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## MARKET COMMENTARY

Although US stock indices reached new highs during the quarter, domestic stocks mostly traded in a narrow range during the period. Large cap stocks in the S&P 500 finished the quarter up 1.0% while the DJIA was up 0.3%. After underperforming their larger counterparts last year, small cap stocks roared back as the Russell 2000 sported a 4.3% gain for the quarter. International stocks in the MSCI EAFE made up for their –4.5% loss last year by gaining 4.9% during the first quarter of 2015. Emerging market stocks weren't up as much but did show returns of 1.9%. Bond yields continued to fall and bond prices rose resulting in a 1.6% return for the Aggregate Bond Index.

Traditional stock valuation methods (such as PE ratios that compare the price of a stock to its earnings per share) indicate that stocks are not cheap at current levels. They have risen over the past couple of years and are now slightly above their 25 year averages. Analysts point out that during periods of low inflation like we have now, it is not uncommon for stocks to trade at higher PE levels. However, when stocks are trading in the upper range, stock prices can be more vulnerable to negative news and result in a sell-off until positive news emerges. This pattern may be why stocks have been trading in a range.

Earnings growth has helped stock prices advance so a decline in growth could impact stock prices negatively. Since the end of the year, analysts have been lowering their expectations for S&P 500 earnings growth. Expected growth for first quarter is now 8.2% lower than the beginning of the quarter estimates. This is the largest drop in revisions since 2009. Compared to first quarter of 2014, earnings for first quarter 2015 are now expected to be lower by -4.6%. Second quarter earnings may also decline on a year over year basis, but analysts expect earnings in the second half of 2015 to reach a new high.

### 2015 BENCHMARK RATES of RETURN

| INDEX | FIRST QUARTER | YTD |
|---|---|---|
| S&P 500 | 1.0% | 1.0% |
| DJIA | 0.3% | 0.3% |
| NASDAQ | 3.5% | 3.5% |
| Russell 2000 | 4.3% | 4.3% |
| International | 4.9% | 4.9% |
| Fixed Income | 1.6% | 1.6% |

GDP growth in the fourth quarter was not as strong as the astounding second and third quarter growth rates of 4.6% and 5%. Fourth quarter was revised several times with the most recent report showing 2.2% growth which was below initial estimates of around 3%. GDP growth for all of 2014 was 2.4% which is the highest annual growth since before the recession. The Fed currently projects 2015 and 2016 GDP growth of 2.8% before declining to a long-term 2.2% growth rate.

Following Japan's lead of announcing a quantitative easing program in fourth quarter 2014, the European Central Bank announced quantitative easing measures of their own in the first quarter of 2015. These countries are attempting to weaken their currencies and thereby boost their economies. If they see similar results to what the US experienced, their stock markets will advance.

The Fed ended its bond purchasing activities last fall and the nation has been watching closely to see when they will begin to raise short-term interest rates. Although Reserve Chairman Yellen continues to voice their intentions to raise rates starting mid-year, the market does not appear to believe this will be the case. The Fed projects that the Federal Funds rate will be at 1.13% at the end of 2015 but market expectations are much lower as measured by the futures market.

At the end of 2016, the Fed projects the short-term rate will rise to 2.5% while the futures market is expecting it to be closer to 1.25%. If market expectations are too low and the Fed is right, when the rate rises, the shock could be negative to stock prices. The yield on the 10-year Treasury bond is currently 1.93%. If the Fed is right and short-term rates go to 2.5%, long-term yields should also rise resulting in a decline in bond prices.

Under current market conditions of stretched valuations, more volatility, and continued uncertainty, we continue to recommend a diversified approach to asset allocation.

***We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.***

### FINANCIAL PLANNING

*Planning for healthcare costs in retirement*

When planning for retirement, healthcare expenses should not be overlooked. These expenses typically grow as one ages and at a faster rate than inflation. According to JPMorgan, health care costs have grown at an average of 5% per year over the long-term for the population as a whole and at 7% per year during retirement years.

The median national health care costs (for Medicare and Medigap premiums and prescriptions but not vision, dental and long-term care) for a 65-year old couple is currently about $8,000 per year. If they have high prescription expenses, the average is $14,000. The Employee Benefit Research Institute (EBRI) projects that those expenses for the median retiree will more than double by the time the couple is 85.

These costs do not include those borne by the government. Without any changes, the Medicare Trust Fund is projected to be depleted by 2030 at which time only 85% of Part A coverage costs would be funded by the payroll taxes. That would mean that individuals would bear more of the burden.

Retirees and pre-retirees will want to carefully review their plans for retirement. Many believe their expenses will decrease as they age when in reality, the money they may have been spending on entertainment and travel may just be shifted to be spent on healthcare. Failing to plan for these increased expenses may result in reduced discretionary spending or simply running out of money too soon and being forced onto state aid. If you have questions about planning for retirement or planning for healthcare expenses, please do not hesitate to contact us.

*The question isn't at what age I want to retire,*
*it's at what income*
*-George Foreman*

**QUESTION:** *What affect has the strong dollar had?*

**ANSWER:** During the second half of 2014, the US dollar strengthened significantly against foreign currencies. This appreciation is great for those who want to travel abroad or buy items made in foreign countries because their money will buy more than it would have a year ago.

As corporations started to report 4th quarter earnings, some of the drawbacks of a stronger dollar could be seen. First, for companies who have high exports, their goods just became more expensive for the foreign buyer leading some companies to revise their future outlooks lower. Also, the currency translation of the revenues from overseas has negatively affected earnings—even if sales remained steady in the foreign currency, once translated back to dollars, revenues would have fallen which would have an impact on margins and earnings. The currency translation is also impacting those in the US who are investing internationally. Last year, many of these investors experienced negative returns in their international portfolio even when the returns were positive when measured in the foreign currency.

The strong dollar—although not the sole culprit—has pressured commodity prices like gold and oil lower. Emerging markets like Russia whose economies are highly dependent on oil or natural resources have seen their economies suffer because the revenues from their exports are lower with the lower commodity prices.

The strength of the US dollar has made dollar denominated debt a safe haven for foreign investors. As a result, yields on US government debt have fallen as demand has been steady or rising. For emerging markets that have pegged their currency to the dollar, their debt obligations have become more expensive to repay. At the same time, their goods have become more expensive to non-US foreign buyers which also may be diminishing their ability to repay the debt.

### CAMBRIDGE ADVISORS NEWS

This year, Cambridge Advisors is celebrating its **25-year anniversary**. As we reflect on our history, we also plan for our future. Our firm was founded on a client-centered approach of providing professional investment management and financial planning with a high level of quality and personal service. That approach is still prevalent today and will be for the next 25 years.

Cambridge Advisors now manages over $285 million in assets, and we serve clients in 20 states. We have grown because our clients and others have introduced us to their friends, family, and business associates Thank you. We appreciate the trust and confidence you place in Cambridge Advisors. Please continue to introduce us to those you think may need an advisor who will help them plan for their retirement, preserve their wealth in retirement, and leave a legacy for future generations. We believe our services and approach are not just beneficial but truly necessary in this changing environment. We promise that as we grow, our professionals will always be dedicated to providing all our clients the high quality services they need with the personal attention they desire.

***Serious about your future***