**Economic updates. Please read!!!**

Chapel Hill Investment Analysts, Inc.
*Financial Planning • Investment Management*

# "Cup of Joe"



Throughout the first quarter of 2015, a lot of uncertainty has found its way into the markets. With the intent of keeping our clients up-to-date on the current economic landscape, we hope to shed some light on what is causing this uncertainty and when it will start to reverse its course.

First of all - and not to sound like a broken record - the markets are still trying to determine when the FED will raise interest rates. The "noise" is that, when rates rise, the market will react unfavorably. This is rather bizarre when you think about the reasoning: The FED will not raise rates until they feel the economy is on solid footing. This is POSITIVE! And, when they discuss the normalization of rates, focus on the key word of "normalization". Rates are historically low and need to rise to stave off any real threat of inflation and the economy heating up too fast. What you also have to realize is that the FED is only going to raise rates at a gradual pace, and nothing of real substance. Although the market may react to this news as a reason to pull back, one must understand that this is normal and markets do sell-off. When markets keep going higher and higher with no sell-off, this is the time when bubbles arise. With no irrational exuberance in sight, and most doubting the validity of the market run, this paves the way for the most "hated" secular bull market to keep on chugging along.

The second cause for uncertainty would be Greece and its ongoing saga of default rumors, an exit from the EU, and contagion to follow if there were to be a "Grexit". Although this is an interesting story and one that affects the European markets for the most part, a worst-case scenario wouldn't be the end of the world.

The final cause for the uncertainty would come from oil and the rapid rise of the dollar. When the dollar rose substantially in the past six months, this not only affected the price of oil (negatively), but also hurt U.S. multi-nationals - with many reporting significant misses in their results due to forex pressure on export prices. In our opinion, the companies experiencing earnings pressure because of the rise of the dollar have not done their due diligence in hedging their currency risk. If you notice, Apple had an incredible quarter regardless of the FOREX headwinds. It just comes down to great managed companies who think ahead. Thank goodness Apple is our biggest position to date!

To make sense of all of this uncertainty and how it pertains to our clients, let's look at the big picture. One big plus to having active asset management (besides pulling your money out in 2008) is the power in having diversified portfolios. The goal when making decisions in regards to your portfolio allocations is to take advantage of areas that are looking to grow and stay away from areas facing the most hurdles. We have taken advantage of the monetary stimulus in Europe by increasing our exposure to international markets, as well as of the 3 arrow approach to Abe's economic plan to revitalize Japan. And we have also minimized our exposure to areas of the market affected by the foreign exchange headwinds. Finally, understanding that the

bond market will take a hit when rates rise, we have limited your exposure in relation to your duration risk while still benefitting from the Municipal Bonds and interest rate hedged corporate bonds.

All in all, we are looking forward to a snapback in the economy caused by the rough winter, for rates to rise later this year, and for Europe and Japan to keep growing while the U.S. economy continues to grow, albeit slowly. Always remember, slow growth is better than no growth. Especially when inflation is nowhere to be found and interest rates are historically low!

Thank you again to our loyal clients for taking time to read our views of the economy and the stock market. Keep funding your IRA's and retirement accounts and referrals are always welcome!

**CONTACT US**

jsc@chapelhillinvestment.com

rmc@chapelhillinvestment.com

*Please note, if the link is not highlighted, copy and paste the address in your navigation bar.

## SHARE THESE LINKS:

http://money.cnn.com/2015/03/24/investing/us-investors-flooding-into-europe/index.html

http://www.usatoday.com/story/money/business/2015/05/03/loveless-furman-oil-prices-economy/26772079/

http://buzzfed.in/happiness-hack-22-positive-habits-of-extremely-happy-people/

follow on Twitter | friend on Facebook | forward to a friend

*Copyright © 2015 Chapel Hill Investment Analysts Inc., All rights reserved.*