Executive Economic Outlook And Summary

Spring/Summer 2014

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Has this bull market hit a wall? After last year's impressive stock market performance and then a shaky start to 2014, investors have been wondering what to expect for the rest of the year. Multop Financial believes the current bull market will continue through 2014 but at a more moderate rate, meaning returns should be positive but they likely won't follow the pace set in 2013. There are those who think the bull market will continue for a few years. Then there are some who believe the bull market is coming to an end, leading into a bear market. In our opinion, the stock market is fairly priced, meaning the overall stock market is not overvalued nor is it undervalued.

Overall, US economic indicators continue to imply positive market trends looking forward, just not at 2013 levels. Headwinds like inflation, the Federal Reserve ending its current quantitative easing program and the situation with Russia & Ukraine may cause the markets to stall a bit. However, it does not appear to have enough force to outweigh the otherwise positive economic momentum. It seems Janet Yellin, new Chairwoman of The Federal Reserve, has kept financial markets in order after initially sending mixed messages to Wall Street regarding the direction the Fed will take under her leadership.

The Federal Reserve is on track to reduce its current quantitative easing (aka government stimulus) to zero by the end of the year. This is a double edged sword. On one hand, it clearly demonstrates the confidence our Federal Reserve has in the current strength of the economy. On the other, it means that the stimulus which has been used to artificially boost the economy is coming to an end. The question is, "Can this economy stand on its own without stimulus?" this remains to be seen. Multop Financial's position is that our economy is strong enough and investors should view this as an overall positive for equity markets and your investments.

Here are a few economic figures we believe are worth taking note of:

- **The S&P/Case-Shiller Index** reported in late March that home prices continue to rise. The 20-City composite showed a 12.86% annual increase over the past 12 months. In our previous economic outlook (published in October 2013) this figure was 12.4%, indicating a continuous rise in home prices. The housing market continues to be a strong sector in the economy and is projected to continue to appreciate over time.
- **The Conference Board Consumer Confidence Index ®** rebounded in March but has declined slightly in April. The index now stands at 82.3, down from 83.9 in March. Keep in mind the 1.6 decline remains substantially higher than last year's figures of 68.1 indicating consumers' expectations are becoming more optimistic.
- **The Institute for Supply Management's PMI ® Index** reported a positive increase of 2.1 from March to April, now sitting at 55.2, suggesting the economy and overall sector are continuing to improve at a moderate pace. According to ISM, prices have increased at a faster rate and even with the effects of weather on many of the perspective businesses; they project business conditions will only improve.
- **The National Federation of Independent Business** shows small business expansion in employment per firm continues to rise for the 7th positive month in a row. In April, there was a seasonally adjusted net gain of 0.07 workers per firm, weaker than March but still a positive trend. Overall, the NFIB has stated that as long as Washington continues to flounder and create uncertainty the economy will follow suit.

- **The Commerce Department** reported consumer spending showing continued increases since October of 2013. With March's current increase of 0.5%, economists expect household morale to perk up even more as spring time comes upon us and incomes continue to rise. Economic data suggests that consumer spending was bolstered by a rise in outlays of services, likely due to the increased demand for health care and utilities.
- **The Bureau of Labor Statistics** reports that the unemployment rate fell from 6.7 percent in March to 6.3 percent for April. When adding back in "marginally attached" workers, the real unemployment rate has steadily declined over the past 12-months, currently sitting at 12.3. Among the "marginally attached," there are 783,000 discouraged workers in April, about the same at this time last year.
- **U.S. real Gross Domestic Product**, increased at an annual rate of 0.1% in the first quarter of 2014; while still positive, this number is significantly lower than the 2.6 percent growth rate seen during the fourth quarter of 2013. The "advance" estimate released at the end of April is based upon source data that is subject to further revision in late May.
- **CBOE Volatility Index (VIX)**. Despite a brief spike in February, the VIX has remained relatively low. In September it sat at 16.60. Since that time, it has decreased to 13.41 at the end of April.

In the last edition of our Economic Outlook, we forecasted the looming Government shutdown & debt debate to be non-events. We also cautioned investors to minimize their exposure to long-term bonds and Emerging Market funds. Those were all good areas to avoid over the past 6 months. However, as we look forward over the next 6 months, we still maintain our negative outlook for long-term bonds but we do have a more positive outlook within the Emerging Markets sector. Excluding areas like Russia and Ukraine from this outlook is fairly obvious but other geographic areas are showing promise and thus we are more willing to engage in them.

Unemployment which actually increased in March dropped back down in April. It is important to keep in perspective that we have come a long way from our 2009 levels. Something like this was bound to happen eventually. Looking forward, we would expect unemployment levels to continue back on its downward trend assuming no significant change in our current economic situation.

What does this mean for your investments? At Multop Financial we believe that the odds point to a continued bull market with some normal corrections and potential increased volatility. While Multop Financial's overall outlook is positive, we caution clients not to become overenthusiastic to a point where undue risk is taken. A healthy portfolio should include at least a 60% to 70% stock market exposure to take advantage of a continuing bull market while still hedging against an unexpected bear market turn. Markets can surprise even the most professional asset managers. Because of that it's important to understand your true risk tolerance and how you, as an individual investor, should approach these market conditions to maximize your results. If you are currently one of our valued clients your portfolio already reflects our economic philosophy. If you would like to become a client and find out more about how we approach investments and retirement, please don't hesitate to contact us.

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