Cambridge Advisors inc.
Investment Managers

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ GAYLAN C. ABOOD
JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CPA AAMS

MARKET COMMENTARY

US stocks finished the year strong. Large cap stocks in the S&P 500 gained 4.9% in the fourth quarter and ended the year with a gain of 13.7% while the DJIA was up 5.2% for the quarter and 10.0% for the year. After falling 7.4% in the third quarter, small cap stocks in the Russell 2000 surged 9.7% in the fourth quarter. However, their gain for the entire year was only 4.9%, much lower than their large cap counterparts. International stocks in the MSCI EAFE were down for the second consecutive quarter with losses of –3.5% for the fourth quarter and a –4.5% loss for the year. Emerging market stocks were down more than the developed international markets for the quarter, but their loss for the year was less. Bond yields continued to retreat and bond prices rose resulting in a 1.8% return for fourth quarter and annual return of 6.0% for the Aggregate Bond Index.

GDP growth has continued its strong rebound after contracting –2.1% in the first quarter. Second quarter GDP growth was 4.6%. Initial estimates of 3.5% GDP growth in third quarter were later revised up to an astounding 5% - the highest rate in 11 years. Current projections are for fourth quarter GDP growth around 3% followed by 2.8% the next two years. The last 5 years have averaged GDP growth of 2.2% so the next couple of years are encouraging. We will be watching to see if the Federal Reserve changes their long-term estimate for GDP growth which is currently for 2.2% growth.

Corporate earnings have continued to be strong. Third quarter earnings for stocks in the S&P 500 Index grew 10.4% over the third quarter of 2013 and 74% of the companies exceeded their expected earnings with an average beat of 4% above estimates. Strong earnings have supported the rise in stock prices this year. Unlike the past couple of years, price earnings ratios in 2014 did not expand and continue to hover around their 25-year averages.

2014 BENCHMARK RATES of RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	4.9%	13.7%
DJIA	5.2%	10.0%
NASDAQ	5.4%	13.4%
Russell 2000	9.7%	4.9%
International	-3.5%	-4.5%
Fixed Income	1.8%	6.0%

Oil prices have been a hot topic this quarter as they have fallen from a high of $115 per barrel in June to under $55 at year end. Although the lower gas prices have been welcomed by consumers, the lower oil prices have had a significant impact on oil companies and oil-dependent nations. With the US producing 80% more than we produced in 2008, OPEC has become more concerned and has attempted to maintain their control. By not decreasing their production and adding to excess supply, OPEC has driven oil prices below the $60-$70 break-even price of many US producers. In the long term, the effect will be minimal due to the significant steps the US has taken to become energy independent and increase their efficiency and build out their capacity. For countries like Russia, whose economy is dependent on oil exports, it has resulted in the collapse of the Russian ruble.

Oil prices along with the Ebola scare, ISIS threats, and Fed concerns caused more volatility in stock prices during the quarter. Even though the S&P 500 was up 4.9% for the quarter, it saw an 8% decline in October and a 5% pullback in December. We expect the volatility to continue in the new year.

The Fed has ended its bond purchasing activities and the nation is watching closely to see when they will begin to raise short-term interest rates. Reserve Chairman Yellen eased fears that the increase would come sooner than mid-2015. Many analysts believe the rise in short-term rates will be slower than previously anticipated and that it will result in a flattening of the yield curve first. Long-term rates are not expected to follow the pace of short term rate increases. Yields on the 10-year Treasury this quarter fell from 2.5% to 2.2%.

In October, Japan announced a quantitative easing program of its own to try and boost its economy. Europe has not followed suit yet, but many analysts are hopeful that it will happen in 2015. If these economies have the

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17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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MARKET COMMENTARY

(continued from previous page)

same results the US had, foreign stocks may see positive returns that could be higher than US stock returns. In addition, declining bond yields could result in higher bond returns.

We continue to believe investors should be well diversified across many asset classes. With stock valuations high and their return potential muted at these higher valuations, investors who have money market or fixed income reserves may have opportunities with market volatility to reallocate into stocks on pullbacks. Patience and discipline will continue to be important when making investment decisions. If you have questions about the strategies used in the management of your account, please do not hesitate to talk with your portfolio manager.

FINANCIAL PLANNING

Baby Boomers and retirement

As the Baby Boomers have begun to retire, we've seen several misconceptions about investing and retirement planning for this generation. One misconception is that it is feasible to enter retirement with significant debt payments. If a substantial part of a retiree's budget is designated for fixed debt payments (on their homes, cars and credit cards), less money is available for discretionary spending.

Another misconception is that investment returns should average 7% to 10% per year. During the recovery, we've seen double-digit stock returns for several years. However, analysts expect stocks to average mid-single digit returns of 4% to 7% over the next decade as GDP growth slows. Bond returns are projected to be lower than that as yields are expected to rise and result in depreciation that will counteract the interest earned from higher yields.

One of the biggest misconceptions is that retirees shouldn't invest in stocks because they are too volatile. However, they need their investments to provide income now and for the next 20 or more years. With bond returns expected to be minimal, stocks can provide income through dividends but also provide appreciation to keep up with inflation. Retirees need a diversified investment portfolio that includes both stocks and bonds.

Baby Boomers need an advisor who can create a plan for them with a proper investment allocation and spending plan to help insure they don't outlive their resources. Those who have a plan will have a higher likelihood of reaching their goals. If you would like to review your plan, please contact your advisor to arrange a meeting.

QUESTION: *What makes a good investor?*

ANSWER: BlackRock recently conducted a survey to find out "what investors across the globe are thinking, how it is influencing financial behavior today, what it can tell us about the future." From the results, they identified a group of Highly Effective Investors who are twice as likely to be successful in reaching their financial goals.

According to the report, these Highly Effective Investors have seven key habits:

1. *Regularly review finances*
2. *Spend time to get informed*
3. *Seek financial advice*
4. *Manage debt*
5. *Prioritize saving for retirement*
6. *Diversify their portfolios*
7. *Plan for big moments*

Some interesting findings about who were in the Highly Effective group:

1. *48% were of the Millennial generation*
2. *68% were men versus 32% who were women*
3. *65% were married*
4. *63% had children*

Highly Effective Investors were more positive about their financial future and more likely to feel that they are taking the right steps to prepare for their retirement. If you have questions on how you can be more effective, please contact your advisor to schedule a review.

2015 Retirement Contribution Limits

Retirement Plans	2014	2015
401k and 403b Plans	$17,500	$18,000
Catch up contributions*	$ 5,500	$ 6,000
IRAs		
Traditional or Roth IRA	$ 5,500	$ 5,500
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$12,000	$12,500
Catch up contributions*	$ 2,500	$ 3,000

*If you are age 50 or older, you can make additional catch up contributions

CAMBRIDGE ADVISORS NEWS

We like to take this opportunity to wish all of you a happy and prosperous new year! If you have family or friends who need help to become Highly Effective Investors, we would like to help them. We always have openings for the people who are important to our clients and there is never a fee for an initial discovery meeting to see if our services would benefit them.