



# American Heritage Financial

January Update

January 5, 2016

## Searching for Significance

At the start of 2015, analysts were predicting the S&P 500 would gain about 8%. Instead, the benchmark index was negative by 0.7%, although, including dividends, the S&P return was 1.4%. The sideways price action doesn't reflect huge volatility and wild price swings.

The S&P 500 hit an all-time high of 2,131 in May and then suffered its first 10%-plus correction in four years when it tumbled 12.4% in August. The market also experienced a brief but horrifying freefall of more than 1,000 points in the Dow on August 24. Of course, there were some standout performances; investors who owned Amazon, Google (now Alphabet) or Netflix are likely very happy with 2015. But energy stocks, as a group, tumbled 23% as oil and most all other commodities suffered declining prices amid weak demand, excess supply and a strong dollar.

We can point to three major negatives which hurt stocks in 2015: **weak oil prices, China and interest rate worries.** The +30% decline in the price of crude oil was the largest and most destructive surprise of 2015. Stocks of energy companies—as well as any company which has even the slightest exposure to the energy industry—were negatively



impacted. While consumers are benefiting from the windfall of lower energy prices, cutbacks in energy and energy related sectors hit the markets and economy hard in 2015.

China's economic woes were a significant contribution to the drop in energy and commodity demand and China's slowdown, as the world's second largest economy, was a major drag on the global economy. Beijing shocked markets when it devalued its currency on August 8 in an attempt to stimulate its ailing economy. China's stock market shot up more than 150% in the early months of 2015 only to plunge back to ground zero by yearend. China, as the first day of trading in 2016 reminds us, continues to be a concern.

Rate-hike hysteria left investors confused and uncertain all year long. Conflicting and changing guidance by the Fed on when and by how much rates would rise spooked investors. When the Fed, for the first time in nearly a decade, finally bumped rates higher in December the markets showed little reaction.

**Two other headwinds worked to suppress stocks in 2015.** A strong U.S. Dollar, while an indication of economic strength, makes U.S. companies less competitive abroad and reduces the value of their foreign earning. The Dollar gained 8% against other major currencies in 2015. In addition, corporate profits—which are the foundation of stock values—failed to meet expectations in 2015. Similar to the stock market, analysts expected earnings growth of about 8% for 2015 but instead it appears earnings growth will be near zero. Of course energy sector earnings, and other headwinds mentioned above, had a major impact on overall earnings growth. When one considers all the difficulties the stock market encountered in 2015, a flat return seems almost to be a victory!

With the Dow down as much as 400 points on the first trading day of 2016, it is impossible to ignore the continuing negative impact that China is having on world markets. The selloff was in reaction to a 7% decline in Chinese stocks overnight which ignited a global market decline. A weak Chinese manufacturing report sent the volatile Asian market into the freefall. Generally, our market and economy continue to look healthy as the long, slow

recovery out of the depths of the financial crisis continues. The positive aspect about our aggravatingly slow economic growth is that slow growth is more sustainable. Considering our strong employment numbers, increasing wages, still low home ownership and the huge decline in energy prices, a strong case can be made that this recovery still has legs. Some of last year's woes in the energy, commodity and agriculture sectors could bottom by mid-year and contribute to positive gains. As mentioned above, expectations for 2016, currently, appear similar to those of early 2015. Earnings growth is expected to be modest at around 6%, stocks could advance by 7% to 8%, the economy should grow by 2½% and interest rates will, likely, stay fairly low. Many of the same issues of 2015 continue to pose risk: China, weak energy prices, the strong dollar, soft earnings and a faster than expected rise in interest rates are the largest concerns. Of course, each of these issues could turn into a positive surprise as well—especially by mid or late 2016.

### **Buck Rogers Meets (virtual) Reality**

2016 could bring some dramatic changes in technologies which affect the way we live, work and play. Even the least tech savvy among us has now become accustomed to an always-on, everything connected, all questions answered wireless world. Based on previews of the January Consumer Electronics Show (CES), additional dramatic changes to how we benefit from technology are in store. Five themes to watch are virtual and augmented reality, robots, drones, the internet of things and smart cars. Here is a brief rundown on each.

**Virtual reality and augmented reality:** Augmented reality is the blending of virtual content with a real-world environment and is already an everyday part of life (think of your dashboard GPS). Virtual reality, an immersive experience inside a fabricated world, is mostly hype outside of gaming. VR games are about to take a dramatic leap into the future with devices such as the *HTC Vive*, a virtual reality headset with motion controllers and 70 sensors; making it both position and body-motion-aware. The *Vive* is PC-based rather than just a gaming device. The reason such technology is exciting to non-gamers is its refined, smooth and accurate recognition of body-motion and the projection of that motion. Various similar gaming devices bring us just a step away from interacting with friends, doctors or online shops in VR. The Microsoft *HoloLens* is augmented reality which enables overlaying visual elements on the real world through a head-mounted visor. An example of its use: visualize what your living room will look like with new furniture, paint or a wall removed.

**Robots:** Robots are common in industry but have yet to become a true presence in homes. Robotics exhibition space is up by 71% at CES this year and pundits are prophesying the age of the home robot. There already are simple robot helpers; from Roomba sweepers to *Paro*, a medical device with a seal appearance which recognizes its name and responds to stroking and petting—*Paro* is being successfully used to calm dementia patients. You will soon see robots performing productive tasks, communicating and making basic decisions. *Jibo* is a new robot which can identify people and greet them, take photographs, surf the web, and carry out other communication tasks. *Jibo* is just 11 inches tall and looks like a desk accessory but Korean made robot *Buddy* has a digital face displayed on a tablet and moves around on wheels. As *Buddy* himself says on YouTube, "I can detect a flood, fires, I can dance, play music, and many other things." *Tapia*, a Japanese robot, can take a picture of you "when you are in a good mood", play your favorite music, offer medication reminders and monitor an elderly person—sending an alert if they stop interacting after a given period of time. To add to the robotic buzz, Mark Zuckerberg unveiled plans on January 3 to build an artificially intelligent butler. He says he will build an intelligent robot in 2016 to help run his home and assist him at work.

**Drones:** 2015 was dubbed the "year of the drones" at last year's CES and it appears the excitement continues for the 2016 CES. Of course drones have raised safety and privacy concerns and the FAA recently issued usage and registration regulations. Thus far, consumer drones are most commonly used for aerial photography and video, measurement, navigation, and entertainment. Improvements in technology and lower prices will increase usage of such drones. In 2016, look for a surge in GoPro like drones used by sporting enthusiasts. As a cyclist, I would love to replay my ride from a vantage of point just above and behind my bike! The concept car, *Etos*, takes that idea one step further carrying a drone which assists with the car's navigation and warns of hazards.

**Internet of Things (IoT):** IoT is a concept first promoted by networking giant Cisco Systems. The idea is that all of our little gadgets "talk" to each other over wireless internet connections. From keyrings to light bulbs to wearables, everything is gaining the ability to connect to the network and communicate interchangeably. Special IoT wireless routers can connect a large number of devices over areas as large as a couple of acres. Samsung has created a hub that unites everything you may have connected at home such as smart appliances, heating, lighting, and more. Perhaps once all our devices can talk to each other, they will invent something to help us talk to each other!

**Smart cars:** Automotive companies are becoming as important as tech companies at the annual CES as they continue to develop digital technologies. New cars are already loaded with technologies such as augmented maps and GPS, parking assist, lane tracking and even automatic braking—but 2016 is the year when cars will get really smart! Google, Faraday Future, Mercedes, BMW and Tesla, among others, are expected to make a splash this year with various forms of smart and self-driving cars. While fully self-driving vehicles still have to overcome technological and acceptance hurdles, expect to see usage in closed areas such as airports, military bases or corporate parks.

Perhaps all these new and exciting technologies will ignite consumer spending and help propel economic growth in the New Year!

Best regards,

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Questions or comments?

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