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

Financial & Investment Newsletter October 2014 Edition

By George M. Hiller
JD, LLM, MBA, CFP®

Market Outlook

As of September 30, 2014

The eyes of the world for the third quarter have focused on conflict in the Ukraine, the atrocities and continued threats of ISIS in the Middle East, and most recently the pro-democracy uprising and protests on the streets of Hong Kong. Geopolitical uncertainty may partly explain why the Dow Jones Industrial Average, S&P 500 Index and NASDAQ Index were all down for the month of September. However, all three indexes were up for the quarter and up for the year contributing to an ongoing multi-year upward trend.

The week ending September 26 was a losing week for almost all markets around the world. All major US indices gave ground, with the Small Cap Russell 2000 leading the way down with a -2.4% loss. It is worth noting that 2/3 of all Russell 2000 stocks are now below their 200-day moving average, the most in more than four years. This is a negative sign and suggests caution with regard to new investments in the US small cap arena at this time.

For the week ending September 26 the Dow Industrials lost -1% and the S&P 500 gave up -1.4%. Internationally, Japan bucked the trend with a +0.9% gain, but the rest of Developed International was not that lucky, averaging a -1.8% loss. Germany led the losers with a loss of -3.6%. Developed International is now in negative territory for the year to date. Emerging International sank -2.4%, with Brazil among the worst down -2.6%. Many commodities continued to fall.

Our intermediate-term market indicators remain positive. These indicators suggest that the US equities market is more likely than not to rise above current levels in the short-to-intermediate time frame. Please note that no market indicator is foolproof or guaranteed to accurately forecast future market conditions.

Our longer-term market outlook continues to remain positive, although we have concerns. As of September 29, 2014 year-to-date the Dow Jones Industrial Average is up 2.98%, while the S&P 500 Index is up 7.00%. NASDAQ is up 7.88% (source money.cnn.com).

The S&P 500 Index has been up for seven consecutive quarters, up 39% for the period of those seven quarters. Gold is up a scant 1.30% year-to-date (source CNBC).

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	Positive outlook for past 977 days
-- International Equities	Positive outlook for past 781 days
-- Resources and Materials	Positive outlook for past 746 days
-- Real Estate	Positive outlook for past 1,873 days
-- Bonds / Fixed Income	Positive outlook for past 214 days

Currently, the top three performing sectors in U.S. Equities (based upon our assessment and ranking methodology) are:

Healthcare
NASDAQ 100
Technology

Large Cap Blend remains above average with an attractive ranking. Real Estate and Emerging Markets have fallen to below average in our current rankings. However, at present we maintain a positive outlook for Real Estate and Emerging Markets longer term.

The S&P 500 Index is a stock market index made up of the stocks of 500 American large cap corporations. The index is owned and maintained by Standard & Poor's. The S&P 500 is one of the most widely followed indexes of large-cap US stocks. It is often used as a benchmark for how the stock market is doing and for performance comparative purposes.

An interesting fact to note is that the S&P 500 Index is not made up of the 500 largest corporations in the U.S. It is instead made up of 500 large cap stocks that meet certain criteria including but not limited to liquidity, viability, and overall representativeness to various sectors of the economy.

The S&P 500 Index is a market capitalization index. This means that the companies that make up the S&P 500 that have higher market capitalization (i.e., higher aggregate fair market value of adjusted outstanding stock) have a higher weighting in the index than lower market capitalization companies that are included in the index. Thus, the S&P 500 Index is not an equal weighted index.

The largest cap companies in the index have a disproportionately high weighting in the index. The top five companies in the S&P 500 Index constitute only 1% of all companies in the index, but have a weighting of about 11% in the index. The top ten companies in the S&P 500 Index have a weighting of 17.54% in the index. Currently, the biggest weighting is in Apple stock at 3.47% (source Yahoo Finance, as of August 30, 2014). In fact it is worth noting that at times an S&P 500 index fund would own more Apple stock than the bottom 100 companies in the index combined (source SeekingAlpha.com, "Why You Shouldn't Think Of The S&P 500 As A Diversified Basket of 500 Companies," published January 27, 2013).

There are many investment funds that seek to mirror the composition and return of the S&P 500 Index based on a market capitalization weighting. There are also investment funds available that seek to invest in the same companies that make up the S&P 500 Index, but reconfigure the index from a market capitalization index to an equal weighted index or some other formulation. There are also studies that suggest that over time the S&P 500 equal weighted index outperforms the more commonly used S&P 500 market capitalization index.

Thus, one way to invest in the stock market and yet perhaps expect to beat the market as measured by the S&P 500 Index (market capitalization) is to invest in a fund that mirrors the equal weighted S&P 500 Index. This investment strategy falls under a concept that has been popularized in recent years as smart beta investing.

Smart beta investing is a big and sometimes controversial subject, but for purposes of this article, a small part of smart beta investing is simply looking at how a particular index is structured, such as market capitalization versus equal weighted or some other formulation, the perceived strengths and weaknesses of the index, and then redesigning the index into something that may be similar and yet is different than the original index and may have different strengths and weaknesses compared to the original. The redesigned "smart beta" index can result in expectations that the newly reconstituted index will outperform the old unchanged index. There are various reasons why this may be so, including the possibility that the smart beta index may or may not have more risk than the more commonly known index.

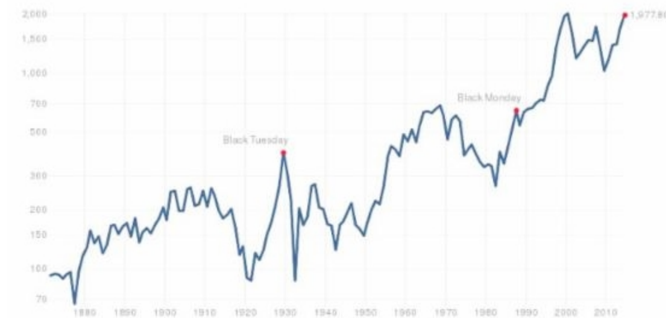
The all time high closing record for the S&P 500 Index is 2,011.36 recently established on Thursday, September 18, 2014. Since establishing that all time high the S&P has retreated slightly to close at 1,977.80 on Monday, September 29, 2014.

Since the technology bubble peaked in March 2000 (14 1/2 years ago) the investment return of the S&P 500 Index has not been impressive. Beginning March 2000 to the end of August 2014 the annualized S&P 500 price return has been 2.13% or with dividends reinvested 4.04% (source dqydj.net).

However, in the last five years as the market recovered from the financial crisis of 2008 the investment returns of the S&P 500 have been very good. The annualized return (for over 5 years) from the period March 2009 to the end of August 2014 for the S&P 500 is 19.14% or 21.55% with dividends reinvested (source dqydj.net). These excellent and above average investment returns will not continue indefinitely.

Below is a chart of the S&P 500 (source www.multpl.com).

Chart of S&P 500 (from 1871 to the present)



This chart shows that the current level of the S&P 500 is near its all time record high. This may be an indication that stocks are generally overvalued, and thus more likely to fall in value. However, our current assessment of the US economy and the stock market leads us to conclude that while stocks may be overvalued based upon different market metrics we review, the present prospects tend to favor further increases in the level of the S&P 500 Index.

In summary, we remain bullish on all five broad asset categories outlined at the beginning of our market outlook. Based upon our research and monitoring of various market indicators the current environment for investing in stocks is favorable.

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. Right now, many economic and business signs we review are bullish, but there will come a time when that changes. Presently, the intermediate-term market indicator we monitor is bullish and other indicators that we monitor are bullish.

Thus, we are generally bullish on U.S. Equities, International Equities, Resources & Materials, Real Estate and Bonds/Fixed Income.

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

George M. Hiller Companies, LLC – Financial Newsletter is published periodically by George M. Hiller
Address: 1110 Monarch Plaza, 3414 Peachtree Rd. NE, Atlanta, Georgia 30326. Phone: 1-800-359-0222 or 404-365-0222
Email: ghiller@georgehiller.com. Web Site: www.GeorgeHiller.com