THE MAIN ADVISORY

First Quarter 2015

Piecing It All Together

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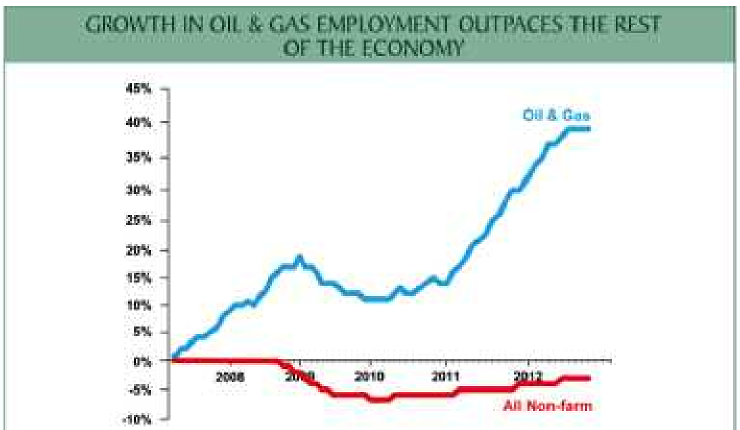
Ahead to 2015 …

In the blink of an eye, retailers transformed their stores for the dawn of 2015. One major retailer, CostCo, lined their aisles with diet products, supplements, Vita-Mixers, and scales for measuring the progress of the dieting resolutions.

Similar analogies can be made of the investment markets, too. After an increase in the S&P 500 for 2014 of 13.7% (with dividends factored in), the New Year was met with increased volatility. One headline in the *Wall Street Journal* on January 2, 2015 read "Investors Should Buckle Up for a Wild Ride in the New Year." Rarely are the forecasters correct so this may be an exception.



Job growth in the oil & gas sector has boomed even as the overall employment picture has lagged.

Data source: FRED Economic Data, Federal Reserve Bank of St. Louis

Oil prices began falling in late 2014 and have continued that pace through the time of this writing. This occurrence, not seen for many years, invokes two questions. Is the decline a result of an oversupply of oil due to the fracking and recent discoveries in the U.S., or is global demand for energy waning thereby signaling a global economic slowdown? Perhaps, the answer may be a combination of both. While the U.S. was clearly the most robust economy on the world stage, other nations faltered. Japan slipped back into recession but instituted a surprisingly large round of government stimulus that lifted the Nikkei Stock Average by 7.1%. Europe, on the other hand, posted negative returns along with the emerging markets.

Another surprise for 2014 was a decrease in interest rates. In fact, I won a wager with a colleague on this front; I ventured they would close 2014 below 2.75%. Many predicted that rates would rise as soon as the Federal Reserve Bank stopped their bond buying program known as "quantitative easing." Under normal circumstances, when unemployment improves and GDP strengthens (gross domestic product), interest rates will rise to circumvent inflation. But, the economy is not in a "normal" trend and hasn't been since the great recession of 2008. The rates on the 10-year Treasury note hit a high in 2014 of 3% but closed below 2%.

So with it being January 2015, rather than opine about the past, I prefer to look at a few dominant themes that may affect the markets going forward.

Interest rates have continued their slide in 2015 across the globe. Investors appear to be concluding that Federal Reserve Board Chair Janet Yellen will not begin raising interest rates as anticipated. Personally, I keep as close an eye on the 10-year Treasury note as on the stock market for a "barometer" reading of the economy. Lower interest rates are good for home buyers which tend to have a "trickle down" effect on other sectors of the consumer markets.

Energy prices also continued to fall in the first two weeks of the New Year. How low can they go and for how long can they remain there? Lower energy prices are good for consumers since less money spent at the pump means more to save or spend on other goods and services. Ordinarily, one would say this is a good thing. However, data suggests that most of the job growth since 2009 has been in the energy sector. A slowdown in drilling activity could result in layoffs and project suspensions, resulting in a drag for the economy rather than a tailwind.

Lower energy prices are squeezing the economy of Russia tremendously. One economist recently wrote that Putin will be

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Ahead to 2015
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forced to change his stance on the West or be forced out by his inner circle; the conclusion being a regime change would ensue.

Europe remains weak with growth at 1% annually. The European Central Bank is not organized like the Federal Reserve Bank, so the options for stimulus require the consent of all countries within the European Union, not an easy task. Even so, the eyes of the world are on the upcoming actions promised by the head of the bank, Mario Draghi. Europe is teetering on the brink of deflation that some would argue is already plaguing the continent. Draghi must work diligently to "inflate" the economy or face an even greater spiraling decline.

Greece is once again in the news with elections on the forefront. The liberal party, if elected, is vowing to renege on the austerity plan put in place over two years ago. These actions could result in Greece pulling out of the Euro. This would likely create market volatility in the short term.

Italy, Portugal, and France are in dire straits as well. It is not inconceivable to see interest rates rise significantly in these countries with possible regime changes due to pressure and unrest from the citizens.

Currency war is a much written about subject, and evidence is building that this may be the predominant theme for 2015. The dollar has begun strengthening against the Euro and the Yen. A

weak currency makes prices more attractive for exporters. More exports can translate into economic growth and inflation. This could result in lower prices for the goods and services imported into the U.S. but less exports out of the U.S. A rising dollar can also dampen profits of multi-national U.S. companies; remember, stock prices typically move on earnings growth.

Currency wars will occur when countries manipulate their currencies to gain advantage. The first surprise in this area came on January 15, 2015 when the head of the Switzerland Central Bank lifted a cap on their currency that was pegged to the Euro. There was no hint beforehand of the announcement. The surprise resulted in at least one hedge fund whose assets totaled $830 million being wiped away in a single day. Switzerland definitely launched the first shot across the bow.

Lower currency values in other countries translate into a rising dollar in the U.S. This can be good for travelers going abroad, but there are some areas to keep an eye on if the dollar strengthens all the while commodity prices fall, namely the emerging markets. Many emerging market countries were on a borrowing binge in 2014 and borrowed in the form of U.S. dollar de-

Darla D. Main, CFP®

President and CEO of Main Advisory, Inc.

nominated bonds. As the dollar strengthens against the home country currency, it takes much more money to repay the bonds/loans. Some of the countries were already in a weakened state so the ability to repay becomes questionable.

Cybersecurity will be a hot topic in most boardrooms for

2015. The Sony Pictures hack at the end of 2014 was a wake-up call to all CEOs and to security regulators, too. I expect more regulation and rules to be imposed upon investment management firms and advisors also in the area of cybersecurity.

Global terrorism and geopolitical turmoil became headliners in the first week of 2015 with two separate bombings in Paris. it is still unknown whether there will be economic repercussions, but if tourism across Europe drops, the fragile condition of Europe could worsen. Moreover, the anti-Semitism movement is gaining traction in Europe, too, and is being compared to the early stages of the Hitler era. Many Jewish families are exiting Europe and relocating in Israel. Again, this could also cause a drag on the European economy.

Space and time do not allow for a longer list, although there is more to add. Perhaps, these items will be covered in future editions. I could spend a majority of hours every day reading and researching commentaries from competent sources. I'll continue to keep you informed of the major issues while you focus on family, friends, careers, and "bucket lists." Just remember to keep us in the loop. Deal?

Things that may Affect You

Retirement plan assets are nearly always on the radar for the elected officials in Washington, D.C. Yet, despite a political majority change in Washington, there is still disharmony when it comes to retirement plans. Keep in mind there is a very large pool of "UNTAXED" money in corporate sponsored retirement plans and IRAs that the powers in Washington--from the President to the Senate to the House--would love to "tinker with" to fund their pet projects. Moreover, because of the complexity of retirement plans, most Americans don't know enough to object to the proposals being put forth.

For the past several years, President Obama has proposed a cap on the total amount of money one individual can have across all accounts before assessing a tax on the excess. Thus far, this has not passed. But, don't count it out. The idea keeps coming up.

The new IRA program first mentioned in President Obama's State of the Union address in January 2014 went into effect in 2015. It is known as **MyRA**. Eligible individuals whose employers agree to participate will be able to make MyRA contributions via payroll deduction. An account may be opened with as little as $25, with subsequent contributions as low as $5 per pay period. Individuals eligible to participate in the MyRA program include those who earn less than $129,000 (individuals) or $191,000 (married filing jointly). MyRA accounts will be invested solely in United States Treasury Bonds. Once the maximum account balance of $15,000 is reached or 30 years have passed, whichever comes first, the balance must be redeemed or transferred to a regular Roth IRA. MyRA contributions will be treated like contributions to a Roth Individual Retirement Account (Roth IRA) for tax purposes. Withdrawals after age 59½ will be tax-free.

Another proposal from the President, which has some support from the Republicans also, is the **elimination of the "Stretch IRA"** which allows a beneficiary to withdraw funds from an inherited IRA based on his/her life expectancy. The elimination would result in beneficiaries withdrawing funds over a maximum of five years, thereby causing the tax to be accelerated and, in many instances, be much greater.

An area that definitely changed for 2015 is the **rollover rule**. Previously, a retirement plan participant could withdraw funds from his/her account and repay within 60 days and avoid tax. If you had several retirement accounts, you could keep the "loan" outstanding by rolling funds from one account to another. No more. Individuals are allowed ONE rollover per year across all accounts. It is critical to coordinate rollovers from employer-sponsored plans very carefully. One rollover per year means you may be deterred from consolidating multiple employer accounts into an IRA upon termination of employment. It is common for individuals to leave retirement assets in employer plans after changing jobs. With this new rule, it is important to work with an advisor to avoid penalties for failure to comply with the new rule when consolidating plans upon retirement.

The **2015 gift tax exclusion** is $14,000 per person. Couples may join together to gift $28,000 to a family member.

The **2015 deferral limit for 401k/403b plans** is $18,000. Individuals over the age of 50 may contribute an extra $6,000 as a "catch-up." The participant contribution limit for a SIMPLE IRA is $12,500 with an additional $3,000 as a "catch-up" contribution for anyone 50 or older.

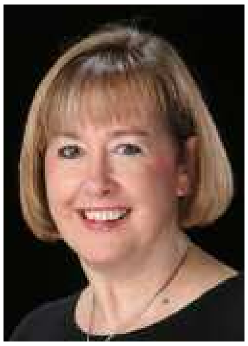
The ability to contribute the **Required Minimum Distribution (RMD)** from an IRA for those over the age of 70 ½ to a charity became an option in December 2014 but extended only through December 31, 2014. Republicans wanted this to be a permanent tax break but could not gather Democratic or Presidential support for passage. This may become part of a broader tax code revision, but may also fall by the wayside. ■

STAFF NEWS!

Darla Main - President, Main Advisory, Inc.

Have you ever felt you were in a time warp? Recently, I received a photo from friends of their son in his football uniform. Given his team was in the finals for the California State High School Championship, the players had each grown a beard that would be shaved upon a win. I was struck by how the little precocious boy I remember had grown into a man in what seemed to be an overnight phenomenon. Immediately, I thought "where have the years gone?" After all, I seem to stay the same! (Dreaming again…). Shortly thereafter, I received another photograph with the beard gone. Congratulations to Sterling for the championship win! You are even more handsome without the beard! Now, onto those college plans. ■

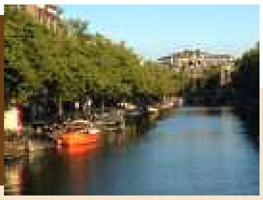
Suzanne Campanella - Client Services



Someday I dream of attending the Metropolitan Opera live at Lincoln Center. But in the meantime, I am delighted to take advantage of "The Met: Live in HD" program! The Met has not only been broadcasting their operas live over the radio for the last 80 years, but now, with the advent of new technology, they have taken their productions to the big screen. For less than $25, you can enjoy watching an opera in real time in your local movie theater. This season, ten live performances will be broadcasted in over 67 countries. Recently, here in Pittsburgh, I was able to watch "The Merry Widow" with Renee Fleming in the title role. What a lovely, sparkling, pop-like-champagne type operetta for the start of the New Year! This makes three I have seen in person, but who's counting? ☺ ■

Journeys & Travels

… to Amsterdam



One of our clients writes, "An unexpected pleasure of a business trip to Amsterdam this summer was being in the heart of the Netherlands and Western Europe during the peak season of the World Cup. I am not much of a 'football/soccer' fan, but if you are in Europe during the World Cup, you have no choice as the country comes to a standstill. I guess you can liken it to our Super Bowl, though soccer fans in the Netherlands and most of Europe are much more passionate and take their sport much more seriously than we take any sport here in the US.

The city and small towns were decorated to the hilt. Amsterdam was aglow in bright orange as that is the color of the Dutch Royal Family, which hails from the House of Orange (in Dutch: Huis van Oranje). It is an interesting twist as the Dutch flag is actually red, white, and blue. When Team Netherlands was playing in the World Cup, the streets were empty--the bars, restaurants, parks, and city centers were full. Cheers and jeers echoed clearly into the streets. It was truly captivating to be a part of the local culture.

And, to satisfy your sweet tooth my favorite dessert in Amsterdam is at a small café/restaurant called Café Het Paleis, located just off the west of Dam square, which makes for a great resting point between shopping and seeing all the best tourist sites. This café is probably more popular for lunch or sweets than for dinner. Be certain to try the *appelgebak* or apple tart, and Café Het Paleis serves the best I have had yet. A large serving, with the perfect combination of crust, soft apples with just the right amount of cinnamon and more whipped cream that you could ever imagine. Absolutely perfect in the late afternoon when you are feeling slightly jet lagged. Café Het Paleis is located at Paleisstraat 16." ■