ClearStone
CAPITAL MANAGEMENT

Market update for March 2015

Thank you so much for choosing ClearStone and for those referrals we have received from existing clients and business associates. We appreciate those that are looking into using ClearStone. We welcome as many interactions as possible.

"Good News is Bad News"

In this update: **New Jobs Data & What This Means To The Market**

New Jobs Data

The U.S. jobs report released on Friday March, 6th showed that the U.S. economy added a higher-than-expected 295,000 jobs during the month of February. This has seemed to stoke fears of a rate hike by the Federal Reserve sooner rather than later. The Dow Jones Industrial average dropped dropped 278.94 points (1.5%) on Friday and the S&P 500 dropped 29.78 (1.4%). Market volatility has continued this week as well with a 135+ point gain in the Dow on Monday followed by a 332 point drop on Tuesday.

It was a case of "good news is bad news" as the addition of jobs to the economy is undoubtedly a good thing. Stocks, bonds and commodities were all down on the news while only a few areas showed gains, such as the U.S. dollar and certain segments of the financial sector. The potential of higher interest rates in the U.S. in combination with Quantitative Easing and other accommodative monetary policies internationally lead to dollar strength and the prospect of higher rates means that, for some financial companies, the amount that they earn on cash deposits rises. Other than those two areas, the selloff was pretty broad based. This is the bad news.

What this means to the market

The good news is that we feel a broad based selloff across all major assets classes is unlikely to continue for any significant length of time. Even Tuesday's sell off in the equity markets came with a drop in longer term U.S. interest rates and a corresponding rise in bond prices.

There may come a time when the prospect of a rate increase threatens to slow the economy and choke off growth, but we don't believe going from 0% to 0.25% or 0.50% on the Feds Fund rate will have that effect. We do expect that rates may rise over the next couple years, although we expect the rise to be moderate and not a spike. Generally, we feel interest rates will not rise dramatically for the following reasons:

1. Although job growth in the February number was a positive surprise, wage growth remains stagnant, increasing just 0.1% in February.
2. Lack of inflationary cost pressures leaves some flexibility for the Fed to be patient on rate increases. Lower gas prices are just one example of this, but an important one.
3. QE in Europe and other monetary policies internationally would tend to strengthen the dollar by itself even without a U.S. rate increase. The earnings of companies that reside in the U.S. but export and sell overseas are negatively impacted by a stronger dollar as those sales in foreign currencies equates to less dollars when those sales are converted back to U.S. currency. We are already starting to hear about downward earnings revisions for U.S. based multinational companies due to currency headwinds. Significant rate increase here in the U.S. would put even more pressure on those companies earnings and potentially threaten U.S. jobs as a result.

Regardless of the speed of rate increases, without significant inflation risks, it's unlikely that a moderate rise in interest rates alone will stall the U.S. economy. That would mean that the market could very well continue to perform decently even if bonds struggle. On the other hand, if one considers the possibility that the economy does not continue to grow sufficiently, the likelihood of the Federal Reserve continuing down a path of higher rates diminishes considerably, which would be a boost for higher quality bonds in our portfolios and provide a hedge against a weaker stock market.

The allocation in our portfolios between stocks and bonds differs for each of our clients and is determined by their goals and their ability to tolerate market swings. We believe we have the appropriate mix for each client based on our understanding of their circumstances but if you have concerns about your specific allocation or your portfolio's volatility, please don't hesitate to reach out to us. We'd be happy to talk about it with you.

Thank You!

We appreciate the trust you have put in ClearStone Capital Management to provide sound and prudent investment advice. We also appreciate those individuals that are considering working with ClearStone and hope these updates provide you with information you find helpful. We would welcome the opportunity to talk to you if you wish to discuss any of these issues in more detail, please contact your Personal Wealth Advisor for a personalized review.

If you are a prospective client or if you wish to forward this to a friend please do so, we welcome the interaction.

If you no longer wish to receive these emails please let us know via email or phone call.

Our main contact information is 866-534-0530 and clearstonecapitalmanagement.com

Sincerely,

Trent Bowers, Jared Stubbs, Curtis Lamb & Michael Robinson
ClearStone Capital Management's Investment Committee

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