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### Market Outlook

As of December 19, 2014

Our two intermediate-term market indicators (weeks to months and quarterly) are positive as of December 19, 2014. Our longer-term market outlook (months to years) is also positive, although we have concerns. This means that our market outlook is favorable at this time. Please remember that no market indicator is foolproof or guaranteed to accurately forecast future market conditions. Observed historical trends are not guaranteed to occur in each and every year nor in any given year or time period.

One interesting fact is that every year since 1950 (63 years in a row) the S&P 500 has had at least 4 consecutive down days during the month of December. As of the time of this writing that phenomena has not yet been observed this December, but we did have three down days in a row. The S&P was recently down -3.5% in one week, its worst performance since May 2012.

The following week saw a rapid ascent in the Dow and the S&P. In fact the Dow (up 708 points in two days) had its biggest two-day gain since 2008. This reversal from a rapid drop to a rapid climb occurred in the aftermath of Federal Reserve Chairwoman Janet Yellen's comments that initial interest rate increases would not occur in the next couple of Fed meetings, that any such rate increases would be data dependent, and finally that the Fed would be "patient."

Continuing on the positive side, seasonality data in the S&P 500 for the month of December from 1950 to 2011 indicates predominance of historically positive returns for the last two weeks of December (source SentimentTrader.com). The tendency for stocks to be up during the month of December and especially in the last two weeks of December is often commented on in the financial media as looking for a "Santa Claus rally." It now appears that the Santa Claus rally is real.

Year to date the Dow Jones Industrial Average is up 7.13%, the S&P 500 Index is up 11.60%, and NASDAQ is up 13.78% as of mid-day December 19, 2014 (source money.cnn.com). Please note that the Dow, S&P 500, and NASDAQ are all equity indexes. Most diversified investment portfolios are not 100% invested in equities.

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	Positive outlook for past 1,057 days
-- International Equities	Positive outlook for past 861 days
-- Resources and Materials	Positive outlook for past 826 days
-- Real Estate	Positive outlook for past 1,953 days
-- Bonds / Fixed Income	Positive outlook for past 294 days

Currently, the top 3 performing sectors (based upon our assessment and ranking methodology) are:

**Healthcare  
Consumer Cyclical  
Utilities**

In addition to the top three listed above; Technology, Financials, and Real Estate all have above average rankings.

In summary, our intermediate term market indicators are positive and our longer-term market indicators are positive. Thus, we remain generally bullish on U.S. Equities, International Equities, Resources & Materials, Real Estate and Bonds/Fixed Income.

Right now, many economic and business signs we review are bullish, but there will come a time when that changes. U.S. equities are already at or near all-time highs as measured by broad stock market indexes. At some point one or more of the asset categories listed above will begin a significant decline.

### Shiller CAPE and Market Valuation

While our longer term outlook (months to years) is positive we have concerns. Certain valuation models that we review indicate that the stock market may be overvalued. This in turn may mean that future investment returns in the stock market may be fairly low. The graph below is a chart of the Robert Schiller CAPE 10 PE ratio (source [www.econ.yale.edu](http://www.econ.yale.edu)). It reflects a CAPE reading of about 27.



Robert Schiller is a Nobel laureate economist and professor at Yale University. CAPE 10 stands for 10 year cyclically adjusted price earnings ratio. Some studies indicate that there may be a correlation between CAPE PE and market valuation over the longer term. Shiller has himself expressed uncertainty regarding the use of the CAPE 10 as a stock forecasting device, stating, "while the current CAPE level might be high relative to history... how do we know that history hasn't changed?" ("Even Robert Schiller Has Doubts About His CAPE Ratio," Business Insider, October 20, 2014).

Interpretation of CAPE data suggests that future growth in U.S. equities is less likely to be attributable to further expansion of the PE multiple. This in turn suggests that the dominant component of future growth in US equities is more likely to be attributable to growth in corporate earnings generally. Given the possibility of a slow growth environment this could lead to lower expectations for stock market returns looking forward.

### The Economic Environment

On the economic front the unemployment rate remains unchanged at 5.8% for the month of November. We are at the lowest unemployment rate since July, 2008. The labor force participation rate remained unchanged at 62.8%.

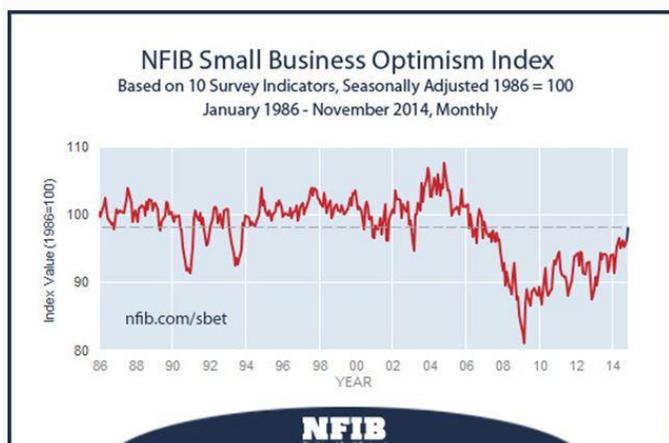
Bureau of Labor statistics reported a much stronger than anticipated 321,000 jobs added in November. This marks the tenth consecutive month above 200,000 in job creation, the best stretch since March 1995.

Third quarter GDP estimate was revised upward from 3.5% to 3.9%. Second quarter GDP was 4.6%. This is the best six-month period of GDP growth in 11 years.

US retail sales rose 0.6% month over month, better than expected. Consumer confidence came in at 93.88, which was much better than expectations. Recent initial jobless claims were 294,000, down 3,000 from the previous week and a bit lower than expected.

The price of oil is at a 5 1/2 year low, off more than -40% from its 2014 highs. Prices for a gallon of regular gasoline is below \$2.00 in some areas of the United States. It is said that lower oil prices is like a tax cut putting an extra \$500 into the hands of each US family (source, "Cheap gas is akin to a \$60 billion tax cut," Jesse Solomon, December 10, 2014, CNN Money).

In addition, the NFIB Small Business Optimism Index came in at 98.1, up 2 points and the highest post recession level yet. Below is a chart of the Small Business Optimism Index from January 1986 to November 2014.



This along with other data, including reduced energy costs and strong auto sales, suggests continued net growth in the US economy. Coupled with low interest rates this lays a foundation for expectation of continued growth in asset values of US equities generally.

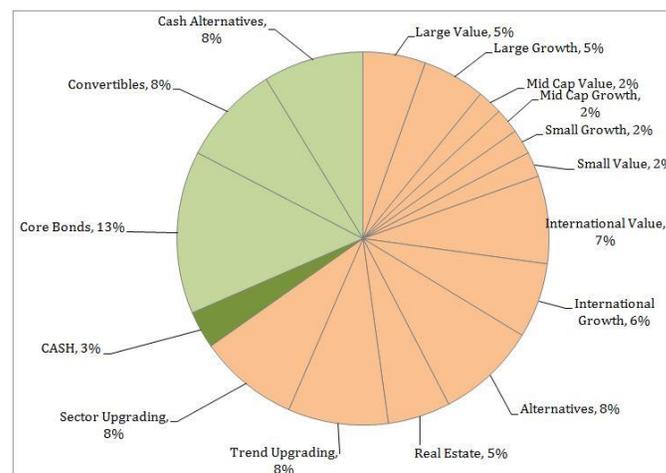
### Tactical Asset Allocation

In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today's challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned to an asset allocation portfolio. This process of changing asset allocations based upon changes in the market (such as market anomalies or identifying strong market sectors) and in economic data and trends is called tactical asset allocation. Investors have an opportunity to improve investment performance over time through proper implementation of tactical asset allocation.

Because the United States is currently one of the best places to invest in the world it makes sense in our view to overweight U.S. investment assets and reduce exposure to international investment assets. Also, our investment data shows strength in specific sectors of the US market. This sector strength is occurring amidst a generally positive economic environment. Given this background we view adding incrementally to certain sector and trend choices as an appropriate tactical investment move at this time.

The asset allocation pie chart below is an example of tactical asset allocation in implementing lower international exposure (the aggregate of international value and international growth) and increasing sector and trend exposure (the aggregate of sector and trend choices). These changes are based in part upon an ongoing assessment of investment and performance data using our proprietary tracking and ranking methodology. We also recognize and evaluate certain economic data and trends in developing tactical asset allocation strategy. Changes in investment data and economic data occur regularly and can in turn lead to changes in asset allocation at any time.

### Example of Asset Allocation Pie Chart



This asset allocation example is for educational and informational purposes only. It is not representative of any particular client account. Each person, family, or account has different facts and circumstances, so no single investment allocation can fit all situations. In addition, changes in an individual's time horizon and risk tolerance as well as various economic, financial and market factors can lead to changes in the asset allocation of an investment portfolio for any particular investor.

## Standing for Freedom in Hong Kong and Washington DC

This past October I traveled with my brother to Hong Kong. Our hotel was near the Occupy Central site of the Hong Kong pro-democracy movement, which came to be known worldwide as the Umbrella Revolution. It was called the Umbrella Revolution because the freedom protesters used umbrellas to deflect tear gas and pepper spray fired at them by the police.

The protesters had gathered together blocking eight lanes of one of Hong Kong's most important and busy streets in order to make known their desires to have a free and democratic election for the office of Chief Executive of Hong Kong. The communist government had specified that they could have an election, but only candidates that had been vetted and approved by main land China could be placed on the ballot.

As we walked among the peaceful protestors I had a sense of the moral purpose and rightness of the pro-democracy movement in Hong Kong. These protestors, many of whom were college students, were sacrificing time and comfort to stay on the street day and night while also risking arrest or worse at the hands of the communist government "for their participation in unlawful activities." They did this for something they believed in and desperately wanted, the right for the people of Hong Kong to freely choose the elected leader of Hong Kong.

While in Hong Kong we happened to meet John Todoroki, a member of the executive committee of the Prague Freedom Foundation, an organization dedicated to supporting independent journalism and free media globally. He gave us a copy of a letter to President Obama signed by 21 US Senators, both Republicans and Democrats, urging President Obama and the United States to support the pro-democracy movement in Hong Kong. Mr. Todoroki also invited us to attend a Celebration of Freedom event at the National Cathedral in Washington DC on November 17<sup>th</sup>.

I made a decision to go to the Celebration of Freedom event and found that I had been assigned reserved seating in the VIP area up front in the large expanse of the National Cathedral. As I went to my seat I recognized former Secretary of State Madeleine Albright who along with US Senator Roger Wicker (R-MS) were two of the speakers for the evening. That evening Secretary Albright presented Senator Wicker the Defender of Freedom award, partly in recognition of his support of the pro-democracy movement in Hong Kong.

Later at a private reception hosted in the Bethlehem Chapel I met and spoke with Secretary Albright and Senator Wicker. I had seen in the news an article that Senator Wicker had been named Chairman of the National Republican Senatorial Committee (NRSC), making him the 6<sup>th</sup> highest-ranking member of the GOP leadership. I congratulated Senator Wicker on his appointment and on receiving the Defender of Freedom award.

The next day I attended a forum on the legacy of Senator Barry Goldwater held at The Heritage Foundation in Washington DC near the United States Capitol building. Barry Goldwater was the republican presidential nominee in the 1964 election. Though he did not win the election his influence in American politics was credited with later leading to the successful presidential campaign of Ronald Reagan.

I attended a dinner that evening in honor and memory of Barry Goldwater. His son, former US Congressman for California, Barry Goldwater, Jr., was the keynote speaker. I shared a dinner table and enjoyed visiting with Jim Gilmore, the 68<sup>th</sup> Governor of Virginia from 1998 to 2002, and currently President and CEO of the think tank, American Opportunity, and President and CEO of the public policy research and education organization, Free Congress Foundation.

Barry Goldwater did not win the presidential race in 1964. It appears that the pro-democracy protestors in Hong Kong may not be successful in their efforts to obtain a free and democratic election. Both situations demonstrate the truth that just because something is not likely to be successful does not mean that it should not be done or attempted.

Hong Kong and Washington DC provided opportunities to see, recognize, and celebrate the values of freedom and democracy. It has reinforced to me that some ideals are of such great value that they are worth pursuing even in the face of likely failure. In the words of Vaclav Havel, "Hope is not the conviction that something will turn out well, but the certainty that something makes sense, regardless of how it turns out."

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Sincerely,  
George M Hiller Companies, LLC Investment Team

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