January 2015

CALDER INVESTMENT ADVISORS

Quarterly Update

Calder's Comments

As we look back at 2014 many themes continue.

- Unprecedented Federal Reserve intervention continued.
- All time high corporate borrowing used to buy back their own stock, thus making stock prices appear artificially low.
- All time high margin debt as investors attempt to magnify returns using leverage (and assuming that there is low risk).
- The S&P 500 continued its relatively strong advance. The use of diversification into other sectors was not helpful as it usually is.
- Fund managers that insist on buying good quality stocks at reasonable prices were accumulating cash as prices became too high for them and they missed part of the rally.

The S&P 500 Index had another positive year in 2014. Most active managers had a tough year when they compared their performance to this index. A recent article published in Barron's provided great perspective on why active managers would tend to lag their index in 2014. The study looked back over the last 30 years and concluded that active managers, in general, added more value in markets where interest rates were rising. 2014 was not a year marked by rising interest rates. While we do use index funds in many portfolios, we have also found many active managers that have achieved great success versus their benchmark index. This diversification will benefit your portfolio in the long-term.

We enter 2015 in the third longest uptrend in market history. The longest ended in 1929 and the second longest ended in 2000. It has been since October 2011 that the S&P 500 Index has experienced at least a 10% decline. That is a long time historically. Most banks are beginning the year by forecasting another good year for equities, a market advance in the 8.5% range. Meanwhile, beneath the surface, value managers and hedge fund managers continue taking money off of the table preparing for a much more volatile year in stocks.

One investment manager, John Hussman, is very concerned that the US equity market is extremely overvalued. He cites the fact that from 1951-2014, the current median P/E ratio for U.S. stock is the highest it's ever been. When asked why this is the case, he answered this way. "Because of persistent yield-seeking

(continued on page 4)

Inside this issue:

Employment Continues to Grow at a Slow, Steady Pace 2

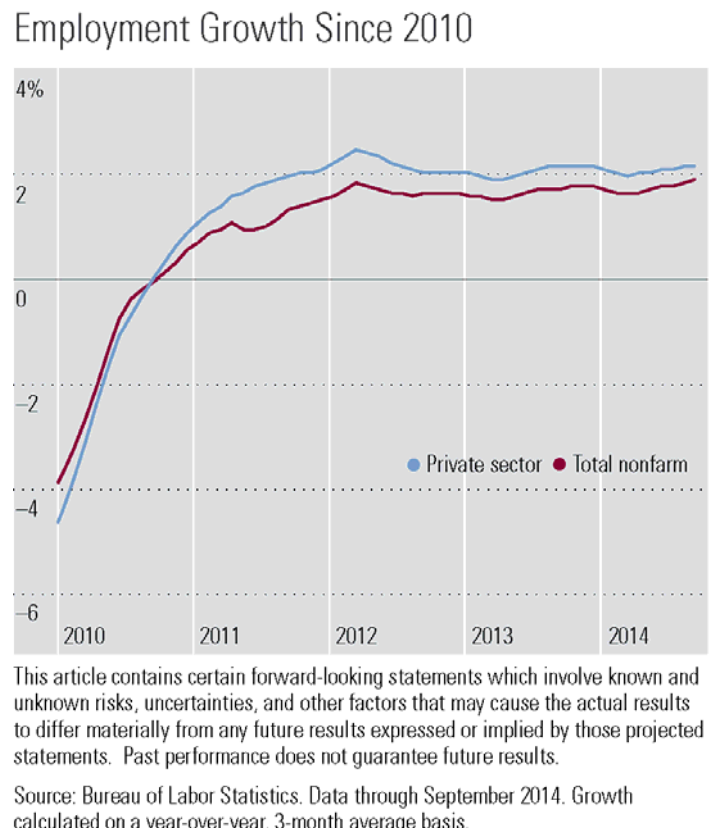
Retirment Distribution Pitfalls: Not Reinvesting RMDs You Don't Need 3

Employment Continues to Grow at a Slow, Steady Pace

Media and financial news sources often report that the economy added an “x” number of jobs for a particular month. These monthly payroll numbers are polled by the Bureau of Labor Statistics and are published in a report called “Employment Situation” that is typically released on the first Friday of each month. The monthly headline numbers tend to be quite volatile and are often difficult to interpret. In the past two years alone, the number of jobs added varied between as few as 88,000 jobs in June of 2012 to as many as 280,000 in February of 2013. Wide fluctuations in the monthly payroll data occur because the monthly hiring and firing process itself tends to be unpredictable, and seasonal factors that aim to stabilize the data are extremely difficult to measure accurately.

Looking at these figures can usually create more confusion than insight, and that is why Morningstar’s Department of Economic Analysis looks at employment growth through a slightly different lens. When the same volatile monthly jobs data is analyzed not as a monthly net job addition or loss but as a year-over-year 3-month moving average growth rate, a different picture emerges. All of a sudden, it becomes clear that the U.S. jobs market has been incredibly stable despite its monthly ups and downs. As the chart shows, total nonfarm employment has been growing at around 1.7% since early 2011 and has picked up modestly to 1.9% in recent months. Excluding the poorly performing government sector, which constitutes around 16% of total employment, private-sector jobs have been growing at an even higher 2.0–2.1% rate. Combine these results with efficiency and productivity gains and it should come as no surprise that the U.S. economy, on average, grew 2.2% since 2011 based on full-year estimates.

Despite the rock steady growth, the pace of employment recovery has been slow and disappointing to say the least. Considering that the U.S. economy lost over 8.5 million jobs between 2008 and 2010, most economists expected a much faster recovery of the labor market. Instead, it took more than four years to get back the number of jobs lost during the crisis. Seeing those numbers bounce back to their pre-recession level is great news, but it is important to point out that the make-up of the new post-recovery labor force has drastically changed. Unfortunately, the growth in high-paying, long-hours jobs such as construction and manufacturing has been all but robust, and due to efficiency improvements, especially in manufacturing, many of these jobs may never come back. A majority of the labor market recovery has been made in the lower-paying sectors such as retail and leisure and hospitality, which has certainly contributed to slower consumption growth and to the near-anemic pace of the economic recovery in general.



This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

Source: Bureau of Labor Statistics. Data through September 2014. Growth calculated on a year-over-year, 3-month average basis.

Retirement Distribution Pitfalls: Not Reinvesting RMDs You Don't Need

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One of the big mistakes of retirement distribution can be not reinvesting RMDs you don't need. Retirees may experience a situation where the amount they must withdraw from 401(k)s and IRAs for required minimum distributions can take them over their desired distribution threshold. The RMD rules require that people initially withdraw less than 4% of assets at age 70 1/2, but distributions can quickly step up into the 5%, 6%, and 7% range.

Workaround: What people might not realize is that there's nothing saying they have to spend their RMDs; they can reinvest in a taxable account if they'd like that money to stay invested in the market. This can be a wise strategy for retirees who are concerned with legacy planning or long-term care needs down the line. It's possible to build a taxable account that has many of the tax-saving features of a tax-deferred account.

401(k) plans and IRAs are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult with a financial or tax professional for advice specific to your situation.

Calder's Comments - continued from page 1

speculation induced by quantitative easing – essentially the perception that zero interest rates provide no alternative but to reach for yield, regardless of valuation." – ("A Better Lesson than This Time is Different", John Hussman, January 12, 2015)

Our experience tells us those managers who have been through several market cycles are best prepared to manage your investments, especially at this time. Please note that the word cycles means that financial markets do not continue in a straight line forever. We are searching for and retaining managers that set up for and are prepared for the next phase of the cycle. Our observation is that this is the best method for navigating uncertain times and achieving superior long-term results. Warren Buffett is famous for saying; "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." Investing is a marathon, not a sprint.

Thank you for your trust in us. We truly appreciate it and we enjoy the challenge of navigating your portfolio through these interesting times. We encourage you to call us and discuss your personal situation as the year progresses. The financial markets are always interesting and we would enjoy talking with you about the current state of the investing cycle.

Other Services from Calder Investment Advisors

- Comprehensive Financial Planning
- Life Insurance Analysis & Consulting
- Traditional, Roth & Rollover IRAs
- Stocks, Bonds, Mutual Funds & ETFs
- Retirement Income Planning
- Corporate Retirement Plans
- College Savings Accounts
- Social Security Timing

CALDER INVESTMENT ADVISORS

96 Monroe Center NW - Suite #305
Grand Rapids, MI 49503
Voice: 616.235.2442 or 888.235.0333
Fax: 616.235.2460
Web: www.CalderAdvisors.com

©2014 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc.

Dirk Racette Bob Stark Jim Stokes Tom Glover Marcia Force Pat Newcombe Chuck Schuler