HBK Wealth Management
Haire · Bohmer · Kilcoyne

WEEKLY ECONOMIC COMMENTARY

This Week's Economic Review and Outlook

May 2014

Our roads to success may have twists and turns and ups and downs; together we can navigate a course and enjoy the scenery along the way.

David Haire
HBK Wealth Management
President
9075 Centre Pointe Dr.
Suite 100
West Chester, OH 45069
513-942-9700
Fax: 513-942-9701
d.haire@hbkwealthmanagement.com
www.hbkwealthmanagement.com

In This Issue

Weekly Economic Commentary | Week of May 19, 2014

Highlights

- We do not think the first quarter GDP report will be a harbinger of a recession in the near future.
- We continue to believe the U.S. economy will accelerate in 2014 (relative to 2013), and that GDP will increase 3.0% for the year.
- The LEI indicates that the risk of recession in the next 12 months is negligible at 4%, but not zero.

Snapback

As we expected, the economic data released over the past six weeks or so suggest that the U.S. economy has snapped back in the second quarter of 2014, after a run of unusually harsh winter weather in the eastern half of the country severely curtailed economic activity in the first quarter. Economic growth -- as measured by real (inflation-adjusted) gross domestic product (GDP) -- was reported at just +0.1% in the first quarter of 2014, but data released since then (for February and March 2014) suggest that first quarter GDP growth may be revised significantly lower when an updated first quarter GDP report is released at the end of May. In fact, the data now suggest that the U.S. economy likely contracted in the first quarter of 2014.

Ten Indicators of the LEI

- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers' new orders, consumer goods and materials
- ISM Index of New Orders
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders
- Building permits, new private housing units
- Stock prices, 500 common stocks
- Leading Credit Index™
- Interest rate spread, 10-year Treasury bonds less federal funds
- Average consumer expectations for business conditions

Recession Watch?

Could the first quarter GDP report be a harbinger of a recession? We do not think so, and our view remains that the economy will accelerate in 2014 (relative to 2013), and that GDP may increase 3.0% for the year.* In the May 12, 2014 *Weekly Market Commentary: The Best Indicator May Be a Long Way From Signaling the Start of a Bear Market*, we discussed the yield curve and its usefulness as an indicator in equity bear markets and recessions. The yield curve, defined as the difference in yield between the 10-year Treasury note and the three month T-bill, is one of the 10 components of the Index of Leading Economic Indicators (LEI). However, the Conference Board -- the private sector think tank that compiles the LEI -- uses the federal funds rate instead of the three month T-bill. (See the nearby box for all the components of the LEI.)

The April LEI is due out on Thursday, May 22, 2014. The consensus of economists as surveyed by Bloomberg News expects that the LEI may have increased by 0.4% between March and April 2014, another signal that the economy rebounded in the second quarter after the harsh winter constrained Q1 growth.

Have You Seen the LEI Lately?

If you have not seen the LEI lately, several components have been changed. However, as before, virtually all of the components of the LEI are known before the report is actually released, so in theory, the LEI itself should not be a surprise to market participants, the media, or pundits. Of course, that will not prevent anyone from ascribing movement in financial markets on Thursday, May 22 to the LEI data, even though the S&P 500 Index itself is a component in the LEI.

In December 2011, the Conference Board made three changes to the LEI:

- The Conference Board's proprietary Leading Credit Index (LCI), an aggregate of several well-known financial market and credit market metrics like swap spreads, investor sentiment, margin accounts, etc., replaced the inflation-adjusted M2 money supply.
- The Institute for Supply Management's (ISM) New Order Index replaced the ISM's Supplier Delivery Index.
- The U.S. Department of Census' new orders for nondefense capital goods excluding aircraft replaced new orders for nondefense capital goods.

1 Facts and Feelings on the Economy Have Met in the Middle After Decoupling in 2011 and 2012

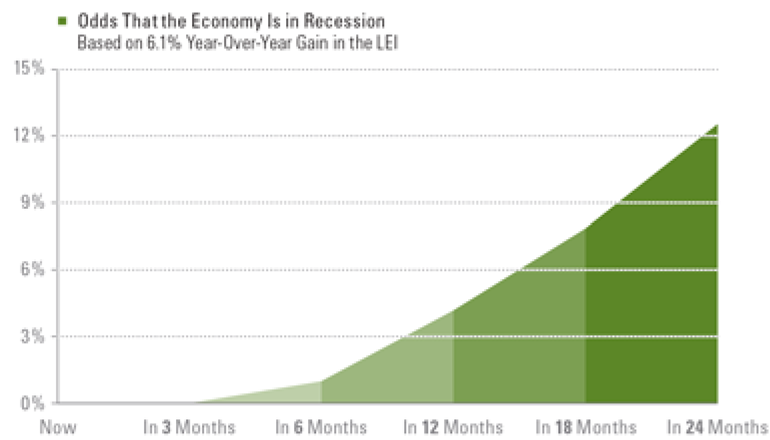
Source: LPL Financial Research, Bloomberg, Standard & Poor's 05/19/14

LEI Places Very Low Odds of Recession in Next 12 Months

In the 12 months ending in March 2014, the LEI increased 6.1%. The LEI is designed to predict the future path of the economy, with a lead time of between six and 12 months. Since 1960 -- 651 months, or 54 years and three months -- the year-over-year increase in the LEI has been at least 6.1% in 191 months. Not surprisingly, the U.S. economy was not in recession in any of those 191 months. Thus, it is highly unlikely that the economy was in recession in March 2014, despite the likely below-zero reading on real GDP in the first quarter of 2014.

But the LEI is designed to tell market participants what will likely happen to the U.S. economy, not what has already happened. Over the last 60 years, the economy has been in recession 7 times for a total of 91 months, or 14% of the time, but at 6.1%, the year-over-year gain on the LEI through March 2014 suggests that the odds of recession in the next year are very very low. Three months after each of the 191 months that the LEI was up 6.1% or more, the economy has never been in recession. Six months after the LEI was up by 6.1% or more, the United States economy has been in recession in just two of the 191 months, or 1% of the time. Looking out 12 months after the LEI was up 6.1% or more, the economy was in recession in just eight of the 191 months, or 4% of the time. Looking out 18-24 months after the LEI is up 6.1% or more, the odds of a recession increase to between 5% and 15%.

2 LEI Continues to Suggest Very Low Odds of a Recession in Next Two Years



Source: LPL Financial Research, Conference Board, Bureau of Economic Analysis 05/19/14

On balance, the LEI report this month may say the risk of recession in the next 12 month is negligible at 4%, but not zero. We would agree. A dramatic deterioration of the fiscal and financial situation in Europe, a fiscal or monetary policy mistake in the United States or abroad, or an exogenous event (a major terror attack, natural disaster, etc.), among other events, may cause us to change our view that the odds of a recession in the United States remain low. But for now, based on the LEI, it looks like we are still in the middle of the economic cycle that began in June 2009.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

**As noted in our Outlook 2014: The Investor's Almanac, our GDP forecast is based upon many of the drags of 2013 fading, including U.S. tax increases and spending cuts, the European recession, and accelerating growth from addition hiring and capital spending by businesses.*

INDEX DESCRIPTIONS

The index of leading economic indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

The Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Weekly Market Commentary | Week of May 19, 2014

Highlights

If Godzilla-sized quantitative easing aligns with a fading impact from recent tax hikes, increasing political support for corporate tax cuts, and a push by government pension funds into stocks, it may mean a blockbuster summer for Japanese stocks.

Japan Going Godzilla

Godzilla, the latest version of Japan's King of Monsters, took the top spot at the box office this past weekend. But Japan's stock market looks like a giant mutated lizard stomped all over it. One of the worst-performing stock markets in the world this year, Japan's Nikkei Stock Average is down 13% in yen and 10% measured in dollars. The drop has been enough to push down the forward price-to-earnings ratio for companies in the MSCI Japan Index to a rare discount to the U.S. S&P 500 Index.

Yet Japan's economy is finally growing. First quarter 2014 economic growth in Japan was a strong 5.9% above the prior quarter and 3.0% above the year-ago quarter, according to data released last week. It marked the fifth straight quarter of growth -- a streak not exceeded since before the 2008-09 global recession. The quarter's growth was boosted by spending ahead of a consumption tax increase, which could be largely reversed in the second quarter. Nevertheless, the consensus of economists tracked by Bloomberg expects second half gross domestic product (GDP) growth to maintain a 1.5-2.0% pace.

Why has growth returned to Japan? Japan has struggled with growth for many years and began to experiment over a decade ago with now widely adopted stimulus measures including a zero interest rate policy and quantitative easing (QE). The latest aggressive round of QE, enacted over the past year, has finally worked. Economic growth has returned, and inflation has risen to near 2% after averaging zero for the past 20 years. How big is Japan's QE to drive this turnaround? Godzilla-sized. Not 1954's Godzilla, but 2014's Godzilla. As you can see in Figure 1, growth in Japan's monetary base has been proportional to the growing size of Godzilla as he appeared in various films over the past 50 years, culminating in 2014's towering monster.

Please click here for the "Godzilla-Sized Stimulus" infographic.

The first round of QE in Japan took place over a four-year period, starting March 2001 and ending December 2004, and grew the monetary base from 66 trillion yen to 112 trillion. The second round came in 2010 and 2011, but the monetary base did not materially expand again until April 2013, when the current program was implemented. With the monetary base at 150 trillion yen, the Bank of Japan (BOJ) announced that it would expand the program aggressively. Now, about a year after it began, it has grown to 222 trillion yen.

To put the amount of QE Japan is doing in perspective, we can look at it relative to the United States. The U.S. Federal Reserve has tapered its QE program from $85 billion per month to $45 billion per month this year, but at the full $85 billion per month, QE was running about $1 trillion per year. While the BOJ's QE has a dollar equivalent of roughly $70 billion per month, its economy is only about one-third that of the U.S. economy. As a result, Japan's QE relative to the size of the economy would be the United States equivalent of a staggering $2.2 trillion per year. The same program is targeted to grow the monetary base to 270 trillion yen by the end of 2014.

The correction this year in the Nikkei has led to a year-over-year decline for the index. Removing the powerful lift to consumer spending from rising stock market wealth that was present over the past year poses a risk to continued economic growth in the face of tax increases. Also, Japan's bank stocks -- main beneficiaries of QE -- and leading indicators, have declined sharply over the past year. This combination may diminish policymakers' confidence in their optimistic growth outlook, and to ensure growth continues, the BOJ may announce an extension of QE beyond 2014. That announcement could happen on Wednesday of this week at the BOJ meeting, though it may be more likely to come this summer.

A commitment to further growth of QE beyond 2014 could be the key to turning around Japan's stock market. Japan's stock market began to rally powerfully in late 2012 -- ahead of the actual implementation of Godzilla-sized QE in April 2013 -- since the plan to do so was transparent given the election outcome and change in leadership at the BOJ. If the announcement of further growth in QE aligns with a fading impact from recent tax hikes, increasing political support for corporate tax cuts, and a push by government pension funds into stocks, it may mean a blockbuster summer for Japanese stocks.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock and mutual fund investing involves risk including loss of principal.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Investors should be aware of additional risks before investing in Japanese stocks including geographic risk, lack of natural resources risk, economic risk and currency exchange rate risk.

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nikkei Index is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the U.S. In fact, it was called the Nikkei Dow Jones Stock Average from 1975 to 1985.

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit

Tracking #1-274287 (Exp. 05/15)

Bequest or Beneficiary Designation: An Important Distinction for Estate Planning

It is important to ensure coordination between your beneficiary-designated assets and the disposition of property spelled out in your will.

The scenario plays out over and over again in attorneys' offices: A family brings a parent's will to be probated. The will is complete, well thought out, and takes into consideration current tax law. But under closer examination, the attorney discovers that the deceased's estate plan doesn't work. Why? Because a substantial portion of the parent's assets pass by beneficiary designation and are not controlled by a will.

Increasingly, investors have the opportunity to name beneficiaries directly on a wide range of financial accounts, including employer-sponsored retirement savings plans, IRAs, brokerage and bank accounts, insurance policies, U.S. savings bonds, mutual funds, and individual stocks and bonds.

The upside of these arrangements is that when the account holder dies, the monies go directly to the beneficiary named on the account, bypassing the sometimes lengthy and costly probate process. The "fatal flaw" of beneficiary-designated assets is that because they are not considered probate assets, they pass "under the radar screen" and trump the directions spelled out in a will. This all too often leads to unintended consequences -- individuals who you no longer wish to inherit property do, some individuals receive more than you intended, some receive less, and ultimately, there may not be enough money available to fund the bequests you laid out in your will.

Unnamed or Lapsed Beneficiaries

Not naming beneficiaries or failing to update forms if a beneficiary dies can have its own unintended repercussions, which can be particularly damaging in the case of retirement accounts. For instance, if the beneficiary of an IRA is a spouse and he or she predeceases the account holder and no contingent (second in line) beneficiary(ies) are named, when the account holder dies, the IRA typically would pass to the estate instead of the children directly as the account holder likely would have preferred. This not only would generate a tax bill for the children, it would also prevent them from stretching IRA distributions out over their lifetime.

Planning Priorities

Given these very real consequences, it is important to work with an estate planning professional to ensure coordination between your beneficiary-designated assets and the disposition of property as it is spelled out in your will.

You should also review your beneficiary designations on a regular basis -- at least every few years -- and/or when certain life events occur, such as the birth of a child, the death of a loved one, a divorce or a marriage, and update them, as necessary, in accordance with your wishes.

This information is not intended as legal or tax advice and should not be treated as such. You should contact your estate planning and/or tax professional to discuss your personal situation.

1-273884

Consider speaking to your parents' primary care physician, or bring in a geriatric care manager, who can help you assess the mental clarity of your loved ones.

How to Protect Your Parents From Financial Scams

Senior citizens are routinely targeted by disreputable telemarketers, investment brokers, and charitable agencies, among others. One study estimated the financial losses by victims of elder abuse at $2.9 billion annually.[1] Another estimated the losses experienced by senior victims of financial abuse to be, on average, $50,000 per person.[2]

What can you do to help your parents or other elderly loved ones avoid becoming the victim of a scam or losing control of their finances? Below are some tips.

- **Look for clues.** Are your parents having a hard time managing their finances? Have they stopped paying their bills? Are they overextending themselves with purchases or charitable contributions? Talk to your parents about their situation. Let them know that you are willing to help them maintain a certain level of independence, but that they may need assistance.
- **Get a second opinion.** Consider speaking to their primary care physician, or bring in a geriatric care manager, who can help you assess the mental clarity of your loved ones. You can find a local care manager at the National Association of Professional Care Managers or at Eldercare Locator.
- **Assess their finances.** Go through your parents' tax records, bank and investment statements, and credit card accounts. Be sure you have their account numbers and online passwords and keep a record. If they have a financial advisor, set up a meeting. Check over their investments. Are they suitable for them or do they need rebalancing?
- **Bring in additional family members, if necessary, and set up a plan.** Consider getting a durable power of attorney, which would allow you (or someone else) to make financial decisions for them if they can no longer do so. Check to see that your parents have a will and that it has been updated to meet all of their wishes. Also determine if they have a health care proxy or life insurance policies.

If you do take over your parents' finances, be aware of the following:

- If you co-sign for a loan or credit card, you become responsible for paying it off if your parents cannot or if they die. Instead, ask your parents to grant you third-party access to their accounts. You could even arrange to have an alert sent to you if their charges go above a certain amount.

- Instead of opening a joint bank account, consider having a joint signature on the account. Doing so will enable you to sign checks to pay their bills, but the account remains in their names. You can also request to have alerts sent to you if there are any lapses in payments.

[1]*Source: MetLife, "The MetLife Study of Elder Financial Abuse," June 2011.*

[2]*Source: Certified Financial Planner Board of Standards, "2012 Senior Americans Financial Exploitation Study," August 2012.*

1-273885