

2015: Days of Future Past?

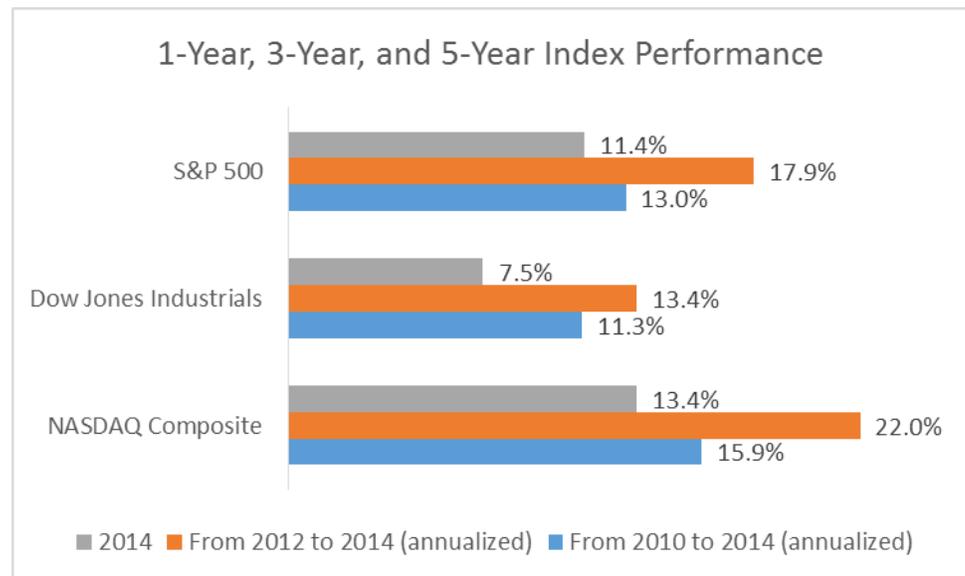
Here's a look ahead at factors that could shape the market in 2015 and a review of those that had an impact in 2014.

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The stock market turned in another strong upward performance in 2014 as diversified equity benchmarks produced double-digit gains. But price progress was not without unforeseeable cross-currents and one-time events that buffeted the markets and pushed prices in new directions.

View from the Finish Line: The Market in 2014

The S&P 500 ended 2014 up more than 11% on the year and nearly three times higher than it was at the depths of the Great Recession in 2009. The normally more volatile NASDAQ Composite rose by nearly a quarter in 2014 and stands nearly three-and-a-half times higher than its 2009 recession low. To be sure, those powerful gains came on the heels of an unprecedented financial crisis. Equity returns had been depressed for the two years prior to the current bull market. But an investor who had held on through all of the ups and downs and realized portfolio returns approximately equal to the S&P 500 over that time could have still seen significant positive performance.



Source: Wealth Management Systems Inc. The S&P 500, Dow Jones Industrials, and NASDAQ Composite are unmanaged indexes whose results do not reflect the effects of investment costs and taxes. It is not possible to invest directly in an index and individual results will vary. Past performance is no guarantee of future results.

Driving the Market

Among the forces shaping 2014 were:

- **The precipitous drop in the price of oil.** The benchmark price for crude oil in the U.S. market (West Texas Intermediate) dropped approximately 44% during the year, ending 2014 at about \$53 per barrel, according to data compiled by the federal government's [Energy Information Administration](#). Prices for refined products such as gasoline and heating oil declined by similar margins. New domestic oil and gas production helped fuel the drop. Also important was soft global demand due to economic weakness in Europe, Japan, and some developing countries.
- **The growing strength of the U.S. dollar.** The dollar gained an average of nearly 12% in 2014 when compared with our major trading partners, according to data compiled by the [Federal Reserve Board of Governors](#). The dollar rose 15% against the Japanese yen, 11% against the euro, and 2.5% against the Chinese yuan renminbi. The currency trend helped reduce the cost of imported goods for U.S. consumers, but it also meant higher prices for U.S. products and services on foreign markets. For investors, the rising dollar meant that the value of their existing overseas investments was depressed when reports were translated into U.S. dollars. But it also meant that the dollar-equivalent costs of new overseas investments would be lower.
- **The economy's momentum.** Harsh weather led to a contraction in the economy as measured by GDP in the first quarter of 2014 (-2.1% annualized rate), but a rebound took real GDP up 5% (annualized) by the third quarter, according to official figures from the federal government's [Bureau of Economic Analysis](#). Unemployment edged downward from 6.6% in January 2014 to 5.8% in November, according to the federal government's [Bureau of Labor Statistics](#). Inflation remained low throughout the year.

What Lies Ahead?

Market forecasts are normally highly personal and notoriously imprecise grounds for concrete investment direction. But the direction of the market may be influenced by investors' expectations. As a result, unforeseen economic changes could foreshadow corresponding changes in market direction. With that in mind, here are some key indicators to monitor, along with the investment industry's year-end professional consensus opinion as recorded by the [Securities Industry and Financial Markets Association](#):

- The economy is on track to grow by about 3% in 2015.
- The Federal Reserve's Open Market Committee could start raising short-term interest rates at some point this coming spring or summer.
- The unemployment rate could average just over 5% for the year (down from a 6.2% average for 2014).
- Long-term interest rates could edge higher.

Keep in mind that past performance is not a guarantee of future results and that unexpected change -- whether positive or negative -- can also feed volatility at any time.