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

Financial & Investment Newsletter **July 2015 Edition**

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

Mid-Year Market Outlook

As of June 21, 2015

The bull market, which began in March 2009, (6 1/4 years ago) continues to advance slowly albeit with increased volatility and amidst conflicting signs of both market and economic weakness and strength. Our intermediate market outlook (weeks to months) is cautionary. Evaluation of market supply and demand measures indicates a relatively recent slide toward greater market weakness.

We suggest caution regarding positioning new capital into the domestic equity markets at this time. We recommend maintaining and building cash reserves or cash substitutes and looking for investment opportunities in developed international markets and emerging market equities.

In spite of the caution we have in our intermediate market outlook (weeks to months), our longer-term market outlook (months to years) continues to remain positive, although we have concerns. In our longer-term 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 1.08%, the S&P 500 Index is up 2.48%, and NASDAQ is up 8.04% as of June 20, 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 new all time highs. 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 1,242 days*
-- International Equities	*Positive outlook for past 1,046 days*
-- Resources and Materials	*Positive outlook for past 1,011 days*
-- Real Estate	*Positive outlook for past 2,138 days*
-- Bonds/Fixed Income	*Positive outlook for past 479 days*

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

- ***Small Cap Growth***
- ***Healthcare***
- ***Small Cap Blend***

In addition to the top three sectors listed above Technology and Small Cap Growth have above average rankings. Normally, this suggests that these sectors are also above average investment candidates, but because of the current market environment we suggest caution at this time in deploying new capital. 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, some 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

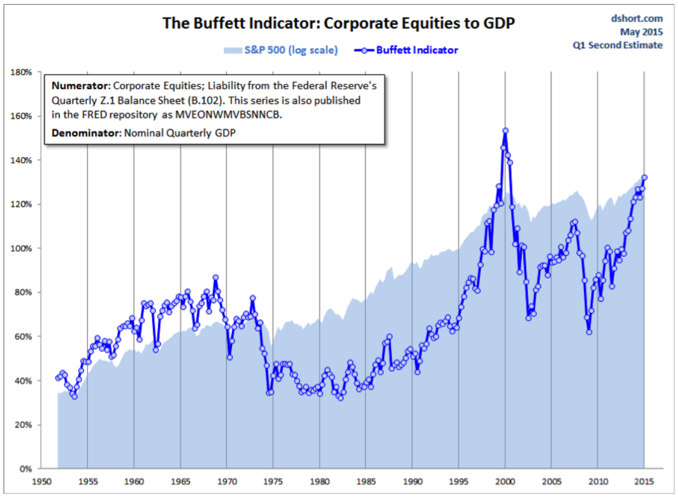
There are indications that the stock market may be overvalued. This does not mean that the market will not continue to move up. As noted above, our longer-term market outlook remains positive although we have concerns.

The S&P 500 price to earnings ratio (PE) is rising and now stands at 20.62 (source multpl.com). This is well above the long-term mean of 15.54. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period.

The Shiller PE ratio also known as CAPE is based upon cyclically adjusted price to earnings (CAPE) over a ten-year period. Currently the Shiller PE ratio or CAPE is at 27.22. The long-term mean average of the Shiller PE ratio is 16.61.

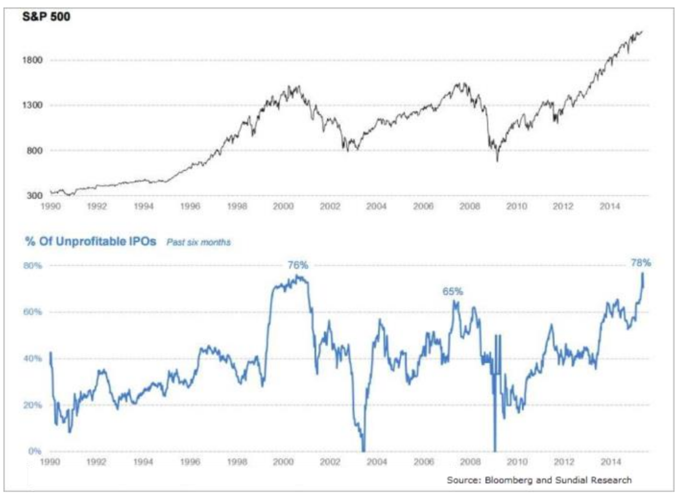
These two stock market indicators suggest that stocks are expensive relative to the long-term averages of these indicators. The Shiller PE in particular suggests that the stock market may produce lower returns over the next ten years than what might otherwise be expected. In fact, since 1881, the average annual returns for all ten-year periods that began with a CAPE at this level have been just 3% per year (source, The Sherman SITREP for the week ending 6/19/2015).

Another stock market valuation indicator is called the Corporate Equities to GDP ratio, also known as the Buffett indicator due to the fact that Warren Buffett has referred to this data as the single best indicator of relative stock market valuation. The ratio is the value of all corporate equities divided by the nation's GDP. This gives the relationship of valuation of the stock market compared to the total economy of the US, a ratio that can be plotted on a graph over time. The following graph depicts the Corporate Equities to GDP ratio from the 1950s to May 29, 2015. The shaded region is the performance of the S & P 500 over the same period of time (source, www.advisorperspectives.com, Doug Short, May 29, 2015).



The Corporate Equities to GDP ratio peaked in 2000 at the time of the tech bubble. It had another peak at the time of the housing bubble in 2007. Currently, the ratio is at a third peak and is higher than it was in 2007 peak. This is worrisome, but Buffett's view is that stocks are not "too frothy." Buffett has made comments that the current low interest rates support higher stock market valuations. But what will happen when interest rates rise?

One chart that speaks to "frothyness" of the market is a graph of the percentage of unprofitable IPOs that are being brought to the market. An IPO is an initial public offering of stock. When a high percentage of unprofitable companies are being offered to the market as IPOs this could be an indication of too much market optimism sustaining valuations that are too high.



This chart shows that the percentage of unprofitable IPOs peaked in the year 2000 (the tech bubble) at 76% and peaked again in 2007 (the housing bubble) at 65%. The current percentage of unprofitable IPOs is at a record high of 78% (higher than during the tech bubble and the housing bubble). This is cause for concern. As noted in earlier comments our longer-term market outlook is still bullish, but we are watching market indicators and are monitoring other aspects of the market.

Precious Metals Outlook

Gold has been in a negative trend for the past 4 years. As the chart below shows the price of gold rose greatly from about $300 per ounce in the year 2000 to over $1,900 per ounce in the year 2011, but since 2011 the trend in gold has been down, dropping 36% over the last 4 years to a current price of about $1,200.

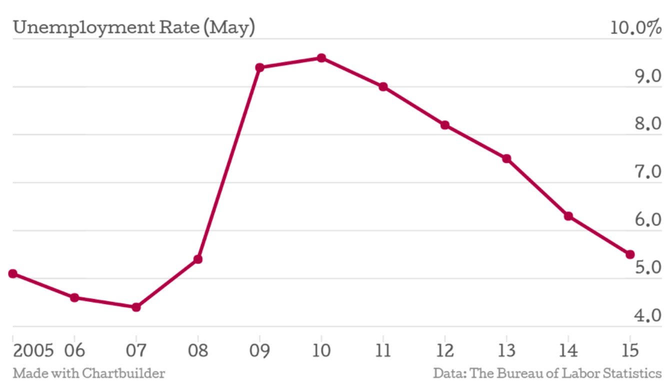
Our long-term planning perspective suggests that precious metals should be considered in asset allocation strategy. With a federal deficit over $18 Trillion it is likely that the purchasing power of the US dollar over time will be worth less than it is today, while gold and silver are likely to retain a significant storehouse of value under different economic scenarios.

Precious metals represent a form of catastrophic financial insurance in the event of a huge devaluation of the dollar or other world-shaking event. Now may be a good time to begin precious metals investments or add to existing positions in order to achieve a certain target within an overall asset allocation plan.

There are many different ways to make investments in precious metals. Some ways are better than others. If you have questions about how to invest in precious metals and what role gold and silver investments should play in your investment portfolio, please call our office for guidance.

The Economic Environment

The unemployment rate ticked up from 5.4% in April to 5.5% in May 2015 (source, Bureau of Labor Statistics). Here is a graph of the unemployment rate over the last ten years.



The unemployment rate peaked at above 9% in 2009 and 2010, but has steadily declined over the last five years. The drop in the unemployment rate indicates gaining strength in the economy and more confidence on the part of employers to add jobs.

It is now estimated that there are 8.7 million unemployed Americans. However, among the labor force that is employed, there are a large number of people who are underemployed working part-time or are "marginally attached workers" that want to work, but have given up hope of ever finding a job.

The Bureau of Labor Statistics has a term that measures this group called the U-6 rate, which in May was 10.8%. This is sometimes referred to as the true unemployment rate. This number is higher than normal, but it has been dropping from a peak of 16.7% in August 2009 (source: What's the real unemployment rate? CNBC, by Ben Berkowitz, May 8, 2015).

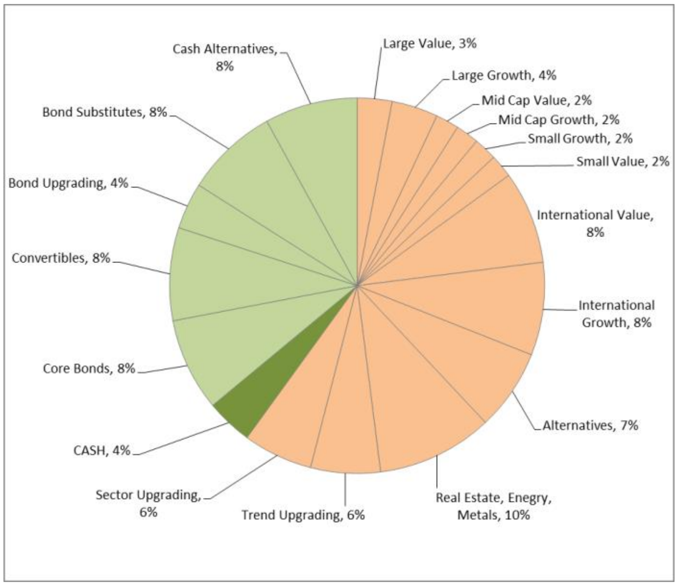
Asset Allocation

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 reduce exposure to U.S. investment assets (especially US bonds) and increase exposure to international investment assets. Based on ongoing evaluation of supply and demand measures we also recommend conserving and building cash reserves or cash substitutes at this time.

The following asset allocation pie chart is an example of tactical asset allocation in implementing lower U.S. exposure and increasing international exposure (compared to a previous asset allocation pie chart published in the March issue). The asset allocation pie chart also shows an increase in cash reserves and cash substitutes compared to a previous asset allocation pie chart published in the May issue. These changes are based upon an ongoing assessment of U.S. stock market valuation indicators and the evaluation of supply and demand data and performance data using in part 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.



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

- ***Reduced exposure to US investment assets (especially US bonds)***
- ***Increased exposure to International investment assets***
- ***Increased cash reserves and/or cash alternatives***
- ***Exposure to Real Estate, Energy, and Precious Metals***

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

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
Please call or email if you have any questions regarding your receipt of this newsletter.
Comments and inquiries are appreciated.