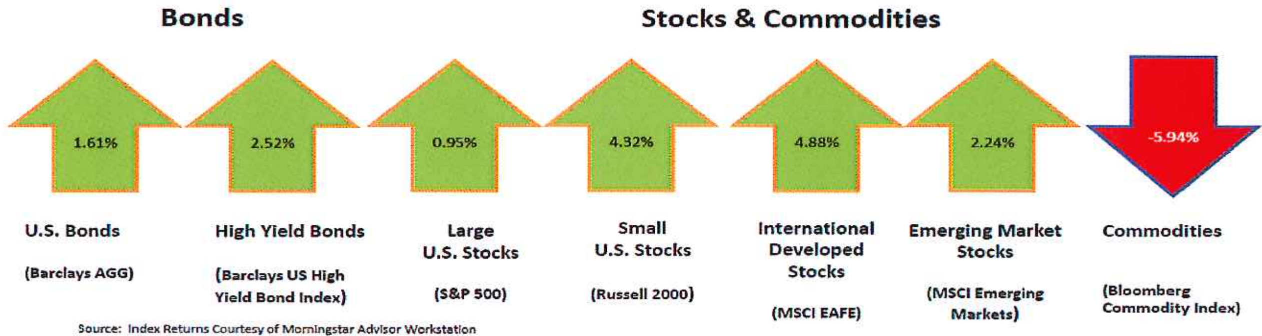
Braver® | Wealth Management, LLC

First Quarter 2015 Economic & Market Summary – April 22, 2015

2015 started off positively, with only commodities experiencing a negative first quarter. However, there was significant volatility in January and March as the rally in the U.S. dollar spooked investors.



The Four Legged Stool – Will Any of the Legs Break?

Despite the positive outcome for most asset classes in the first quarter, the headline noise came fast and furious. Four major issues grabbed investor attention – the U.S. dollar, oil prices, interest rates and global economic activity. It is important for investors to understand these issues as they will influence the direction of the global markets for the balance of the year.

1. U.S. Dollar Strength

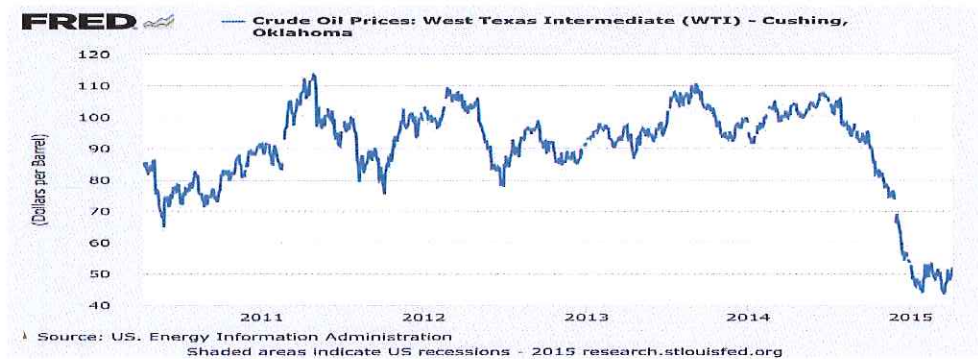
The dollar rallied strongly due to the strength of our domestic economy relative to the rest of the globe. Investors may recall that back in the 2008/2009 recession, many global market strategists were forecasting the end of the greenback. But once again, the U.S. economy proved that it is the most resilient in the world. The dollar is strengthening against most global currencies due to the stronger domestic economy and our Federal Reserve removing the Quantitative Easing program last fall and recently signaling a move towards higher interest rates. This comes at a time when the rest of the globe is just initiating their own "QE" as international economies continue to struggle. Europe and Japan in particular are adding significant liquidity. The chart below illustrates the Euro's recent selloff relative to the U.S. Dollar.

The strong U.S. dollar is good for U.S. consumers buying foreign goods or traveling overseas. However, it is not necessarily good for the S&P 500 index dominated by U.S. multi-national conglomerates. These companies generate a significant percentage of their sales oveseas and the strong dollar makes our products less competitive relative to local products. In addition, when foreign-generated revenues are coverted back to U.S. dollars, they are worth less due to the high conversion rates. This is hurting U.S. corporate earnings and S&P 500 earnings projections are expected to decline in 2015 as a result of the strong dollar.

117 Kendrick Street, Suite 800, Needham, MA 02494 T617.969.0223 F617.969.0224 www.braverwealth.com

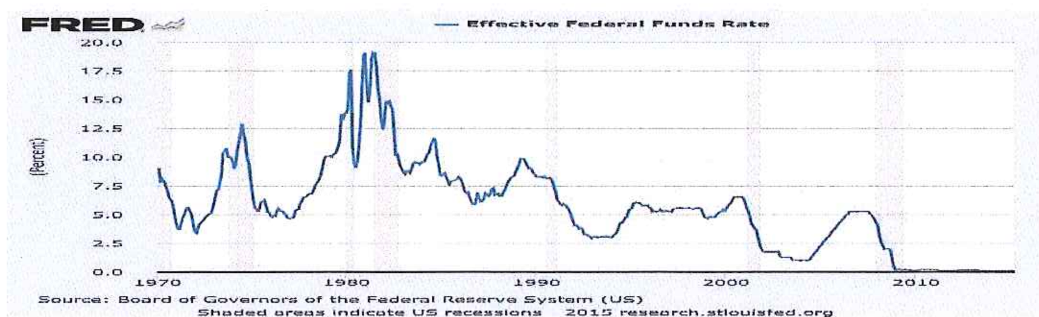
2. Plummeting Oil Prices

Last year we watched gasoline prices at the pump fall significantly. Consumers are reaping the rewards of falling oil prices and are increasing spending in other areas which can benefit economies around the globe. However, falling crude prices are not all good news. Corporate revenue and earnings in the energy sector (representing 11% of the S&P 500 index) continue to suffer and this is hurting global economies and businesses dependent on this sector. Collateral damage is spilling over to related sectors like industrials (representing 13% of the S&P 500 index) as companies depend on the energy sector for their sales. It will be helpful for global economies and the finanical markets to see the recent price stabilization continue (see chart below).



3. The Federal Reserve Bank and Interest Rates

The "Fed watch" is back! For investment professionals, watching the Federal Reserve Bank's actions related to interest rates is an important element of investing - as the old adage goes, 'don't fight the Fed'. When the Fed is injecting liquidity by lowering interest rates, this tends to be good for financial markets (consider the last six years!). Back in 2008, the Fed under Chairman Bernanke took unprecedented steps to lower interest rates to stem the financial crisis. It worked very well (at least for now) and the U.S. economy is strong relative to the rest of the world, exhibiting solid GDP growth, declining unemployment, strong corporate earnings and a recovering real estate market. These positive fundamentals in the U.S. economy no longer warrant the unprecedented low interest rates and the Fed needs to 'normalize' interest rates. The chart below shows the history of the Federal Funds Rate since 1970.



Chairman Janet Yellen is walking an extreme tightrope. U.S. economic fundamentals clearly warrant higher interest rates (or stated differently, they don't warrant 0% rates!). The world economies, however, may suffer from higher U.S. interest rates as this may slow economic growth while strengthening the dollar further. Europe and Japan are just now injecting liquidity into their economies and higher rates by the Fed could slow their efforts. On the other hand, if the Fed doesn't begin to normalize rates, they risk creating other financial asset bubbles (stock, bond and real estate) and accelerating inflation in the U.S. The inflation risk seems very low at the moment but inflation can be difficult to predict. U.S. banks, at the core of the 2008 financial crisis, did a great job improving their operations and are now in reasonably good financial shape. However, banks struggle with low interest rates as this reduces the profitability of loans. Finally, 2016 is an election year and although

the Fed is independent of politics, history has shown that the Fed does not like to raise interest rates and potentially risk a slowing economy during a presidential cycle.

The Fed watch has been confusing at best as investors these days are hearing conflicting comments from different Federal Reserve Governors. I believe the Fed should just set their course and execute. In my view, they are likely to make a move to higher rates sometime in the June to December timeframe. The direction of interest rates is more important than the exact date of the move. The Fed watch will continue to add volatility to the financial markets but in the end, the rate increases are likely to be modest and gradual. Let's get the 'normalization' going to provide needed clarity to the global economies.

4. Global Economic Growth

The fourth leg of the stool is the international environment, which remains unstable and challenging. Here at home, domestic economic growth slowed in the first quarter but many strategists believe that was a weather related slowdown given the significant snowfall. The U.S. economy will need to demonstrate a resumption of growth in the second quarter or corporate earnings could suffer a slowdown not yet priced into the markets. Europe is enacting their own form of QE, seeking to stimulate their stalled economy and Greece continues to hang on the verge of bankruptcy and/or potential expulsion from the European Union. Japan is stimulating their sluggish economy. China continues to slow and exhibit their worst economic growth in years (around 7%) while investors continue to worry about real estate bubbles in that country. Oil price declines don't bode well for oil dependent nations such as Saudi Arabia and Russia. These many global challenges pose significant risks and overseas economic activity needs to accelerate for global equity markets to advance longer term.

Outlook

Despite the issues listed above, global markets have continued their upward trajectory and this may continue because liquidity remains very strong and most economies are using monetary levers to aid economic activity. Only the U.S. is anticipating higher interest rates but this should be very gradual. As I pointed out in my fourth quarter letter, diversification globally continues to be important. Although U.S. markets led the charge over the past six years, global markets outperformed the U.S. during the first quarter of 2015. The markets love liquidity and certainly Europe, Japan and even China are likely to continue their quantitative easing while the U.S. slows its liquidity support. The chart below shows the strength of international equity markets vs. the U.S. S&P 500 index) over the past quarter. International equity markets are anticipating that the liquidity being injected into international economies will result in stronger growth in the future.

Source: StockCharts.com

Braver Wealth News

We are pleased to announce that we added two new employees during Q1:

Brian Durkin joined our team as Chief Compliance Officer. Brian has over 20 years of experience in the financial services industry, specifically in operations, systems and compliance. Brian's deep knowledge will help in managing our day-to-day business with a serious focus on compliance.

Joel Sciabarrasi joined us as our first Relationship Manager Associate. Joel is a 2012 graduate of the University of Maryland. He is working closely with our relationship management team to ensure we continue to provide superior client service. His enthusiasm and strong work ethic make him a valuable team member.

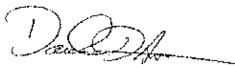
As far as media coverage, Debbie Levenson was quoted in the Boston Sunday Globe on January 11th in an article on financial planning activities individuals should take care of every year.

We are pleased to announce that we plan to hold another Shredding Day Event for our clients this June. Last year's event had a strong turnout and very positive feedback. Stay tuned for date and time.

Finally, our ADV 2-A/2-B (which contains our privacy notice) is enclosed in this mailing per SEC rules.

After a long winter, I am happy to end this letter by wishing you all a happy and warm spring!

Sincerely,



David J. D'Amico, CFA
President

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Braver Wealth Management, LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Braver Wealth Management, LLC. Please remember to contact Braver Wealth Management, LLC, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Braver Wealth Management, LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Braver Wealth Management, LLC's current written disclosure statement discussing our advisory services and fees continues to remain available upon request.