George M. Hiller Companies L.L.C.

INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

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Market Outlook

As of January 9, 2015

The bull market, which began in March 2009, (almost six years ago) continues. It is the fourth longest bull market in history (source, Barron's, December 15, 2014).

The 2015 consensus forecast for the S&P 500 is 8.2%, based on a survey of banks and money management firms conducted by the research firm Birinyl Associates. More conservatively, the Goldman Sachs S&P 500 forecast is for a total return of 5% in 2015.

In contrast, Bill Gross, the bond king, said, "The good times are over." The former PIMCO co-founder, now at Janus Capital Group, said that by the end of 2015 "there will be minus signs in front of returns for many asset classes."

Our two intermediate market indicators (weeks to months) are positive. Our longer-term market outlook (months to years) continues to remain positive, although we have concerns.

All five principal asset categories; US Equities, International Equities, Resources and Materials, Real Estate, and Bond/Fixed Income are bullish at this time. However, the longer-term market indicator for International Equities is approaching a threshold value that increases the likelihood of a change from a bullish to bearish reading for International Equities.

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.

The S&P 500 experienced 3 consecutive down days on two different occasions during the month of December. While the S&P 500 was up double digits for the year, it was down for the month of December.

December performance was contrary to seasonality data in the S&P 500. The tendency for stocks to be up during the month of December is often called the "Santa Claus rally."

It looked like the Santa Claus rally was almost sure to happen this past December, but the stock market turned down instead. The result was that the S&P 500 as well as the Dow and NASDAQ all ended down for the month of December. It was the first negative December for the US market since 2007; however, for the year all three indexes moved up.

Remarkably the Dow Jones Industrial average has moved up 6 years in a row. This is its longest stretch of up years for the Dow since the 1990s when it achieved 9 up years in a row ending 1999.

For the calendar year 2014 the Dow Jones Industrial Average is up 7.5%, the S&P 500 Index is up 11%, and NASDAQ is up 13% (source The Wall Street Journal). Please note that the Dow, S&P 500, and NASDAQ are all equity indexes.

The stock market began 2015 with a poor start. Year to date for 2015 the Dow Jones Industrial Average is down -1.34%, the S&P 500 Index is down -1.60%, and NASDAQ is down -1.81% as of close of market January 7, 2015 (source, money.cnn.com).

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 1,078 days*
-- International Equities	*Positive outlook for past 882 days*
-- Resources & Materials	*Positive outlook for past 847 days*
-- Real Estate	*Positive outlook for past 1,974 days*
-- Bonds/Fixed Income	*Positive outlook for past 315 days*

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

- **Utilities**
- **Consumer Cyclical**
- **Health Care**

Consumer Cyclical is a sector that includes industries that tend to be strongly influenced by the business cycle and overall economic conditions. This category includes automotive, housing, entertainment and retail stocks.

In addition to the top three sectors listed above; Dow 30, Real Estate, and Financial all have above average rankings. This suggests that these sectors are also above average investment candidates in the current market environment.

Small Cap sectors in growth, value and blend are also climbing in our assessment and ranking. This lends validation to the "January Effect." The January Effect is an observed market seasonality that Small Cap stocks tend to advance higher in the month of January.

Another January phenomena is called the "Free Lunch Effect." This is the tendency for certain categories of stocks to rise in value in January. These are thought to be stocks that may have experienced increased tax related selling pressures late in the year by investors that had taxable gains and needed to sell stocks with losses before year-end to offset capital gains. Once the tax year is over this extra selling pressure ends. Categories that might benefit from the Free Lunch effect include small cap stocks, emerging market stocks, commodity stocks and precious metals stocks.

Looking a bit further out on the calendar, there is a market saying that "as January goes, so goes the year." This is based on an observed seasonality pattern that if stocks are up during the month of January there is a tendency for the stock market to advance higher for the year, and if stocks are down for the month of January there is a tendency for the market to not do well that year.

Last year, this saying did not hold true. Stocks were down for the month of January last year, yet the market advanced higher and produced good results by year-end.

There is another historical pattern that has favorable implications for the 2015 stock market. This is the observed tendency for the stock market to advance higher in the year before a presidential election year.

In addition, since 1885 the stock market has advanced higher in each year ending in 5 (1895, 1905, 1915, etc.) in all but one occasion. So 12 out of 13 years ending in 5 have been positive for the stock market. If this holds true to pattern for 2015 we should expect to see a stock market advance for the year.

In summary, the position in the political cycle and the mid-decade tendency along with generally positive momentum, growth and economic environment all point to a good year for stocks in 2015. However, US 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. Currently, we remain generally bullish on U.S. Equities, International Equities, Resources & Materials, Real Estate and Bonds/Fixed Income. We do note that we are near a threshold value for International Equities that if crossed would turn our view of International Equities from bullish to bearish.

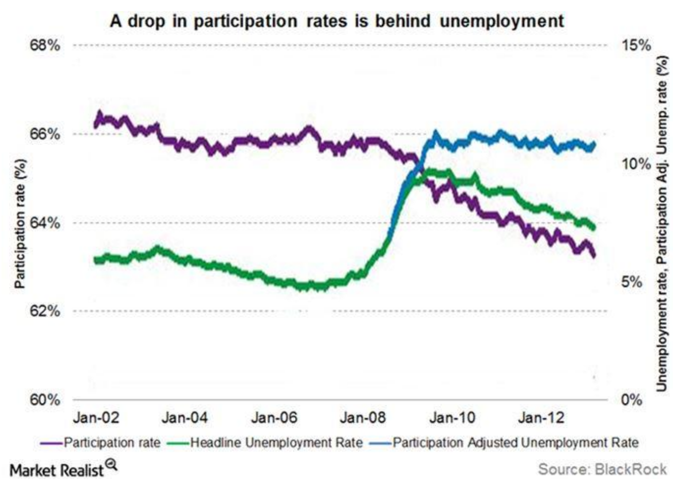
The Economic Environment

On the economic front the unemployment rate dropped from 5.8% in November to 5.6% in December 2014. We are at the lowest unemployment rate since July 2008 (lowest in 6 ½ years), but this is somewhat misleading. While the unemployment rate has been dropping steadily so also has the labor force participation rate.

The latest Jobs report data released January 8, 2015 showed a slight tick down in the labor force participation rate, from 62.8% to 62.7%. This fall in the labor force participation rate brings it to the lowest level in 37 years (since 1978).

The labor force participation rate is based on the actual number of people working or looking for work compared to the total labor market. The drop in the labor force participation rate is due in part to workers who have in effect given up on finding a job (the long-term unemployed) and have exited the work force.

The chart below shows that headline unemployment rate (the green line) has been falling for 6 years. Unfortunately, the labor force participation rate (the purple line) has also been falling. The blue line is the unemployment rate adjusted for the drop in the labor force participation rate. The blue line indicates an adjusted unemployment rate above 10% after taking into account the falling labor force participation rate.



The drop in the unemployment rate by itself would be interpreted as a positive economic sign indicating a strengthening and growing economy. However, when you investigate further and see that the lowering unemployment rate is coincident with a 37 year low in the labor force participation rate it becomes apparent that it is by itself a misleading sign of economic improvement.

What we need to see is the unemployment rate dropping while the labor force participation rate increases. This would be true signs of economic improvement.

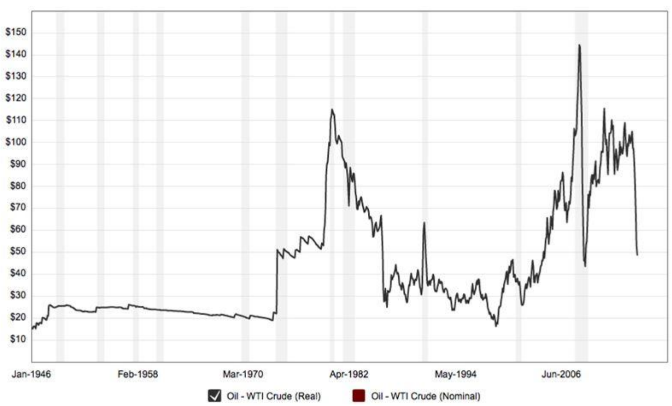
On the positive side real gross domestic product (GDP) has indeed been showing signs of strength. The latest numbers released by the U.S. Department of Commerce show GDP grew by 5.0% in the third quarter of 2014. Second quarter GDP growth was 4.6%. This is the best six-month period of GDP growth in 11 years and is truly impressive. Expectations are that 4th quarter GDP will also be strong.

The Story of Oil

The price of oil has collapsed from $104 per barrel of light, sweet crude on July 2, 2014 to $48 per barrel on January 6, 2015 (source, USA Today). This is a decline of 54% in about 6 months.

Looking over a longer-term horizon the chart below depicts the price of West Texas Intermediate (WTI) oil from January 1946 to the present time (source, macrotrends.net).

Price of Oil – WTI Crude (Jan 1946 – Jan 6, 2015)



The drop in the price of oil is attributable to both an oversupply of oil in the US and world markets and a slackening in demand for oil throughout much of the world. This slack in world demand for oil is due to a slowing down in the world economy. We have more oil supply than we need and less demand, so the price of oil has dropped.

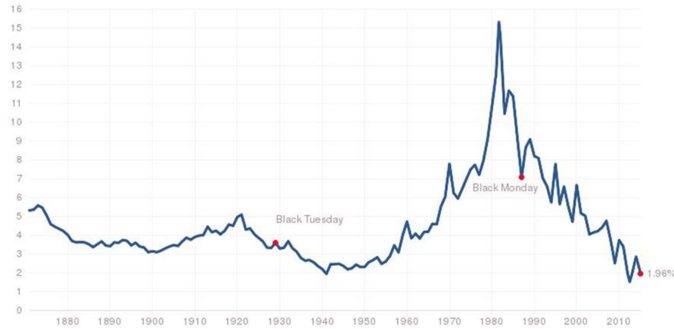
As an additional comment we note that the price of natural gas has declined significantly over the last year from a high of over $6 per million BTU early last year to less than $3 per million BTU currently. Much like oil prices the price of natural gas is down over 50% from its high last year.

The quick and dramatic collapse in the price of oil and natural gas sets the stage for what in my view is an extraordinary investment opportunity in oil and related areas. There are many oil and energy related securities including common stocks and ETF funds that we are evaluating. Some of these oil and energy related securities pay attractive dividends. Investors may be able to reap comparatively generous dividend income at a time when interest rates are historically low and also benefit from rising asset values predicated on expected future increases in the price of oil and natural gas. In summary it is my view that remarkable investment opportunities exist in oil and energy related areas on both the equity side and the debt side of appropriately evaluated energy entities.

Low Interest Rates

As we have mentioned, interest rates are at historical lows. The graph below is a chart of the 10-Year Treasury Rate from 1871 to January 7, 2015 (source, multpl.com).

10-Year Treasury Rate (1871 to Jan 7, 2015)



The all time high 10-year Treasury rate was 15.32% established in September 1981. It is interesting to note that the all time high came in the year prior to the start of the longest running bull market in history (1982 to March 2000).

Since the 1981 high in 10-year Treasuries we have seen falling yields for 33 years. The current 10-year Treasury rate is 1.96% as of January 7, 2015.

The above chart indicates to me that the next long-term move in interest rates will be up, but that indication has been in place for over 6 years now, yet interest rates have continued to fall over the last 6 years. In the short-run as hard as it might be to imagine interest rates could fall even further.

Presently, the 10-year rate for the German Bund is only 0.48%. This makes the spread between the US 10-year Treasury at 1.96% and the German 10-year Bund at 0.48% to be 148 basis points, which is a historically high spread. This implies that either the US Treasury rate will drop further or the German Bund rate will rise or that both events may occur.

At the present time conditions in the United States, in Germany, and in Europe generally are not conducive to rising rates in the short-term. In fact, safe haven interest rates are higher in the United States than in the majority of the rest of the world.

And the US dollar has appreciated relative to the major currencies of the world. In fact, the US dollar is at a 9 year high to the euro. I suspect wealthy Germans desiring a safe haven investment might prefer US Treasuries instead of German Bunds, where they get the benefit not only of a higher interest rate, but also a stronger currency exchange rate.

Tactical Asset Allocation

At some point interest rates must rise, but we are not there yet. This means that there is still opportunity in the bond markets. For this reason we have added a new bond component based upon our evaluative and ranking methodology to our general tactical asset allocation strategy.

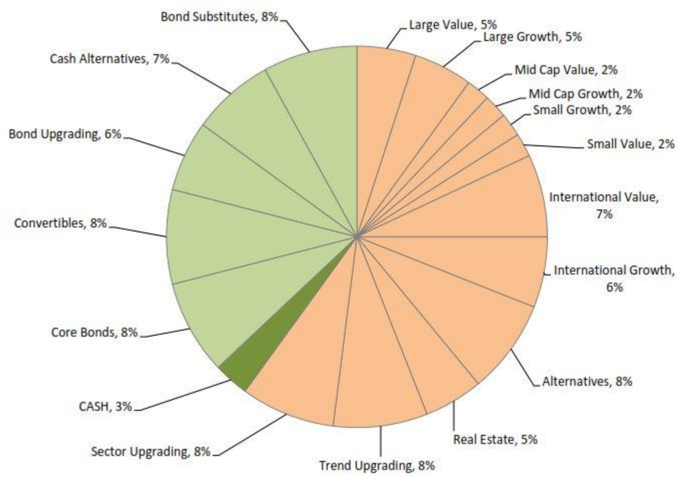
In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today’s challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned 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). We have also added a new bond component to the overall tactical asset allocation strategy. 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



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

- Increased exposure to US investment assets
- Reduced exposure to International investment assets
- Increased exposure to sector and trend upgrading based upon our evaluative investment methodologies
- New exposure to active bond component based upon our evaluative investment methodologies

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.

Upcoming Engagements

In late January, two other members of our investment committee and I will be attending the largest ETF conference held in Hollywood, Florida. Immediately following this event is the TD Ameritrade annual investment conference hosted in San Diego, which I will also be attending. These two prominent investment conferences provide opportunity to meet and interact with leaders in the investment community and stay current with the latest thinking and research on investments and planning.

In early February I will be attending the 60th annual Estate Planning Institute sponsored by the Institute of Continuing Legal Education in Georgia. Attendance at this Institute has typically been an annual event for me. It is one of the best estate planning programs in Georgia for attorneys and other professionals interested in the finer points of estate planning law including wills, trusts, and taxation of estates and gifts. It provides another opportunity to stay current with the latest thinking, changes in the law, and strategies regarding estate planning.

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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