Proficient Wealth Counselors, LLC

77 Access Road, Suite 6
Norwood, MA 02062

proficientwealth.com

Phone: 781-278-9488
Toll Free: 877-582-1881
Fax: 781-278-9489

Financial Market Commentary: 1st Quarter 2015

Another Harsh Winter to Start the New Year Yet the Economic Outlook Remains Positive

As a result of record breaking winter weather, the stronger dollar, and lower oil and gas activity, it is expected first quarter earnings and sales forecast to decline compared to the same period a year ago. That said, many multinational companies expect favorable long-term outlooks based on broad strength in the U.S. and signs of a sustainable recovery in Europe. Meanwhile, the stronger dollar reduced the value of profits earned overseas by U.S. companies; at the same time, though, the weakened euro supports Europe's economy by making the region's exports more competitive. Lower oil prices led to significant cuts in exploration programs, while also providing a growth stimulus to consumers and manufacturers around the world.

Despite a weak start to the year, the U.S. economy is poised for faster growth than many foreign-developed economies that are hobbled by debt and disinflation. It is likely the Fed may begin to tighten monetary policy in 2015, while central bankers abroad continue their asset-purchasing programs in an attempt to stimulate their economies. These actions make the medium-to-longer-term outlook for the global economy and stocks somewhat positive.

The United States Economic Recovery is On Track; Not Overheated

Expect the trend to remain on this trajectory as long as credit growth continues to be moderate. The recovery in the US, although already five years old, is starting to take on the typical characteristics of a normal recovery: Banks are providing credit instead of the Fed, business investment is recovering, and consumer spending is regaining its normal momentum. Since the Fed ended its asset purchases in October 2014, commercial banks have continued to create credit through bank loans, thereby ensuring adequate rates of monetary growth. This means there's been a smooth handover of the credit baton to the banking system.

Good News, The ECB Has Adopted a Quantitative Easing Program (QE) in the Eurozone

There is no doubt QE could convert what is currently an anemic recovery in the eurozone to a more vigorous upswing if carried out on a large enough scale and for long enough. The European Central Bank (ECB) finally announced on Jan. 22 that it would adopt quantitative easing (QE) — purchases of sovereign bonds by euro area central banks. The key to success of the plan will depend on its design and implementation. As the Fed found, buying short-term paper is generally a mistake and required an extended program of maturity extension in 2011 and 2012.

Will 2015 Bring Asset Class Performance That Differs From 2014

Recent years have seen an increasingly bifurcated market with U.S. blue-chips pulling away from foreign stocks and commodity-sensitive areas lagging even further behind. Bargains can be hard to come by, though emerging-market equities and emerging-market debt appear possible exceptions to the rule. Broadly speaking, foreign stocks look more attractive than their U.S. counterparts. The U.S. bond market continues its improbable run with yields continuing to scrape bottom amid low inflation and investor demand for perceived safe instruments.

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Risks Remain

The timing of the Fed's decision to raise interest rates, the strength of the U.S. dollar, and geopolitical volatilities may challenge investor sentiment. Strongly-appreciated stock prices may already reflect future growth. Some of the notable trends that helped certain investment sectors last year may not repeat this year: for example, dividend-paying stocks benefited disproportionately from the persistently low interest rate environment. Over $136 billion in dividends was declared for the 30 DJIA components in 2014. Regardless, the momentum of the U.S. economy may sustain markets for an extended period of time.

In 2015, be grateful for slow and steady growth, not leveraged boom-like growth. Cheer for lower, not higher, energy prices. Bear in mind that when low interest rates rise, it will be a sign that normalcy is coming back to economic and financial markets, not that disaster is looming.

Disclosure: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moodys, Fitch, and S&P is Ba1/BB+/BB+ or below.

Equity Performance

Equity Index	Style	YTD Return As of 3/31/2015	1 Year Return As of 3/31/2015	3 Year Return As of 3/31/2015	5 Year Return As of 3/31/2015	10 Year Return As of 3/31/2015
Russell 1000 TR	U.S. Large Cap Stocks	1.59%	12.73%	16.45%	14.73%	8.34%
Russell MidCap TR	U.S. Mid Cap Stocks	3.95%	13.68%	18.10%	16.16%	10.02%
Russell 2000 TR	U.S. Small Cap Stocks	4.32%	8.21%	16.27%	14.57%	8.82%
MSCI EAFE NR	Foreign Develop Stocks	4.88%	-0.92%	9.02%	6.16%	4.95%
MSCI EM NR	Foreign Emerging Stocks	2.24%	0.44%	0.31%	1.75%	8.48%
DJ US Real Estate TR	Real Estate	4.27%	22.00%	13.17%	14.57%	8.34%
Bloomberg Commodity TR	Commodities	-5.94%	-27.04%	-11.52%	-5.71%	-3.56%

Fixed Income Performance

Fixed Income Index	Style	YTD Return As of 3/31/2015	1 Year Return As of 3/31/2015	3 Year Return As of 3/31/2015	5 Year Return As of 3/31/2015	10 Year Return As of 3/31/2015
BarClays US Aggregate Bond TR	U.S. Core Bonds	1.61%	5.72%	3.10%	4.41%	4.93%
BarClays US Corporate High Yield Bond TR	U.S. High Yield Bonds	2.52%	2.00%	7.46%	8.59%	8.18%
BarClays Global Aggregate Bond TR	Foreign Developed Bonds	-1.92%	-3.66%	-0.21%	2.31%	3.61%
Morningstar Emerging Market Bond	Foreign Emerging Bonds	2.25%	3.04%	4.07%	5.34%	7.23%
CitiGroup 3-Month T-Bill	Cash	0.01%	0.03%	0.05%	0.07%	1.41%

Source: Morningstar®

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