WIMMER ASSOCIATES

QUARTERLY REPORT

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A LETTER FROM KATHY

Dear Friends,

Last year marked the sixth consecutive year of investor gains in the US as the economy continued to find its footing. The blue chip S&P 500 index earned a healthy 11.4% return last year, while the tech-laden NASDAQ 100 index rose 13% for the year. Leading the index was the biotechnology sector, which saw its second year in a row of 30% plus gains. Short and long term interest rates remained low throughout the past year, as the Federal Reserve's long anticipated, and widely debated, adjustment to quantitative easing policy showed little effect on interest rates. The US economy grew at a tepid but upwards trending rate of 2.4% in 2014, which helped lower the unemployment rate to 5.6%, down from a peak level of 10.2% in 2009. However, all was not rosy. The workforce participation rate continued to plummet to a thirty-year low of 61% in 2014, as workers left the workforce out of frustration, disability or retirement.

Looking forward, the New Year is seeing gas prices below $2.00 a gallon in parts of the US, a level not enjoyed for many years. While oil companies that explore and produce oil are not especially happy, consumers in America, Europe and Asia are delighted with the fuel cost savings. Lower fuel prices have the same beneficial effect as a tax cut; they increase disposable income.

So far in 2015 market volatility is back in force. Investors are weighing a confluence of new developments that will prove positive in some quarters and perhaps a bit painful in others. First, the dollar has gone from being undervalued to now being overvalued. Second, US stocks are now fairly valued to over-valued compared to the previous six years. Third, the long reign of Near Zero Interest Rate Policy is coming to an end and the Fed is signaling that short term rates will finally be allowed to float a bit higher by the middle of this year. Fourth, the Euro-Zone is in flux as the newly elected, far-left, Syriza Party of Greece is bound to demand debt forgiveness from international lenders or follow through and leave the Euro Club through a "Grexit". Fifth, China is "slowing rapidly," as the country winds down its efforts to build out the nation's infrastructure. The Middle Kingdom's long-standing demand for commodities from emerging markets is evaporating and leaving exporters of raw materials in a bind. The Australian economy is particularly hard hit.

With the winds of volatility buffeting today's markets, some market sectors will thrive, while others are more likely to underperform. We continue to mine opportunities and spend our hours determining how we can de-risk portfolios while maintaining exposure to equities for long-term growth and income. Below we review the past year's developments and highlight our expectations for 2015.~

Cordially,

Kathy Wimmer, CFA, CIC
President

KEY FACTS FOR 2015

- *Annual gift exclusion $14,000*
- *Estate, gift and generation-skipping tax exemption $5,430,000*
- *Highest marginal estate tax rate 39.6%*
- *IRA contribution limits $5,500, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $12,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $18,000, plus another $6,000 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $53,000*
- *Top Federal tax rate is 39.6% on income over $413,201 (single filers)*

INSIDE THIS ISSUE:

2014 REVIEW

The US stock market continued on its six year upswing in 2014, with the benchmark S&P 500 index rising 11.4%, led by strong performance in the healthcare and utilities sectors. Of course, the year's gains were nothing like a straight line, as long forgotten volatility returned to send investors on a financial rollercoaster ride. For example, biotech led the market in 2014, but swooned 20% from February to mid-April, only to recover and then get swatted down again on negative comments about the valuations of biotechs and social media stocks by Federal Reserve Chair, Janet Yellen. It seems that investors are becoming a bit skittish with equities priced near to perfection. S&P Capital IQ notes that the Price/Earnings ratio for the S&P 500 is rich trading at 17 times 2015's estimated earnings.

The two primary laggards in the market last year were energy and raw materials. The price of oil fell by 50% and natural gas fell to 2008 recession lows during the year. This was, in part, a result of the "fracking revolution" in shale oil deposits taking place in North Dakota, Pennsylvania, Texas and parts of Oklahoma. The US has added three million barrels of oil production per day over the past four years. US daily imports of crude oil have declined from 10.8 million barrels a day to 7.5 million barrels a day in 2014. This boon in US domestic supplies, along with significant increases in production in Iraq and Canada, has contributed to an "oil glut" in the market. Increased fuel efficiency, slowing growth in China and virtually no economic growth in Europe has dampened demand for fossil fuels.

While the oil glut is painful for exploration and production companies, gasoline consumers in net importing nations are benefitting from lower pump prices, which then can be used to save, invest or consume alternative goods. This is the equivalent of a huge tax cut to consumers. According to the IMF, US motorists will save the equivalent of $750 in 2015 from lower gasoline prices and another $750 if they heat their homes with oil. Not surprisingly, the December consumer sentiment index came in at 93.8, an eight-year high, harkening back to the heady days before the Global Financial Crisis.

We should note that lower oil prices benefits the US, Europe, and Asia and are a blow to the economies of Russia, Iran, Syria and Venezuela. There is much speculation that Saudi Arabia, the long time "swing producer" of OPEC, is making a geopolitical decision not to cut back oil production as a means to punish Russia and Iran, who are actively propping up the Assad regime in Syria. It is believed that Iran is negotiating with the US on nuclear development because of the weakened state of Iran's economy, owing to US sanctions on Iran and low global oil prices. Low oil prices should soon be reflected in an improving United States' balance of trade and payments.

US Gross Domestic Product (GDP) retraced a few steps in the fourth quarter of 2014 to a modest 2.6% gain, year over year. This was quite a come-down from the third quarter's eye-popping report of 5% annual gain, which was the highest rate of growth in eleven years. There remain skeptics as to the legitimacy of the government's reported numbers, as there are always revisions, "seasonal adjustments" and lumpiness in government payments that can make a quarter look better than reality. What really matters is the annual GDP growth rate. We can report the real US economy grew by 2.4% in 2014, modestly improving on 2013's 2.2% gain.

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Unemployment reporting is another area of controversy, because the reported unemployment rate does not include individuals who are no longer looking for work or those returning to school or on disability. Since the start of the 2007-8 recession, nearly seven million fewer Americans are working or looking for work. The US labor participation rate stood at 62.70% at the end of 2014, which is a 36-year low. This means that 92,898,000 Americans 16 years of age and older did not participate in the labor force as of December, 2014.

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2014 REVIEW (CONTINUED FROM PAGE 2)

According to the US Bureau of Labor Statistics, total nonfarm payroll employment rose by 252,000 jobs in December, as the unemployment rate declined to 5.6%. Preliminary January new jobs reported showed a slight rise to 257,000 jobs, while the overall unemployment rate inched upwards to 5.7%, as a result of "adjustments". It is generally agreed that the economy has to add 200,000 new jobs each month just to keep the unemployment rate flat. The trend of new job creation is promising, as the US has added over 200,000 new jobs each month for eleven consecutive months.~

2015 - "AND SO IT GOES" - *LINDA ELLERBEE*

The United States continues to lead the developed economies, having undergone nearly five years of central bank monetary stimulus, a deleveraging of the previously over-indebted consumer, a thorough and convincing recapitalization of the banking sector with greater means of regulation and the tempered resurgence of the housing sector. The US benefits greatly from lower oil and natural gas prices, as evidenced by the return of offshore manufacturing, improving employment trends and chemical businesses that are capitalizing on lower energy prices from the domestic "shale oil revolution

Prospects for the US stock market remain positive, as the likelihood of a meaningful price correction is low, barring a monetary shock that sharply raises interest rates in a short period of time. It is unlikely that US interest rates will move markedly higher in 2015, despite the Federal Reserve's stated intention to begin raising short-term rates towards the mid-year. The constraining factor on US interest rates is that Europe is seeing low-to-negative interest rates, which encourages European investors to move their cash to the US, where rates are positive and the economy continues on its upward path. By attracting foreign sources of investment, the demand for US assets rises and increases the value of the dollar *vis-à-vis* foreign currencies. The increased foreign demand for US bonds and equities will have a salutary effect on valuations.

GDP should continue to grow in the United States in 2015, as there really is no sign of an economic recession in the works. Although the US economy is well into its sixth year of expansion, which would historically signal the potential of an expansionary cycle, positive consumer confidence, world-leading technologies, renewed manufacturing activity, lower US energy prices and a healthy financial sector all bode well for continued domestic growth. S&P Capital IQ is convinced that the US economy is mid-cycle and that economies continue to grow for a couple of years even after the onset of increased interest rates.

Perhaps the greatest headwind to US growth lies in the central bank policies of competing countries. Foreign central banks are in a race to devalue their currencies in an effort to stimulate domestic growth through relatively cheap exports. It is unlikely the US Federal Reserve will be aggressive in raising rates when the rest of the world's economies are actively engaged in currency wars. It is important to note that U.S. corporate treasurers in the US have active "hedging" programs that are utilized to minimize foreign currency fluctuations.

Europe continues to fumble along trying to find a workable understanding between the wealthy Northern countries and the financially stressed countries in the South. The European Central Bank (ECB) has recently announced its own version of the Federal Reserves' policy of Quantitative Easing (QE), which should theoretically result in greater consumer demand for credit, products and services. Mario Draghi, the President of the European Central Bank, (ECB), has stated that he will do "whatever it takes" to ensure improved liquidity and productivity in the Euro Zone.

However, Germany appears to have tired of Greece's threats to leave the Euro and now accepts that a tiny country of 11 million people that

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

2015 - "And So it Goes" (continued from page 3)

accounts for only 2% of the Euro Zone's economy is not an existential threat to the Euro. European banks do face the consequences of Greece defaulting on billions of debt. Nevertheless, it can be argued that both the EEC and Greece would be better off with a proper restructuring that provides for a realistic repayment schedule for the Greeks, as well as an honest accounting of the Greek assets being held by banks. Any such settlement must include a sizable "haircut" (or write-down) of Greek debt owed to Europe's lenders. Thankfully, the US has little-to-no exposure to Greek debt, which translates into nil material detriment to US economic prospects if Greece does default.

In summation, in early 2015, the U.S. has the most positive, healthy, resilient, dynamic economy of any nation in the world. The unique combination of technological innovation, natural resource treasures, a well-educated, risk-taking workforce and favorable demographic trends makes the United States of America the envy of the economic and financial world.~

"And that's the way it is"

- Walter Cronkite

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