DFM
DIVERSIFIED FINANCIAL MANAGEMENT

80 Washington Street • Suite O-54 • Norwell, MA 02061
781-792-0440 • Fax 781-792-0606
dfm@dfmwealth.com

Investment Summary
4th Quarter 2014

With 2014 representing the sixth year of the economic recovery, U.S. stock and bond markets pushed higher despite sluggish global GDP growth and increasing concerns about deflation. As in recent years, investment returns across asset classes were not homogenous, with large cap stock and REIT benchmarks far outpacing smaller company investments and international equities.

A dominant theme in 2014, and an ongoing issue, is the rapid and severe drop in oil prices. The present price for a barrel of oil is approximately $45, which is 50% below year ago levels. While we have experienced oil price declines of this magnitude before, what is unusual about this situation is the cause being mostly supply driven, whereas previous oil bear markets were predominantly demand driven (or lack thereof). On the bright side, U.S. consumers are already seeing meaningful benefits in the form of lower prices at the pump, while many businesses that use oil will realize lower energy costs. Overseas, depressed petroleum prices pose a risk to certain countries (Brazil, Russia, and Venezuela are good examples) where the commodity is a key source of revenue. In those local cases, recession, sovereign default, and irrational political gestures become real concerns

In an up and down year where the Dow Jones index temporarily crossed the 18,000 threshold, the U.S. economy also enjoyed continued strength in key economic areas: employment, corporate profitability, real estate, and auto sales, among others. Much of this growth can be attributed to the easy monetary policies by the Federal Reserve, and the associated ultra-low interest rate regime. With much healing complete and the U.S. economy on better footing, Fed Chairwoman Janet Yellen has the difficult assignment of pivoting to a tighter monetary policy, with the hope that the economy can continue its advance without government assistance. Conversely, central bankers in Europe and Japan are embarking on or extending their economic stimulus programs, in order to combat sluggish growth and deflationary pressures in their economies.

Given the positive trends in place, and the durability this economic recovery has demonstrated, we are cautiously optimistic about the year ahead. Analysts' expectations for 10% S&P 500 earnings growth in 2015 is certainly attainable, and would be supportive of stocks. If we are indeed entering a mid-cycle expansion phase, we also need to be cognizant of the increased market volatility that typically emerges in this part of the business cycle. Having enjoyed strong markets and returns over the past several years, risk management and asset protection are areas of focus that will receive more of our attention in the months ahead.