George M. Hiller Companies L.L.C.

INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

Financial & Investment Newsletter **December 2015 Edition**

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

In This Issue:

Market Outlook

as of December 1, 2015

The bull market, which began in March 2009, (over 6 1/2 years ago) appears remarkably resilient. The week following the Paris terrorist attacks turned out the best week of the year for the S & P 500.

Our longer-term outlook (months to years) for U.S. stocks remains positive although we have concerns. Our short to intermediate term outlook (weeks to months) is neutral suggesting a measure of caution in positioning new capital into the market at this time.

Despite all the ups and downs of the market, investing in U.S. equities has paid off over the long run. Since January 1975 the S&P 500 has averaged an annualized return with dividends reinvested of 11.76% as of the end of October 2015 (source, dqydj.net).

The upward trend of the market over time is irrefutable. Below is a graph of the S&P 500 from 1871 to December 2, 2015 (source, multpl.com).

Graph of S&P 500 Historical Price Levels

There is uncertainty about the possible effects from an expected rise in US interest rates by the Federal Reserve. It has been over 9 years since the Federal Reserve raised rates. And for over 6 years the Federal Reserve has followed a zero interest rate policy (ZIRP) that has kept the Federal Funds Rate between 0% and 0.25%.

We know that the Federal Reserve wants to begin normalization of interest rates, but has held back so far because of data dependent constraints that indicate possible weakness in the U.S. and the global economy. It now appears almost certain that the Federal Reserve will increase rates in December 2015.

Our view continues to be that the recent moves in the market are not indicative of a developing bear market. There are underlying signs of improvement in the unemployment rate, monthly new jobs, and other U.S. economic indicators that may translate into continued improvement in stock market results, but there are also mixed signs that suggest caution.

As mentioned earlier our longer-term market outlook (months to years) is positive for U.S. equities. This means we recommend investments in U.S. equities, but we also favor building cash reserves, cash substitutes, or investing in asset categories that have low correlation to U.S. equities.

About four months ago we reported that our longer-term outlook for the category of Resources and Materials had turned negative. Resources and Materials typically include investments in chemicals, oil, metals, timber, and other commodities. Although this category has shown some improvement in recent weeks our view continues to be negative for Resources and Materials.

Also, our longer-term outlook for Real Estate, which had been bullish for six consecutive years, turned bearish three months ago. In spite of improvement in Real Estate in recent weeks we generally recommend reducing real estate exposure.

Recently, our longer-term outlook for International equities turned negative. We suggest limiting International exposure especially in the emerging markets area. We also suggest that you consider having international exposure hedged against currency exchange risks.

Our longer-term outlook continues to remain favorable for the following asset categories:

- US Equities
- Bonds/Fixed Income.

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 negative -0.52%, the S&P 500 Index is positive +1.00%, and the NASDAQ is positive +8.17% as of December 2, 2015, dividends not included (source money.cnn.com). 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 1,405 days**
-- International Equities	**Negative outlook for past 19 days**
-- Resources and Materials	**Negative outlook for past 131 days**
-- Real Estate	**Negative outlook for past 89 days**
-- Bonds/Fixed Income	**Positive outlook for past 642 days**

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

- Nasdaq 100
- Dow 30
- Technology

This means that these are the best sectors to be in at the moment. Consumer Non-Cyclical also ranks above average.

Currently the worst performing sectors are Healthcare, Utilities and Developed International Markets. We suggest avoiding or limiting new investment in these sectors at this time.

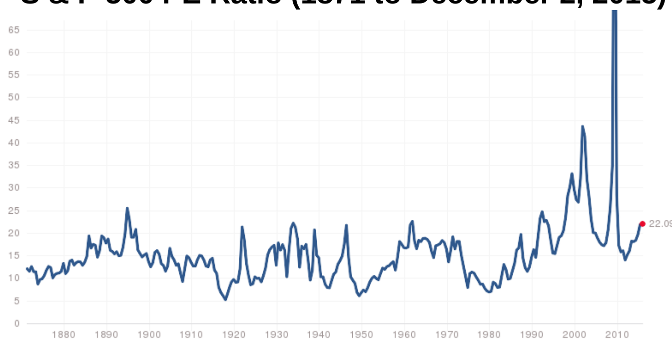
Right now, several economic and business signs we review are positive, but our outlook on certain broad asset categories has been in transition over the last several months. Four months ago we changed our longer-term outlook on Resources and Materials from bullish to bearish. Three months ago we changed our longer-term outlook on Real Estate from bullish to bearish. About three weeks ago we changed our longer-term outlook on International from bullish to bearish. Currently, we remain generally bullish on U.S. Equities 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) moved up from 21.95 reported in our November 2015 edition to 22.09 as of December 2, 2015 (source multpl.com). This is well above the long-term mean PE of 15.56. This is suggestive that stocks are overvalued. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period. What follows is a chart of the S&P 500 PE ratio from 1871 to December 2, 2015 (source, multpl.com).

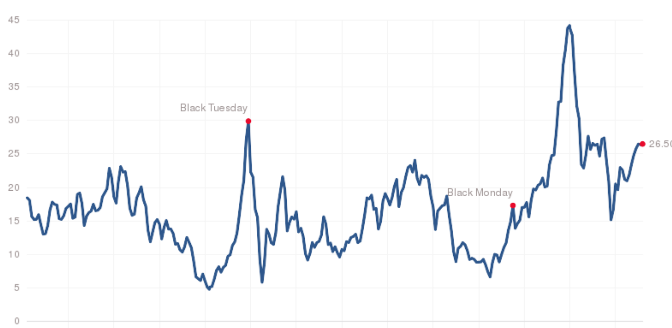
S & P 500 PE Ratio (1871 to December 2, 2015)



Shiller PE

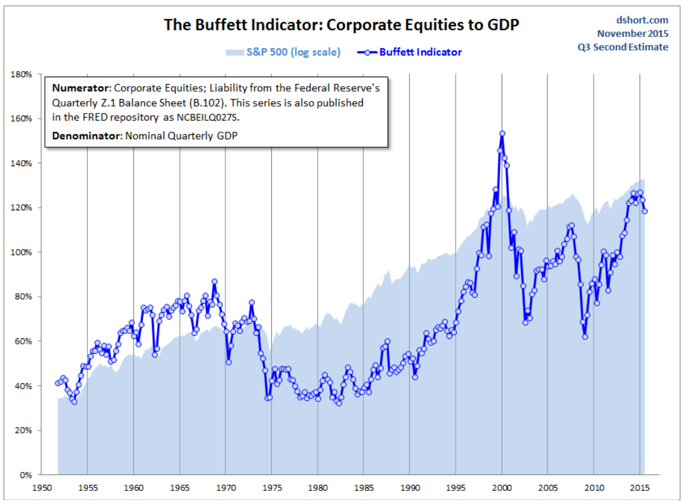
The Shiller PE ratio also known as CAPE is based upon cyclically adjusted price to earnings (CAPE) over a ten-year period. The CAPE data series is maintained by Yale economist and Nobel Laureate Robert Shiller. The Shiller PE ratio or CAPE has moved up from 26.32 reported in our November 2015 edition to 26.50 as of December 2, 2015. This is suggestive that the overvaluation of the stock market has increased. The long-term mean average of the Shiller PE ratio is 16.63. What follows is a chart of the Shiller PE ratio from 1871 to December 2, 2015 (source, multpl.com).

Shiller PE ratio (1871 to December 2, 2015)



These two stock market indicators are at historically higher than average levels, suggesting that stocks are expensive relative to the long-term averages of these indicators. This also suggests greater risk of a market decline. 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.

Another stock market valuation indicator is called the Total 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. Below is a chart of the Buffett Indicator from the 1950s to November 2015. The lightly shaded area in the background is a graph of the S&P 500 over this same period of time (source, dshort.com).



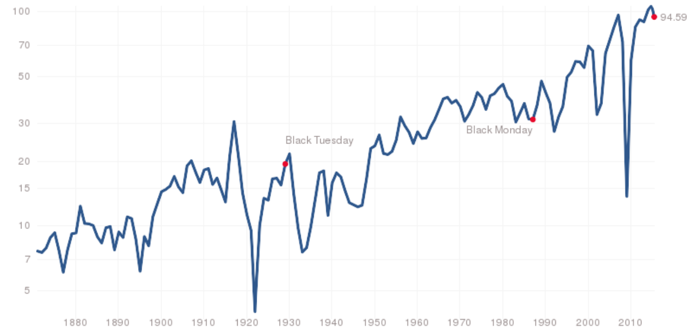
Notice that the Buffett Indicator peaked in 2000 (tech bubble) at about 150% total market cap (TMC) to GDP. It peaked again in 2007 (real estate bubble). It is now at a third peak. This latest peak is higher than where it was at the time of the real estate bubble. Over the last couple of weeks the Buffett indicator has declined slightly.

The Buffett Indicator may suggest that a stock market decline waits at some future date, but it has not been shown to be a reliable short-term forecasting indicator. Warren Buffett has said that low interest rates support higher asset valuations and has commented that he does not view the stock market as too frothy. Still it is an indication that the stock market may be overvalued.

S&P 500 Earnings

The price of a stock is a reflection of its earnings per share multiplied by its PE (price-to-earnings) ratio. The price level of the S&P 500 can be expressed in terms of its aggregate earnings multiplied by its PE ratio. The current 12 months earnings per share (EPS) of the S&P 500 is $94.59. Below is a chart of the earnings of the S&P 500 from 1871 to June 30, 2015 (source multpl.com).

S&P 500 Earnings
(from 1871 to reported June 30, 2015)



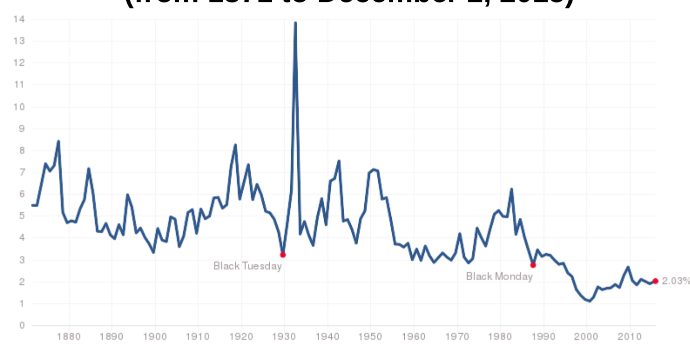
The current PE ratio of the S&P 500 is 22.09. When we multiply the EPS of the S&P 500 ($94.59) by its PE (22.09) we derive a price level for the S&P of 2,089.49.

Goldman Sachs forecasts a 2016 year-end price level for the S&P of 2,100. This translates into little of no gain in the stock market forecasted for next year (source, "Goldman Sachs: No stock market gains in 2016," CNBC, Jeff Cox, November 24, 2015).

Dividend Yields and Bond Yields

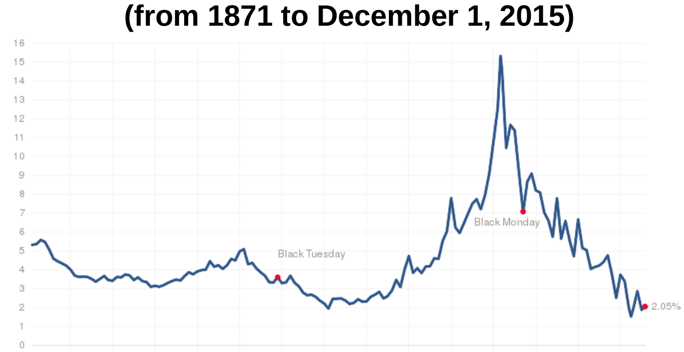
The S&P 500 dividend yield remained unchanged at 2.03% reported in our November edition. Below is a chart of the S&P dividend yield from prior to 1871 to December 2, 2015 (source multpl.com).

S&P 500 Dividend Yield
(from 1871 to December 2, 2015)



The 10 Year Treasury Rate is at 2.15% as of December 1, 2015. Below is a chart of the 10 Year Treasury Rate from 1871 to December 1, 2015, (source, multpl.com).

10-Year Treasury Rate
(from 1871 to December 1, 2015)



It is interesting to note that the dividend yield on the S&P 500 at 2.03% is not much different than the 10 Year Treasury Rate at 2.15%. Additionally, qualified dividends on common stock receive favorable tax treatment compared to the taxation of interest on bonds. Note: Interest on Treasury bonds are taxed only at the federal level and are not subject to state income taxes whereas common stock dividends are generally taxed at both the federal and state level. Even adjusting for this difference the tax treatment of qualifying dividends is more favorable that the tax treatment of interest paid on Treasury bonds.

Over time interest rates are likely to rise which may impact negatively the performance of bonds as an asset class over the long-term. It makes sense to us to have a diversified portfolio of dividend paying stocks. The yield of a Dividend focused portfolio can exceed that of 10-Year Treasuries. In addition a Dividend portfolio can receive favorable tax treatment, and provides opportunity for capital appreciation on the underlying equities.

We maintain a research list of dividend paying stocks that we update weekly. If you are interested in further information about investing in dividend paying stocks please contact our offices.

Precious Metals Outlook

Our precious metals outlook is negative. Gold is at $1,056.20 per ounce, down approximately 44% from its high of $1,889.70 per ounce established in 2011 (source, goldprice.org). That does not mean it may not be a good time to buy or add to precious metals. It simply means that the current trend in precious metals is negative and has been negative for an extended period of time. Gold is under pressure from the strong dollar and from expectations of a Fed rise in interest rates.

The price of one ounce of gold has dropped for the last 4 years. As the 5 year gold chart below shows, gold at $1,056.20 per ounce is now well below its price level 5 years ago.

Our long-term planning perspective suggests that precious metals should be considered in asset allocation strategy. With a federal deficit over $18.5 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.

Energy Outlook

Our energy outlook is negative. For almost three years from early 2011 to August 2014 crude oil was trading in a range of about $110 per barrel. Since then it has plummeted to $43.64 per barrel as of December 2, 2015. This represents a decline of 60% from earlier prices of $110 per barrel. Below is a 5-year chart of crude oil prices.

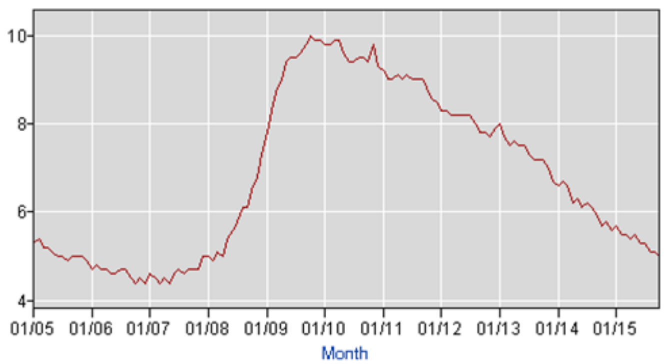
The Economic Environment

Revised third quarter 2015 GDP increased an estimated 2.1% on an annualized basis. By comparison, this is substantially down from second quarter 2015 GDP at 3.9% (source, Bureau of Economic Analysis). Below is a chart of quarter-by-quarter GDP from January 2013 to September 2015.

The GDP chart indicates that the economy is growing at a sluggish rate. Averaging the annualized rate over the last four quarters results in 2.0% per annum growth in GDP. While it is a slow growth rate, it is positive. Maintaining at least 2% growth in GDP may give the Federal Reserve more data based evidence to support a rate increase.

The unemployment rate dropped from 5.1% in September to 5.0% in October (source, Bureau of Labor Statistics). The unemployment rate is now at a seven year low. The drop in the unemployment rate indicates gaining strength in the economy and more confidence on the part of employers to add jobs. Below is a chart of the official unemployment rate from January 2005 to October 2015 (source, Bureau of Labor Statistics).

Unemployment Rate
2005 to September 30, 2015



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.

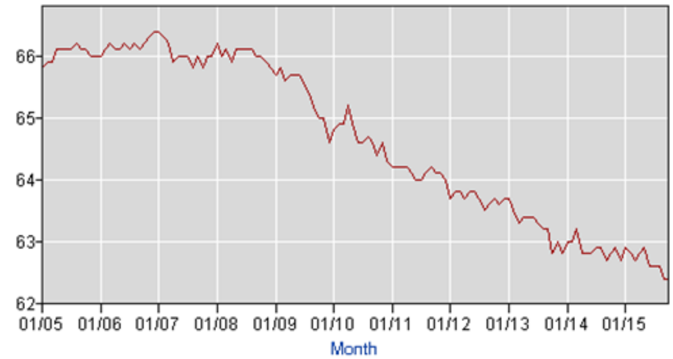
The Bureau of Labor Statistics has a term that measures this group called the U-6 rate, which in September was 10.0%, ticking down to 9.8% reported in October. This is sometimes referred to as the true unemployment rate. The continued drop in the U-6 rate shows modest improvement.

The Labor Department's JOLTS (job openings and labor turnover summary) report increased in September to 5.5 million job openings. This is up from the 5.4 million reported in August, but down slightly form a record high of about 5.7 million job openings reported in July.

Job openings are one of the important statistics that the Federal Reserve monitors in assessing the labor market. It has influence on the timing of any Fed rate increase and lends support to the likelihood of a rate increase before year-end.

The labor force participation rate remained unchanged at 62.4% in October. This means that among the total labor force in the US, the percentage that is either employed or looking for work is at a low 62.4%. Below is a chart of the labor force participation rate over the last ten years (source, Bureau of Labor Statistics).

Labor Force Participation Rate (2005 to 2015)



The labor force participation rate is now at its lowest level in 38 years. This means that despite all the new jobs that have been added to the economy and the record number of job openings created, many hundreds of thousands of people are leaving the workforce.

Nearly 94 million people in the USA are neither employed nor are they looking for work. This low labor force participation rate is a drag on the economy that will extend over many years into the future.

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. Our longer-term outlook for U.S. equities remains positive.

However, given that our short to intermediate outlook is neutral it makes sense in our view to maintain or increase cash reserves or cash substitutes and not add exposure to U.S. equity assets at this time. Because our longer-term outlook (months to years) for U.S. equities is positive, we generally suggest appropriate allocation to U.S. equities be maintained.

Due to the fact that our outlook for Resources and Materials is bearish we suggest reducing holdings in Resources and Materials including chemicals, oil, metals, timber and other commodities.

Our longer-term outlook for real estate is also bearish. We suggest reducing or limiting exposure to real estate in the tactical asset allocation process.

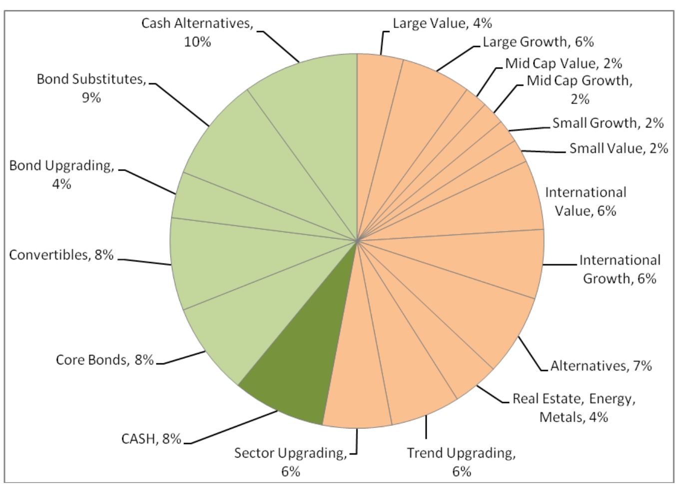
Our longer-term outlook for international equities recently turned bearish. We suggest reducing or limiting exposure to international equities. We also suggest considering hedging international equities against currency exchange risks.

The following asset allocation pie chart is an example of tactical asset allocation. The pie chart shows a reduction in the segment comprised of real estate, energy and precious metals, reflecting a reduction in resources and materials, and also a reduction in real estate.

The asset allocation pie chart shows an increase in cash reserves and cash substitutes compared to a previous asset allocation pie chart. It also depicts a slight increase in bond substitutes compared to previous views. It depicts a relative overweighting in U.S. stocks compared to global capitalization weightings. 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.

Example of Asset Allocation Pie Chart



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

- Relative overweighting to US investment assets
- Reduced exposure to Resources and Materials
- Reduced exposure to Real Estate
- Reduced exposure to International Equities
- Increased exposure to Bond Substitutes
- Increase in cash and cash substitutes

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.

Estate Planning: Why You Must Have A Will!

In the two previous editions of this newsletter we outlined steps that very large estates could take to significantly reduce or eliminate federal estate taxes at death. We mentioned that the foundational document to estate planning is the Last Will and Testament (Will).

If you own property, have any expectation of owning property, or if you have a spouse or children you should have a Will. A Will is a legal document that has your instructions on how your estate is to be administered and how your property is to be distributed at your death.

According to LexisNexis about 55 percent of American adults do not have a will. Among minorities it is estimated that 68 percent of black adults and 74 percent of Hispanic adults do not have a Will (source, "Statistics on Last Wills & Testaments," by A. L. Kennedy).

If you die without a Will you will not be able to decide how to distribute the property you own at death. You have died "intestate" and the state will decide how your property is distributed. Intestate laws of each state determine how property of a decedent without a Will is distributed.

In many if not most cases dying intestate will result in your property being distributed in a way that you would not have wanted. The intestate laws differ somewhat from state to state, but as an example, let's assume you died in Georgia while domiciled in Georgia, without a will, leaving a surviving spouse and two young children. Under Georgia intestate laws, your estate would go one third to your surviving spouse and one third to each of your two young children.

Georgia and other states also have what is known as "Year's Support." This is an amount that is determined to be sufficient to provide for the support of a spouse and children for one year. Chances are great in this intestate scenario that one-third of the estate plus year's support is not going to be a satisfactory disposition of the estate for a surviving spouse.

The property going to the young children may require a court ordered guardian of the property to supervise and manage the property for the benefit of the children until they reach legal age. This type of estate distribution is likely to be costly, cumbersome, and not what the decedent or surviving family would have wanted and could have had if only a proper Will had been prepared and executed.

A proper Will means that you have had a will prepared by an experienced attorney, and that if it is an old will that it has been reviewed to make sure it still meets your wishes and desires and is not outdated given changes in tax law or other changes that may have occurred such as divorce, remarriage, or other significant life events.

The Will must also have been properly executed. This generally means that it is a written document (the will should be a typed document, not an oral will or a handwritten will) and signed by the testator in the presence of witnesses as required by state law.

Although it is possible to execute a valid will that is not prepared by an attorney and there are many will kits or legal forms or Will software programs available in the marketplace, the better practice by far is to pay an attorney to prepare a proper Will for you and to make sure that it is properly executed. Estate planning and drafting a will is complicated and it is easy to make mistakes.

An estate attorney can help make sure you have a Will that is best for you and one that avoids fatal errors and costly missteps. An attorney can make sure that the Will accomplishes your testamentary objectives and that you follow the legal formalities for making and executing a valid will.

Many states have what is known as a self-proving attestation provision. The attestation provision is an extra page where the witnesses attest that they saw you sign the will and that at the time of signing the will you knew what you were signing and appeared of sound mind. A self-proving attestation provision is not required in order to have a valid Will, but it is very helpful in the administration of the estate. It avoids having to locate the witnesses after death to have them sign attestation provisions as part of the probate process.

The Will does more than just distribute your property at death. In a Will you have the right to designate an Executor. The Executor is the person charged with gathering up the assets of the estate, paying off debts, expenses, and taxes of the estate, and carrying out the instructions of the Will regarding the distribution of estate assets to the beneficiaries of the estate.

Typically, a Will is also used to designate a Guardian for any minor children. A Guardian is the person responsible for raising the children and taking care of their property in the event of the death of a parent.

A Will can also be used to establish trusts for a surviving spouse or children. A trust requires a trustee. In a Will you can name who you want to designate to serve as trustee of any trusts you establish in your Will. You may need a testamentary trust to make sure that the support needs of a surviving spouse and children are properly addressed. If you have a special needs child or a child or family member that is unable to manage finances properly then trusts can be used during life or in a Will to address these situations.

It is important to point out that you may own assets that pass under the Will, but you may also own assets that pass outside the Will. Assets that pass under the Will are known as probate assets. Probate assets are comprised of property that you own in your individual name or where the estate is designated as the beneficiary in event of death.

Assets that can pass outside the Will include assets passing under certain contracts such as IRA beneficiary designations, 401(k) beneficiary designations, annuity and life insurance beneficiary designations, and certain forms of property owned as joint tenants with right of survivorship or as tenants in entirety. These types of assets are known as non-probate assets because they pass directly by operation of law to the designated beneficiaries or surviving joint tenants and do not pass under the Will.

Another important distinction that may affect the ownership of property during life and the passing of property at death is that certain states are known as common law states and other states are known as community property states. Generally speaking in community property states the property acquired during marriage is considered as being owned by both spouses. This is one reason why it may make sense to use a local attorney who is familiar with the estate laws of that state in preparing the Will especially if you live in a community property state.

If you own a home in one state, but also own a vacation home, land or other property in another state then you may be subject to what is known as ancillary jurisdiction or ancillary probate. This is a process whereby you may have to submit to probate in both states. Through the use of a Will and trust you may be able to avoid the potential complications and expense of ancillary probate. This is yet another reason why you may need an attorney to help with your Will and estate planning.

For all the reasons discussed above if you do not already have a Will we strongly urge you to correct this deficiency as soon as possible. Contact an estate attorney to assist you with preparing and executing a Will. If you have an old Will that is outdated please have it reviewed soon.

Having a proper Will is an important step in having financial peace of mind, making sure that your estate is distributed according to your wishes with lower estate administration costs, taxes, and burdens, and in making sure that the support needs of your surviving spouse and children are properly addressed.

Top Year-end Tax Planning Tips for 2015

It is not too late to save money on your income taxes, but once the year is over your opportunities for 2015 tax savings will be limited. So take a quick review now and see what steps you can take before year-end to reduce your 2015 income tax bill.

A basic tax savings maneuver is to defer recognition of income and create or accelerate recognition of tax deductions. You reduce your reportable 2015 taxable income whenever you can defer income or create/accelerate deductions. Here are some key tax strategies that take advantage of this basic tax savings concept.

1. **Defer taking capital gains on the sale of investment assets until January or later in order to defer recognition of the capital gain.**
2. **Take capital losses (tax harvesting) on sale of investment assets in order to offset recognized capital gains. The tax law allows a net capital loss of $3,000 after offsetting gains and losses.**
3. **Wait until 2015 on taking non-mandatory distributions from IRA accounts or other taxable retirement accounts in order to defer the income to the next tax year.**
4. **Be aware of buying stocks or mutual funds in a taxable account just before a year-end dividend distribution. This tax trap can result in extra taxable income at year-end.**
5. **If you are a small businessman or self-employed you may be able to delay certain billings until January in order to avoid recognizing the income in December.**
6. **Defer recognition of year-end bonus to January if possible.**
7. **Make year-end deductible contributions to IRAs, 401(k), and HSAs (health savings accounts) if you have not already maxed out deductible contributions. Don't forget your catch up provisions allowing for greater contributions if you are age 50 or older.**
8. **Make year-end charitable contributions. Gifting long-term capital gain assets such as appreciated stock to charity is a good way to avoid tax on the capital gain and also get a charitable deduction for the fair market value of the gift to charity. Consider using a Donor Advised Fund.**
9. **Don't forget deductible year-end gifts of clothes or other property to Goodwill or Salvation Army. Remember, you must have a receipt for any charitable contribution.**
10. **If you are self-employed and do not already have a retirement plan consider setting one up before year-end.**
11. **Prepay your state quarterly estimated taxes normally due on January 15 before year-end in order to accelerate the deduction for this year.**
12. **If you have a Flexible Spending Account (FSA) with your employer don't let it go to waste.**
13. **Contributions to a Coverdell Education Savings Account (ESA) or a 529 college savings plan are not deductible for federal taxes but may be entitled to partial deduction or credit for state taxes if done before year-end. Check to see if your state provides a deduction or tax credit for qualified education accounts.**

Implementing one or more of the above year-end tax savings steps may add some holiday cheer to the season. Call us if you need help or guidance on year-end tax 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

More Resources on our Website

www.georgehiller.com

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.