viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Asset Allocation

Over the last two years, we have witnessed a significant divergence in the performance of world equity markets. The below chart showing the annualized returns for five widely followed market indexes highlights this point perfectly. One of the most pronounced disparities over the period was between US and international equities – particularly during the second half of 2014.

Major Indexes				
US		**2013**	**2014**	**6/2014 - 12/2014**
Large Capitalization	S&P 500	32.39%	13.69%	6.12%
Small Capitalization	Russell 2000	38.82%	4.90%	1.65%
Bond	Barclays Inter Gov	-1.25%	0.45%	0.96%
International				
Large Capitalization	MSCI EAFE	22.78%	-4.90%	-9.24%
Small Capitalization	FTSE Emerging	-3.50%	1.56%	-5.58%
				Data obtained from Tamarac Inc.

One reason for the US out-performance is the ability of our central bank to maintain low interest rates. This has allowed many domestic companies to recapitalize their balance sheets with low cost debt and translate the cost savings into increased earnings. Individuals have been able to do the same, which for many consumers means more spending money. With consumer spending a major contributor to the US economy, this additional spending has also helped companies to increase their earnings. As we have suggested in the past, earnings plus emotion are the principal drivers of stock prices. Right now, both earnings and emotions are favoring US companies.

Falling oil prices is another major factor in US market out-performance. While the price drop has been hard on those foreign economies and companies who are dependent on oil production revenues, it has been a boon for US markets. The US remains a net importer of petroleum products and with oil prices down over 50% since mid-2014, American consumers and businesses are simply paying less for gasoline, diesel, jet fuel, and petrochemicals. Cheaper crude translates into more spending. With nearly 70 percent of the US economy based on consumer spending, the more US consumers spend, the better it is for the economy and corporate earnings.

This is not to suggest that investors should run out and sell their international holdings. On the contrary, it is likely a good time to consider adding to international positions. Emotions have worked against international stocks with some investors selling due to perceived fears that international economies will not continue to recover. Many of these companies have become reasonably priced due to the selling pressure and with international indices pulling back it would seem the sell-off in international stocks due to oil is nearly complete.

It is a well-known phenomenon that the asset class that leads in one year is rarely the one that leads in the next. You will notice in the preceding chart that the Russell 2000 (small cap index) was the best performer in 2013. If you had chased this asset class because of its past performance, you would have been disappointed at the end of 2014.

What does this mean for our client's portfolios? It means it is time to make sure your asset allocation not only meets your needs, but is also properly balanced. Asset allocation models are intended for long term periods and if your portfolio is out of balance due to recent market actions, it might be a good time to rebalance your positions.

In the near term, our current wealth management clients will likely see new moneys first deployed toward the under-weighted international sector. Should money be needed, we will balance the account by first selling the asset classes that are most heavily over-weighted in our model. And, when an asset class becomes significantly over-weighted in relation to our model, we will trim a portion of that asset class and buy the under weighted asset class.

Greg Robinson, President
greg@msinvest.com

Davis Miracle, Vice President
davis@msinvest.com