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Investment Summary
3rd Quarter 2014

An important investment theme in the third quarter was the variation in returns across asset classes. Large cap U.S. equities managed a small positive return in the quarter, while smaller company stocks and international equities saw meaningful declines of 7.3% and 5.88%, respectively. The outperformance in large caps implies a more risk-averse approach by investors during a quarter that saw increased geopolitical unrest around the world.

Similar to the disparity in third quarter investment performance, the health of major economies around the world has also been varied. The U.S. recovery continues to advance, albeit at a lackluster pace. Corporate profit margins have sustained record high levels, allowing ever confident executives to pursue growth and strategic initiatives (500 merger deals totaling $3 trillion have been completed this year so far). The success inherent in a strong U.S. economy has brought with it a strong currency; the U.S. dollar appreciated 8% against the Euro in the 3rd quarter alone. While a strong dollar improves the purchasing power of all Americans, it also makes the products we export more expensive to our overseas customers. Because half of the revenues from all S&P 500 companies are sourced internationally, a strengthening dollar has the potential to erode the future earnings of major U.S. corporations.

Related to a strong dollar are falling oil prices, as they have historically shared an inverse relationship (when one falls, the other rises). In 2014, oil has fallen from $98 to around $80 per barrel, which is a significant price change for this commodity. The cause of falling oil prices appears to be related to the following: lack of discipline on the part of Saudi producers, less demand from China, and increased production from the U.S. (via fracking). Importantly, lower oil prices can be very bullish for both the U.S. and global economies. Lower oil prices mean consumers spend less on gas, and have a greater budget for discretionary spending. Additionally, lower energy costs aid the profitability of businesses where oil is an input cost.