Vorpahl Wing Securities
Financial Resources Group

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Special Edition

The Top 10 Economic & Investment Predictions for 2014

The Investment Policy Committee

The Investment Policy Committee (IPC) (a group comprised of the top financial consultants at Vorpahl Wing Securities Financial Resources Group that meets once a month) compiled the top 10 investment themes for 2014. This group was formed for the discussion of sound investment advice and appropriate investment vehicles for our VWS client base. We discuss such topics as macroeconomic thoughts, theories, and trends and how these trends relate to the markets on a short-, medium-, and long-term basis. We also discuss current geopolitical events and how we think such events will affect the markets.

The 2013 Scorecard

Every year around this time we make our economic and investment predictions for the current year. How well did we do on our 2013 predictions?

The Good

- Businesses remained cautious about hiring because of excess banking regulations, Obamacare, and the U.S. debt.
- Housing prices are close to bottoming out and could show signs of recovery.
- Large-cap dividend stocks will do well, but mid-cap stocks could do better.
- Interest rates should remain low, especially since Fed Chairman Ben Bernanke stated he will not raise rates until unemployment drops to 6.5%.
- The dollar will remain strong—it is still the safe haven and currency of choice for other countries.
- For the fixed-income aspect of portfolios, stick with short-duration bonds, high-yield bonds, or municipal bonds.
- Natural gas will continue to make headway, especially with new drilling techniques.
- Natural gas will also continue to replace coal as the main source of electricity generation.
- International stocks should do well, coming close to matching the DOW.

The Not-So-Good

- We predicted the DOW would close somewhere between 14,500 and 15,000. The DOW closed the year at 16,577. We were way too conservative.
- We had forecast GDP for 2013 to fall between 2.5 and 3%. As of the 3rd quarter the annual GDP stood at 4.1%. This might change once the 4th quarter GDP is announced, so we could still be correct.
- We thought emerging markets would do well as the citizens of these countries began to demand a better lifestyle, thus moving them closer to the middle class group. This did not happen as expected. Emerging market funds for 2013 returned about a quarter of what the DOW returned.

With the easing of QE, we think interest rates (the 10-year treasury) will rise to 3.5%.

Executive Summary

It's all about earnings. Companies are concentrating on the expense side of the equation as well as the revenue side. That is why companies continue to analyze the effect of the Affordable Care Act (ACA) and how it could affect the bottom line. We also are seeing companies thinking about moving back to the U.S. or moving to different parts of the country if it makes sense from a cost perspective.

There were a number of mergers and acquisitions (M&A) in 2013. With all the cash that companies are carrying on the books we expect M&A to be an attractive activity, especially if we see a pullback in the market.

The housing market had a good run at the beginning of 2013, faster than most analysts predicted, but the pace slowed later in the year. We believe the housing market will continue on a slow, steady growth.

Based on the above scenarios, we expect the DOW to finish somewhere between 17,400 and 18,000.

Interest Rates and the Strength (Weakness?) of the Greenback

With the easing of QE, we think interest rates (the 10-year treasury) will rise to 3.5%. Relative to the start of 2013, this might seem high. But since the long-term average for the 10-year treasury is 5%, we believe this would not be a meaningful move to stall the economy.

We also believe the dollar will remain strong relative to other currencies. Despite the amount of debt the U.S. has incurred, the U.S. dollar is still the currency of choice. Any overseas countries experiencing economic trouble will normally cause a flight to safety, which still is the U.S. dollar.

The Top Asset Classes

Large-Cap dividend paying companies did very well in 2013. We believe these companies will taper off and not perform as well as they did in 2013. But for a specific sector in this asset class, we like bank stocks. We believe most class action suits are over for the most banks. We also believe that in a rising interest rate environment margins will increase. Lastly, most banks are ripe with cash. Banks might be a top performer.

Small– and mid-cap companies performed very well last year, and we believe these companies will continue their excellent run.

Some European companies were beaten up in 2013. We think that being very selective in choosing large European dividend-paying companies, investors could be rewarded.

We believe fixed income should be part of most portfolios. Investing in this asset class requires being very selective, especially with interest rates so low. When interest rates rise, bond prices fall. But being positioned correctly on the yield curve coupled with the correct type of fixed income, we think, could reward investors. We like short-duration bond funds that pay a decent dividend. Short-duration bond funds are usually less volatile than longer dated bonds, so price fluctuations are tighter. We also like high-yield bond funds that have a history of very low default rates. This type of fund is usually less sensitive to interest rate moves.

Energy

We believe oil and natural gas will continue to be in demand. We think natural gas will continue to make headway, replacing coal as the main source of electricity generation. We also think natural gas could be the most efficient alternative energy source due to the amount being discovered and its low cost. With such a high quantity of gas, the U.S. is lacking the means to transport it. We believe energy infrastructure stocks will do well in 2014.

Commodities

Commodities are bulk goods and raw materials such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa that are used to produce consumer products. This sector is normally very volatile year after year; one year it could be the top performer and the next the worst. In did not fair well in 2013 and we see commodities still struggling in 2014.

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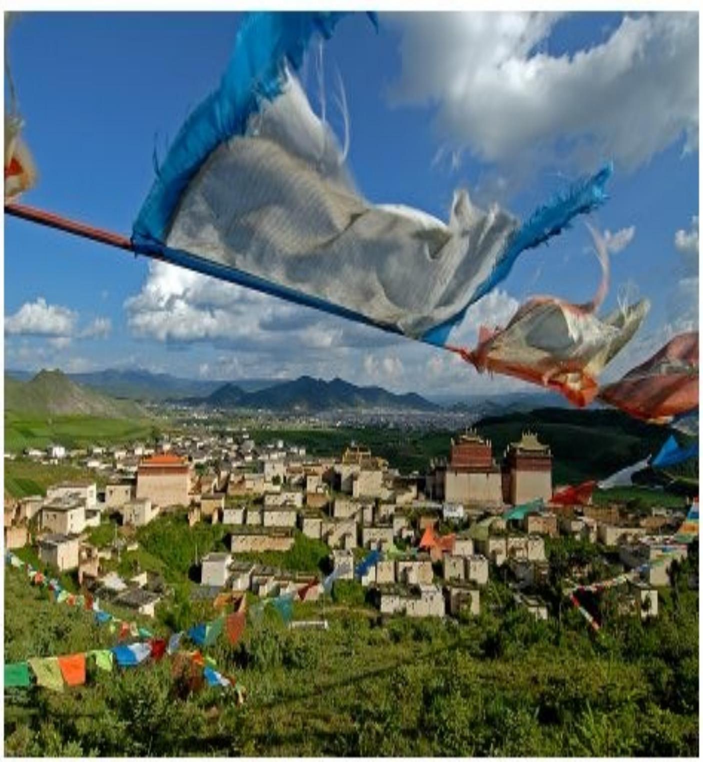
We think we will see the DOW end somewhere between 17,400 and 18,000 after a pullback somewhere between 5 and 10%.

Market Predictions

The DOW showed surprising strength in 2013 with an annual return of over 26%. We don't believe we will see this good of a return in 2014, but we think we will see the DOW end somewhere between 17,400 and 18,000 after a pullback somewhere between 5 and 10%.



Emerging Markets

Emerging market's citizens want to see a better lifestyle. As the middle class population grows, we think demand for goods and services rise. But this shift will be slower than these citizens would like to see. We think emerging markets will stay fairly flat in 2014.

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Investment Advice for Every Generation

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