George M. Hiller Companies L.L.C.
INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

Financial & Investment Newsletter **May 2015 Edition**

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Market Outlook

As of April 29, 2015

The bull market, which began in March 2009, (over six years ago) continues on, but with evidence of increased volatility. In spite of the increase in volatility our intermediate market outlook (weeks to months) is positive and our longer-term market outlook (months to years) continues to remain positive, although we have concerns.

In our market outlook the following asset categories; US Equities, International Equities, Resources and Materials, Real Estate, and Bond/Fixed Income are bullish at this time. Please remember that no market outlook or 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.

Year-to-date the Dow Jones Industrial Average is up 1.19%, the S&P 500 Index is up 2.33%, and NASDAQ is up 6.07% as of April 29, 2015 (source money.cnn.com). After 15 years, the NASDAQ has finally reclaimed the ground lost in the tech bubble collapse that occurred in the year 2000 and has recently hit a new all time high. In addition, the S&P 500 has also recently hit a new all time high. Please note that the Dow, S&P 500, and NASDAQ are all equity indexes.

Most diversified investment portfolios are not invested 100% in equities. Also, while it is possible to invest in various equity index funds, it is not possible to invest directly in the indexes themselves.

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	*Positive outlook for past 1,188 days*
-- International Equities	*Positive outlook for past 929 days*
-- Resources & Materials	*Positive outlook for past 957 days*
-- Real Estate	*Positive outlook for past 2,084 days*
-- Bonds/Fixed Income	*Positive outlook for past 425 days*

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

- **Healthcare**
- **Small Cap Growth**
- **Mid Cap Growth**

In addition to the top three sectors listed above Consumer Cyclical and Emerging Markets have above average rankings. This suggests that these sectors are also above average investment candidates in the current market environment. Currently the worst performing sectors are Utilities and Real Estate.

US equities are already at or near all-time highs as measured by broad stock market indexes. Also, US equities have gone an unusually long period of time without a correction of 10% or more. At some point one or more of the asset categories listed above will begin a significant decline.

Right now, many economic and business signs we review are bullish, but there will come a time when that changes. Currently, we remain generally bullish on U.S. Equities, International Equities, Resources & Materials, Real Estate and Bonds/Fixed Income.

Stock Market Valuation Indicators

There are indications that the stock market may be overvalued. This does not mean that the market will not continue to move up. A recent Big Money Poll published in Barron's on April 27, 2015 reported a consensus forecast for 8% rise through mid-2016. As noted above, our market outlook remains positive although we have concerns.

The S&P 500 price to earnings ratio (PE) is rising and now stands at 20.6 (source multpl.com). This is well above the long-term mean of 15.5. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period. According to the Barron's report cited above the S&P 500 PE ratio when calculated on estimated future earnings as opposed to historical earnings is a more reasonable 17.4.

The Shiller PE ratio is based upon cyclically adjusted price to earnings over a ten-year period. Currently the Shiller PE ratio is at 27.2. The long-term mean average of the Shiller PE ratio is 16.6.

These two stock market indicators suggest that stocks are expensive relative to the long-term averages of these indicators. This suggests that the stock market may produce lower returns over the next ten years than what might otherwise be expected.

The Economic Environment

The first estimate of first quarter GDP (gross domestic product is the value of goods and services produced in the U.S.) came in at 0.2%, below expectations of 1%. This is down from 2.2% GDP growth reported for the fourth quarter of 2014 (source, Bureau of Economic Analysis). There will be two more revisionary estimates of first quarter GDP in reports to be released in May and June.

The low GDP estimate may signal increased risk of recession. This indication of economic weakness may cause the Federal Reserve to delay further any move to increase interest rates in the very near future. Many observers forecast that a rate hike may be delayed until the fourth quarter of 2015. The low GDP estimate is attributed in part to winter weather and the strength of the dollar.

The unemployment rate remained at 5.5% for March (source, Bureau of Labor Statistics). The labor force participation rate declined slightly from 62.8% in February to 62.7% in March. This marks the third month in a row of slight down ticks in the labor force participation rate.

Who Pays the Income Taxes in the United States?

According to The Tax Foundation, Tax Freedom Day is the day when the nation as a whole has earned enough money to pay off its total tax bill for the year. This year Tax Freedom Day is April 24th, one day later than last year (source, taxfoundation.org). So, on average a taxpayer works from January 1 to April 24 just to pay the taxes that he or she owes the government. After April 24, the average taxpayer can begin to earn money to pay all their other bills, living expenses and try to create savings for the future.

Who really pays the majority of income taxes in the United States? With tax day falling on April 15th, The Wall Street Journal published a graphic depicting who actually pays the majority of income taxes in America.

The top 40% of wage earners in the United States pay over 97% of the total income tax, while the bottom 40% pay no taxes (through tax credits, the bottom 40% actually receive money from the government instead of paying taxes to the government).

Who's Paying What?

How income and federal income taxes were distributed in 2014.

Groups of taxpayers by income	Income range	Share of total U.S. income	Share of total income tax
Bottom fifth	$0 to $24,200	4.5%	-2.2%
	$24,200 to $47,300	9.3	-1.0
Middle fifth	$47,300 to $79,500	14.8	5.9
	$79,500 to $134,300	20.0	13.4
Top fifth	Above $134,300	51.3	83.9

Note: Total estimated U.S. income for 2014 is $13.7 trillion. Total estimated U.S. individual income tax for 2014 is $1.26 trillion. Income figures are higher than those shown on tax returns, as they include untaxed income due to employer-provided health coverage, municipal-bond interest, retirement plans and other items. Each quintile contains about 65 million people.

Source: Tax Policy Center

THE WALL STREET JOURNAL.

Asset Allocation

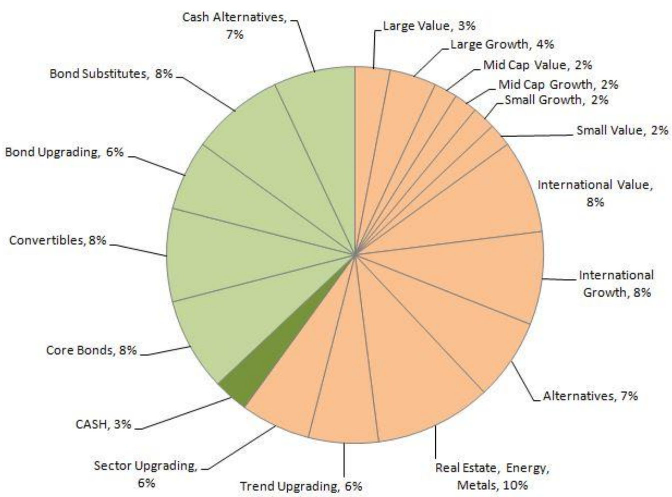
In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today's challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned 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.

The United States is one of the best places to invest in the world, but valuation indications suggest that U.S. stocks may be overvalued as a group. Given this, it makes sense in our view to now reduce exposure to U.S. investment assets and increase exposure to international investment assets.

The asset allocation pie chart below is an example of tactical asset allocation in implementing lower U.S. exposure and increasing international exposure (compared to the previous asset allocation pie chart published in the March issue). These changes are based in part upon an ongoing assessment of U.S. stock market valuation indicators and the evaluation of 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



In summary the asset allocation pie chart above expresses tactical asset allocation strategy in pursuit of the following broad investment themes:

- **Reduced exposure to US investment assets**
- **Increased exposure to International investment assets**

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.

It is our mission to provide high quality professional and objective financial counsel in the areas of investment management, estate and personal financial planning designed to help our clients improve their financial condition and achieve long-term financial goals.

Sincerely,

George M Hiller Companies, LLC Investment Team

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