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FORECAST FOR THE COMING YEAR - WHAT ARE THE NUMBERS TELLING US?

First, it is very uncertain thinking when we try to look out into the future more than about 6 months; we can see a likely picture of what the stock and bond markets will be like for the near future, but not beyond.

RECAP OF THE PAST YEAR

Typically, after such a long run of higher and higher stock market prices, there should be a significant downward retracement of those prices (about 4 years or so, but really, about 2 years since the last significant setback in market prices in late 2011). Investors are gradually moving money back into the stock market. There is a real reluctance to be overly committed to stock market investment. Few people want to risk their money in a venture that they do not have confidence of a positive result.

In general, our client portfolios look very similar to each other. There are a lot of fixed income securities - corporate bonds, mortgage backed securities preferred stock and some structured product - in each account and a relatively small amount of equities investments. Most accounts have between 50% and 80% fixed income and the remaining money is invested in stocks and equity mutual funds. We are seeing average interest and dividend income yields of between 5.5% and 6.5%, and the equity portion of the portfolios are seeing positive growth that averages, today, between 20% and 30% for the year. The S&P Index is up about 25% at the time of this writing. As an ongoing investment process, many of our investors are adding money to their equity investments every month, using interest income and bond securities principal paydowns to add to their stock positions.

NOW FOR THE FUTURE

So what will happen in the future? Will stock market prices continue to rise? What about Interest Rates? Are we in another "Bubble"? Will the economy continue to grow? Is there another Recession/Depression on the horizon? What will happen when the Federal Reserve reduces its purchases of Treasuries and Mortgage Backed bonds (Quantitative Easing - QE-3)? Is hyper-inflation a prospect we must plan for in the future? ......and many more fears .....

Let me give you my best guess about our investment future.

1. Interest rates are going higher. This is good for our fixed income portfolios because it will allow us to increase our average yields and to build a higher income cash flow.

2. The stock market is likely to enter a long term consolidation period, rather than see a significant downward retracement of prices. Prices are likely to be relatively flat for the coming year.
3. There is a growing momentum building in the US economy. Energy independence is the prime mover, but add to that a change in demographics, longer productive lives, a return of US manufacturing, an increasing focus on education, and many other advancements in technology and research.
4. From an academic point of view, there is a positive change coming to the Velocity of Money, an economic concept which describes the efficiency of money in creating economic growth. Investment and reinvestment causes economic growth. It appears that the Velocity of Money is about to show a positive growth rate. It has been declining continuously (more or less) since late 2007.

SUMMARY

Stay tuned for more to come. Now is the time to enjoy the holidays with your family and friends. Next year will come quickly, and we can once again take up the task. For now, the Stock and Bond Markets are working for us and not against us; and that feels good.......

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