 2015

Like the 1993 movie where Bill Murray awakens to the same day over and over again, we look forward to 2015 with expectations that many scenes of 2014 will be repeated—and that would be a good thing! Our first market comment for the New Year will briefly review 2014 and then offer our outlook for 2015.

Market Index Returns	%
Full Year 2014	**YTD Chg**
DOW JONES IND AVG	7.52%
S&P 500	11.39%
NASDAQ COMPOSITE	13.40%
NYSE COMPOSITE	4.30%
MSCI EAFE	−7.18%
MSCI EMERGING	−4.62%

To summarize financial markets in 2014, it was a mostly uneventful and definitely a good year. The driving force in 2014 was The ***Wizard Behind the Curtain***, or the U.S. Federal Reserve (as has been the case over recent years). Other than the Fed, markets were influenced by the expanding U.S. economy, struggling foreign economies and the collapse in commodity prices—particularly oil. These influences helped the S&P 500 Index extend its near **six-year bull market** to record highs on 53 days during 2014, taking the index above 2,000 for the first time ever. For the year, the **S&P 500 rose 11.4%**, the index's third straight annual advance of more than 10% and only the third time it has managed such a streak The Dow Jones Industrial Average traded above 18,000 for the first time ever and advanced by 7.5% to finish at 17,823. The Russell 2000 Index climbed just 3.5%, reflecting under-performance in small-cap stocks, while the tech heavy Nasdaq Composite Index advanced 13%. Bonds—perhaps the big surprise of 2014—rose 6% (using Barclays Aggregate Index) as interest rates declined. European shares were generally positive but only managed low single digit gains while Chinese equities, influenced by new trading rules, had their best performance since 2009. Most "emerging" stock markets were negative for 2014. The big story of the last quarter was the dramatic downturn in oil with crude at its lowest level since the crisis days of 2009 and clearly in a bear market. Also notable, the U.S. dollar climbed relative to global currencies by 11%-12%, depending on which index one chooses.



So all-in-all, it was a good year for U.S. focused investors—**especially those with large-cap stocks.** Advancing markets have nearly become an accepted norm after years of skepticism and scorn from investors who were burned in the two bear markets since the new millennium. Looking forward to 2015, **we see many conditions which appear similar to those that greeted the market at the start of 2014:** The U.S. economy looks to be on a solid footing, other parts of the globe are struggling to jump-start growth, and U.S. interest rates seem ready (finally) to increase as the Fed seeks "normalcy." The real question is how these conditions might translate into investment performance?

Here are expectations for some of the key categories of the markets and economy. The broader U.S. equity market appears poised to continue its ascent. While it is hard to imagine a fourth year of double-digit returns, and we must again echo 2014's oft repeated warning, *"a correction is long-overdue,"* there are three key points to consider relative to the stock market: 1) The U.S. economy is strong enough to sustain positive stock returns. 2) Corporate earnings are expected to continue to grow at a decent pace. And, 3) Valuations appear reasonable; even attractive in select areas of the market. It appears many of the same companies and industries which did well in 2014 will continue their positive ways, at least through the first half. We expect to see continued investor interest in technology and health care, a little improvement in industrial stocks and possibly a little less focus on financials. Telecom and materials stocks should continue to lag and utilities, generally, face headwinds. Of course oil—and generally anything energy related—will be an area of great interest, and possibly opportunity for 2015. Our take is that the potential opportunity will be in the second quarter or later, after global demand and industry adjustments reduce the current glut of oil.

As anyone who reads the news knows, the Fed is expected to increase short-term interest rates by mid-year or earlier. That may produce tremors in the equity market. It should also provide some return for money market funds and offer relief for savers. Yet, global economic weakness and commodity price deflation are likely to continue to exert downward pressure on longer-term interest rates. **The bond market will continue to be difficult to navigate.**

Economic risks continue to abound throughout the world. Major players China, Japan and Europe are all teetering on the edge of crisis although central banks in each of those three key areas are mounting simulative efforts which could have success and bring rewards to financial markets. China remains a concern with a huge global impact. Many other emerging markets are still basket cases with Russia and Greece currently at the top of the list. Debt heavy emerging economies are at risk since their debt is repaid in appreciating U.S. Dollars which is making repayment more difficult.

The stock market is no longer “cheap” but earnings growth for 2015 is expected to be in the 8% range and stocks should muster similar gains. The strengthening U.S. economy will continue to benefit from low energy prices, improving consumer confidence and strong, productive corporations but those positives are likely to be rocked by wild cards resulting from the collapse in commodity prices, global economic crises and jolts to the economy from an increase in interest rates. Big cap, dominate names may continue to lead the market higher in 2015 but it is likely to be more of a stock-picker’s market. We continue to recommend a well-diversified and balanced approach with a focus on growth and reasonable valuation. The new year may not be as smooth as 2014 but it definitely will offer challenges, opportunities and (we believe) rewards for the astute investor.

Best Wishes for a Healthy, Happy and Prosperous 2015!

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Questions or comments?

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