The INVESTMENT LETTER

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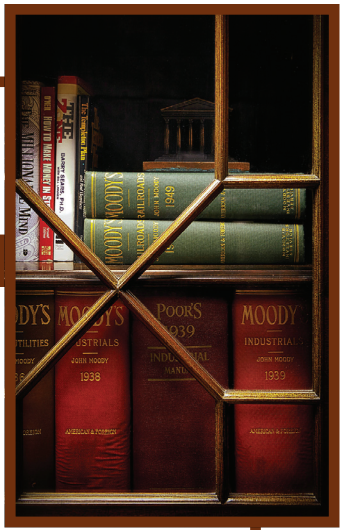

2014 Review / 2015 Preview

Uncertainty filled the air as we sat here exactly one year ago. With nearly every passing economic indicator or report pointing to continued growth and improvement, the markets started to take note and moved upward to reflect the ever more upbeat attitude regarding the economy.

The bevy of positive news ultimately pushed markets into uncharted territory - ending 2014 near all time highs, and even briefly broaching the 18,000 mark on the Dow Jones Industrial Average.

When all was said and done 2014 certainly gave most equity investors plenty to cheer about. Improvements in unemployment, new and existing home sales, GDP growth and drastically decreasing oil prices all contributed to increased consumer confidence. Factor in that all this happened while interest rates remained at historic lows and inflation was firmly kept in check during 2014 and the year begins to look even better.

Most economists expect 2015 to be a continuation of the growth story from the prior year. Estimates vary but the consensus is that the US growth rate for 2015 will straddle the 3% mark.

Of the world's major developed economies, the US is currently one of the strongest as measured by GDP growth. Even perennial emerging growth markets like China and Brazil are showing signs of slowing down, while Western Europe and Japan struggle to find growth and fight off the specter of deflation.

While we generally agree with the consensus opinion regarding US and world growth we must consider that there are both known and unknown factors that could disrupt or even derail our growth expectations for the year ahead. Additionally, while 2015 can expect to continue some of the economic trends started in the prior year there are unique challenges that we will face that will be very much unlike 2014.

Oil

One of those potential challenges is the price of oil. Oil prices are down sharply from year ago levels, due mostly to an overabundance of supply, not a decrease in demand. Cheap oil is a net positive, particularly for the consumer, since, as we know, the US economy is largely consumer driven.

Expectations are that oil will remain inexpensive, relative to recent history, throughout 2015. This keeps more money in the pockets of drivers, which they can spend to support the greater economy outside the energy sector.

However, energy is an integral component of the broader economy and cheaper oil will impact fracking operations as well as other high-cost oil and natural gas producing sources. Low oil prices can lead to job losses in the energy field, particularly in areas heavily dependent on the industry like North Dakota and Texas.

Internationally, the effects of cheap oil on nations like those belonging to the OPEC cartel, specifically Saudi Arabia and even non-OPEC members, like Russia for example, which is already dealing with international sanctions following their annexation of Crimea, are much less predictable.

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Volatility

With the exception of a few weeks in early autumn, 2014 was largely free of dramatic market swings in either direction. We expect 2015 to be less dependable on a day in and day out basis in that regard.

We must consider that we've had an above-average length bull run since we exited the great recession and are now likely much closer to the end of it than we are the beginning. It is natural for markets to behave in a more unpredictable manner at this stage of the economic cycle.

Ultimately, it is not whether markets go up or down in the short-term, because they will do both, but how, as investors, we deal with the volatility that makes all the difference. While an uptick in market swings may cause emotion to take over, we must not lose focus of the long-term. Rather than succumbing to emotional, reactive behavior we must use large movements in the markets in our favor, selling at peaks and buying in valleys.

Interest Rates

Lastly, we would be remiss is we did not address the elephant in the room; interest rates. Most economists agree that interest rates are finally due for a hike. The June Federal Reserve meeting is the most likely time for a rate increase and if not June then the September meeting seems like a near certainty. Fed Chair Janet Yellen herself has indicated a rate hike is in order, suggesting June as the more likely of the two scenarios.

The first rate hike has already been largely priced into fixed income securities. As a reminder, bond prices drop when rates increase and rise when rates decrease. To combat falling prices in a rising interest rate environment Investment Counsel suggests carefully looking at the duration of your bond holdings. Shorter-term bonds will typically be less impacted by rising rates than will longer-term bonds.

Rising rates still provide opportunities in fixed income markets, although they are more likely to be in spread sectors; investment grade corporate bonds, high yield or junk bonds or non-agency mortgage bonds.

While the first rate hike is mostly priced in, what happens afterwards is still uncertain, which makes having an appropriate bond allocation all the more critical.

The Year Ahead

Overall we are bullish on equity markets domestically, neutral on US fixed income markets, but appreciate them for the diversification they provide and negative to neutral on non-US economies depending on the country in question. It seems obvious that of major investable economies, the US is going to be the likely leader in 2015 – at least so it appears at the moment.

If we are able to navigate through the expected increases in interest rates as well as a likely uptick in volatility coupled with a handful of unknowns stemming from cheap oil and other factors that are yet to be determined, then 2015 will be just like 2014 while being completely different at the same time.

Markets are unique and no two scenarios will mirror each other exactly. The only certainty is that despite the best planning the unexpected is sure to happen. We look forward to another great year of providing unbiased, customized, customer focused investment management through all types of markets in 2015 and beyond.

Investment Counsel News

Inside the Office

Everyone at Investment Counsel hopes you are your family had a joyous holiday season and we wish you all the best in the coming year!

Outside the Office

Mike was briefly able to escape the frigid Michigan winter to spend the holidays with his parents and brother in warm and sunny Florida.