

**RAYMOND JAMES
THE BIG PICTURE
2014**

THE CRYSTAL BALL STAYS HALF FULL

THIS IS STILL THE TIME TO BE INVESTED IN GLOBAL EQUITIES. The majority of recent gains in stocks has been driven by earnings multiples (P/E) expansion. It has been sentiment and central bank money creation that has driven many indices to all time highs. This newly printed financial fuel is expected to continue being produced, though perhaps at more reduced rates, for awhile. Besides “talk” (forward guidance), it’s the only tool that could still be increased in the event of an economic relapse or an unforeseen market panic (“black swan event”). Lowering interest rates has been exhausted.

GARY SHILLER (Yale professor and 2013 Nobel Prize winner) has devised a price earnings measurement using an average of the last ten years’ S&P earnings, adjusted for inflation. Its average P/E has been 16x over the years. To the point, it’s currently about 25x those calculated average decade profits. At 28x, the market is fully priced. At 29x, major market declines have often been experienced. Historically, December 1972 & August 1987 were market highs, and Shiller’s P/E’s at those times were close to today’s level. However, by March 2000, “irrational exuberance” drove the multiple to an all time high of 44x. The low has been 4.8x.¹ Draw downs from market peaks can be 50% or more (as we know).

BUT FOR NOW, our new Federal Reserve chiefs have committed to “whatever it takes” to keep the economy growing. The only “whatever” left is more money creation. So far, the Fed has created \$4 Trillion, or about ¼ of the size of the Fed debt. Half of that \$4T has bought bad mortgages off the big bank balance sheets, & the other half has helped fund the Federal government deficit by purchasing treasuries. And so far, inflation as it is calculated *today*, shows little to be concerned about at 1-2% or even less globally. Real inflation, as calculated in the 1970’s, would be closer to 6-8% (according to shadowstats.com).

THE TARGET OF THIS “BIG PRINT” is to bring “unemployment” down to 6 ½% or less, as long as inflation doesn’t go above 2 ½%. The way

“unemployment” is calculated today, if you haven’t looked for a job for 1 month, you’re not “unemployed”. If you have been out of work over a year, you’re not counted either. The one month variety is now over 14% and the one year at 23%. As more people give up looking for work, the better (lower) the unemployment number reads². Clever...and then consider who’s counting the numbers anyway, especially around election time.

SO WHAT’S REAL

YOU COULD SELL MOST STOCKS at the end of 2013 for higher prices than at the end of 2012. It’s boosted the “wealth effect”. Those who own equities feel richer and hopefully will increase spending. This spending in turn creates more jobs, and so the trickle down/confidence further lifts our spirits and spending. Shall we continue to go with this flow in hopes that irrational exuberance & another bubble will benefit the effects of our wealth positively? Certainty, with at least a portion of our liquid reserves. We’ll ride the money creation wave.

WHAT ELSE IS AN INVESTOR TO DO?

BONDS go down when interest rates go up. We all just got that in 2013. From mid-2012, the 10 year treasury interest rate began increasing from a floor of 1.4% to more than double 18 months later (up a big 100%). At least until closer to maturity, “used” (already issued) long term bonds adjust downward. They move back to par (\$1000) at maturity. If rates are expected to increase again over the next year as the central banks allow long term rates to rise to more normal levels, that means whatever we have in bonds will likely not work too well for us. That’s especially true in funds that have no definite maturity (at par) for all the bonds on a given date.

CASH we know yields ZIRP (zero interest rate policy). When calculating inflation at 2% or even 8%, we’re going behind in purchasing power. We get that too. That’s having two of four or five typical liquid investment asset classes not currently working for us. That leaves us with stocks, real estate & perhaps the “alternative asset” class of commodities to do any lifting. So, let’s discuss where these residual asset classes are and where these might be headed.

STOCKS are nearing full historic pricing. One well known Wall Street firm released its 2014 projection for 8% equity appreciation by year end, interrupted by a 10% decline during the next 12 months, all this

with a 2/3 (67%) probability. So what else do we need to know? That seems to be the consensus of most market strategists and forecasters for 2014. But we realize, that consensus probably won't happen, right?

A MELT UP is certainly another probability. This is defined as a sustained move of *over 500 days*, without a 10% correction. We've had seven melt up periods in the last 70 years. The longest was from 1990-1997 with **1767** up days without a 10% correction. The smallest qualifier was **510** days from 1953-55. We're now at some **550** days and counting as we move into 2014.³

WHAT COULD CAUSE ANOTHER MORE EXTENDED MELT UP? The "useless cash" and "losing bonds" could create what's starting to become the *great rotation* out of bonds and cash into stocks. If investor confidence (sentiment) continues to be positive, this can happen. With about \$17 trillion in US stocks, \$70 trillion in global bonds & over \$10 trillion in domestic cash hoards, we can see the potential for the "big rollover". If we add part of each of the latter to the \$17T in stocks, we can hand calculate what might happen. It's anybody's guess how much could rotate into equities.

MELT DOWNS ideally must be avoided, as it can take years to rebuild investor confidence & for cash to "try again to rotate" into stocks and for the stock market to climb back to new highs. It took 5 years this go around, and closer to four after the 2000-02 decline. Could we have another such a surprise EVENT? Of course. And money doesn't just roll back into the cash & bond portfolio in a panic sell off. Stock bids just evaporate/disappear & total net worth decreases. If we knew when and by how much, we could plan accordingly. Alternatively...

DIVERSIFICATION remains essential. The manager of the largest & very successful fund, Ray Dalio, very deliberately advises investors that the outcomes of central bank money printing experiment to fight off disinflation/depression are unknown. He strongly advises continued diversification over the 4-5 major asset classes, and cash remains one of those classes.

GOLD & COMMODITIES ARE ALSO INCLUDED. After a profitable 12 year run from \$255/oz to over \$1900,

GOLD was probably due for a correction or a down year at some point. And that it did get for 2013, off over a quarter, and over a third from its peak in 2012. Gold shares, on the other hand, are down closer to 80% on average from the 2011 peak.

DECLINES OF THIS PERCENTAGE MAGNITUDE for gold are not unprecedented. In the 1970's, gold went from \$35 to \$850, but on its way, declined 43% before its last move up...8 fold. Historically, gold has bear markets of 20 years and bull markets of 30 years, says Bert Dohmen. At our LA Conference this last fall, Bert said he's researched gold prices back centuries. The latest bear market was exactly 20 years...1981 (\$850), to 2001 (\$255). Now he projects, we should be about 40% thru the next 30 year bull market, but with at least one possible 50% correction. It was only down 43% in 1978 before the last big 8x up move; and so far, about 37% this go around for 2012/13.²

BORN IN GERMANY, Bert said his childhood home town was 94% bombed out, and the family cash savings became worthless unwanted by others. But his Dad had stored silver coins & could "bring home the bacon" right on time. Bartering was the means of surviving. His coins were a "life bread" store of value & medium of exchange. As global central banks expanded currencies at a 28% rate in 2013, gold mining only produced a 1% increase to that 5,000 year old cumulative currency stock pile.² It can't be printed.

THE FEDERAL RESERVE NOTES are now 100 years old (established 1913). In that time period, this currency has lost over 97% of purchasing value. Few if any currencies have lasted more than a century. I do expect the dollar to be around awhile longer. There is yet no substitute for a single full time reserve currency. But we can diversify, especially to currency of countries that have resources (i.e. oil) and don't need to import energy. If these countries can also export energy, all the better. But for now, the dollar remains *relatively* strong to most other currencies. And the U.S. has started to export some energy.

AMERICA'S GOT IT GOING ON

FRACKING and high technology drilling techniques are developing U.S. oil and gas at unexpected

rates. If oil prices can remain high enough to allow these more expensive techniques to continue, the country should become energy independent in short order. But think of natural gas, from double digit prices/mcf to recently lows of \$3/mcf. This could happen to domestic oil as well!

INDUSTRY, meanwhile, is moving to the U.S. to hook up to this cheap energy. Cheaper labor is still found in Asia and emerging developing countries, but those too are experiencing rising labor costs. The Asian's labor cost advantage is narrowing. Auto manufacturing is reviving here in the U.S. Government over regulation & the highest corporate tax rate are still road blocks and headwinds to more industry coming our way. Get those right and higher paying jobs could quickly be created.

HOUSING IS ALSO IN CATCH UP MODE. The big gain off the bottom prices is already in. Inflation from labor shortages (many immigrating workers have moved back to their country), building materials (wall board from \$4 to \$11/sheet), and rising interest rates will slow down demand. With \$1T in outstanding student loan payments competing for housing payments, we also have a big personal debt drag from the home formation crowd. Marriage is being postponed or reconsidered for some as well. 200 million of us live in 75 million "owned" homes. 100 million live in 40 million rented homes (1/3), and apartments (2/3's). Any of us with young 20-30 year old children or grandchildren, have probably gotten an education on how expensive and difficult it is to be financially on one's own. Meanwhile, 65% of graduates have not gotten jobs in line with their degrees and education.

TECHNOLOGY improvements, decreasing government deficits, banks repairing balance sheets (thanks to savers getting zero interest rates & the Fed buying the banks questionable mortgage bonds), all time high corporate cash and earnings, are all additional positives and reasons for hope over the next few years. The Volker Rule (banks not trading "house money" for their own benefit) should reduce some leveraged risks as well.

DERIVATIVES, especially in credit markets, are still a big surprise "event" potential, however. At over a quadrillion it's hard to comprehend the risk level

now. If one big "counter party" (such as AIG in 2008) says that can't meet obligations or commitments, the domino effect could be overwhelming. Money funds could start "breaking the buck" (redeeming for "less" than \$1.00/share). Five years ago, leaders went to Congress for emergency help and got it. The next time, Congressional agreements may not be so easy to coordinate. And a lot of the "tools" have been used up or are still in play. Putting these positive & negative balances into practice takes investor objectivity & discipline. Here are some thoughts:

GOING FORWARD

CASH & BONDS WILL MOST LIKELY BE PERFORMANCE LAGGARDS. Gold should turn back up, as soon as "the big boys" cover their shorts, or maybe even before. Tax loss selling was a year end 2013 factor. The strength in the dollar, higher interest rates, a rocket stock market, low "official" inflation, even the competitive "Bitcoin" (cyber currency) have been drags to gold's performance. The average investor has given up on this investment class.

AS JOHN TEMPLETON was known to say, "Be a nice guy investor. *Buy* when people want to sell to you; & *sell* when people want to buy from you". I suppose if we think the dollar's long term depreciation will halt (from \$1.00 to 3 cts on that currency over the last century), and reverse direction with all other countries stopping the press as well, then I'd say let's do something else with this portfolio allocation. Meanwhile, I think it is *impossible* for all printing to stop. The financial world would fall apart. We're just in the "sweet spot" for awhile. We need rehab, but we're still in the "do it later" stage. We can print without hyper price inflation, until we can't. So it's "print now, pay later".

STOCKS should work higher until they don't. We can ride with that flow and hope we can get off in time (that's our planned intention). And we can also accumulate high dividend stocks for the *long run*. The cash flow *is real*. We can spend, save, or buy more shares. *The appreciation portion of the total return can be here today, gone tomorrow*. We have observed this twice so far in this new millennium. So let's do both.

MASTER LIMITED PARTNERSHIPS (MLP'S) beat the S&P for 11 years, averaging 20% total return, and still average 6% on dividends. These pipelines and other infrastructures for oil & gas pay out most of the cash flow & rely on debt to finance growth. With higher interest rates, that could raise borrowing costs. But with about 80% of MLP debt at a fixed interest rate, there's not a lot of risk from floating rate leverage. MLP's, however, did well in five of the last six higher interest rate environments over the past twenty years.⁴

OIL & GAS production is increasing and more is flowing thru existing pipelines, with more volume (revenues) for the MLP's. This should mitigate rising interest rates. Contracts for transporting oil and gas have *escalation* clauses, which means these dividends can continue to grow at a 6-8% rate. I'd *avoid* the non pipeline MLP's that take oil and gas price risk. MLP's aren't immune to volatility. From 5/31/04 to 6/30/05 as fed funds increased from 1% to 5.25%, MLP's initially declined 13%, but then the cumulative return index was 42% til that rising rate peaked.³

BOND COUPONS REMAIN CONSTANT, WHILE MLP DIVIDENDS INCREASE. Recently MLP's have declined as anticipation of the Fed's further taper was actively discussed. If we had to pick only one income and growth sector or industry for long term investing, where do you think we could find better comfort? Volatility is everywhere except cash, but that's purchasing power currently is declining by the amount of inflation. Volatility is a price we have to pay for potential real returns, but the dividends are real. Increasing bids and higher stock prices could be here today/gone tomorrow. These accumulated income shares can be used in our "out years". Let's talk about that:

LONG TERM CARE

IT'S THE BIGGEST CONCERN of boomer investors today. I was surprised to hear the result of a survey showing it to be our number one concern, as well it perhaps should.

LTC IS A BIG COST for 70% for those who reach an average of 80 or more. Some recently published numbers from my state of Georgia show nursing home care at \$90,000/yr. Some people tell me it can easily be 50% higher. Assisted living, meanwhile, is about half of that, and in home care about \$21/hr.

Fewer than 200,000 (2% of Georgia's 10 million population) have long term care insurance. Premium costs are high (\$3-\$5,000 annually for late 50's age bracket).

THOSE PREMIUMS CONTINUE TO GO UP the older we get as the few remaining insurers hike their annual premiums in line with higher costs & longer lives. We're now projected to have an average life expectancy 78 years. To be eligible for Medicaid, you will have to *decrease your non exempt assets* to \$2,000, and turn over all but \$50/mo of your social security benefits. Ouch!! Medicaid will pay only about 60% of going nursing home care and doesn't cover any assisted living. After death, medicaid can go after the exempt assets (i.e. home), with some possible temporary protection for surviving spouses.

IN RETIREMENT, sometimes we think about how much it will cost us to live...food, shelter, medical. What's seldom factored in is the possible prolonged stay with others who do our heavy lifting. Since most of us don't have seven kids who stayed in the neighborhood, we have to figure out who's in charge and how they are compensated.

MEDICARE, meanwhile, focuses only on "medically necessary" costs such as doctor visits, hospital stays, and drugs. It may cover a short nursing home stay (i.e. recovery from a fall) or hospice/home care under certain circumstances. Planning ahead for these costs can become a complex matter. My partner, Brad Powell, focuses exclusively on this subject/solution. He says, the longer we wait, the more expensive that solution can become.

NEW YEAR'S RESOLUTIONS

STAY HEALTHIER! "We are what we eat". At Thanksgiving, my wife brought home a flyer from Trader Joe's that advertised its turkeys as "hormone, antibiotic, GMO (genetically modified organism) & gluten **"FREE"**". It got my attention. The FDA just admitted that antibiotics fed to our beef & chicken (turkey) sources may be what's making us resistant to these life saving medicines when we most need them. My "Doc" says, add sugar to that list...he calls it alzheimer's bait. So my wife Marjie and I are going to give this a New Year's try. I made a lot of copies of the Trader Joe's flyer. So far it's been easier to do than I thought. Just have to be more careful when not eating at home.

FREE LUNCH

JOSH, my junior partner, and I are invited to approximately 200 “free lunches” in a given year. And we usually attend. Atlanta’s being the busiest and biggest airport, we get lots of interesting investment type personalities making catered reservations for us right in our comfy office (padded swivel chairs) meeting room. We get to listen and ask questions of some of the “rich & famous” representatives. We meet with hedge groups, bond guys, retirement funding groups, and even long term care solutions types.

WE PROBABLY AGREED ON ABOUT SEVEN PORTFOLIO MANAGERS this year that we kinda think we might like for the long pull. They seem to “get everything in this letter”, as well as our co-authored book (with the likes of Skousen, Maybury, Prechter, Day, Gue, Conrad & others), “The Evergreen Portfolio”. In other words, they’re in agreement with our investment philosophy, approach & outlook!

THESE SEVEN ARE NOT “POLLYANNISH”, infact they are more focused on what might go wrong. We like that type of thinking and have added some of these special thinkers to a “manager of managers” portfolio. We call it the “Power Pack Managers” (PPM for short). My long time (40+ yrs) partner Ron Miller overlays our hedging techniques as well (see our web site www.ipmgatlanta.com & under “Menu of Strategies”). As the market becomes frothy, we start to get more defensive. I like it better like that. I leave the 100% equity investment excitement to those who want to play (risk) using that “buy & hold forever game”. I wish them good luck.

IN CONCLUSION

THE BOOK OF DANIEL (old testament) might be a model for our new direction, except our diet allows for plenty of proteins (but without the manmade chemicals). Daniel could also “read the handwriting on the wall”, & it got him plenty of high level job offers. But I’ll have to agree with Ray Dalio. The complexity (leverage & manipulation) of markets today makes our clairvoyance more difficult.

WE’LL JUST KEEP OUR “EVERGREEN” APPROACH ON COURSE. We’ll also try to eat right, diversify, have the hedge and sell buttons on ready/alert, look for dividends as something we can keep after it’s all said

and done, reduce the bond funds, keep cash & gold just incase, and play along with the money printing game as long as we can. We’ll go with the flow & won’t fight the Fed.

MONEY IS BEING SUPPLIED TO THE MARKET. Reducing the print (tapering) will probably happen for awhile. But under good leadership, with all the new found energy extraction, we could actually have a long term industrial American renaissance ahead (we even got close in 2012). We’re struggling with excessive regulation that can put a lot of emphasis in a misdirection.

MY DAYS are spent talking and listening to interesting people...both investment industry professionals and clients who are well read & informed. It all makes for personally interesting times. I probably hear it all: about Big G listening to our phone and scanning our emails, to medical panels and E-verify deciding who will get jobs. “Bail-ins” could become the new “bail outs” for some of the big banks. And all these topics should be something to think about and perhaps prepare for, just in case. We certainly look forward to our friends’ continued input, as well as free (hopefully, GMO free) & interesting lunches. Come join us if you can this year.

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- 1 John Mauldin & Barrons
- 2 The Wellington Letter
- 3 Jeff Saut, Raymond James & Assoc
- 4 Barrons/Oppenheimer
- 5 Atlanta Constitution

IPMG INVESTMENT MANAGEMENT STRATEGIES

We believe our approach to strategic asset allocation for investors is unique because of our focus on the tactical asset allocation and risk management aspects of portfolio management. Most strategies utilize our Flexible Portfolio Method (FPM) of a **core** holding of strategy related holdings and a **Swing** holding that primarily uses Bull or Bear securities to increase or decrease market exposure in tune with our Technical Market Analysis.

INCOME & GROWTH STRATEGIES

Diversified Income Taxable Plus (DITP): This portion is a diversified allocation among various types of bond funds, both domestic and international as determined by our technical analysis process. Inverse bond funds may be used to hedge against rising interest rates.

Equity Income Portfolios – EIPP, EIPE, PIP: The EIPP (Equity Income Portfolio Plus) strategy is composed of a variety of income producing securities but typically has a 40% to 50% focus on energy and natural resource related securities including pipelines, shipping utilities and Royalty Trusts. The EIPE (Equity Income Plus-ERISA) version reduces the use of MLP's by using various mutual funds that hold MLP's in order to avoid the K-1 reporting. The PIP (Portfolio Income Plus) incorporates individual securities and funds from a very broad spectrum of industries with less emphasis on the energy and natural resource industries and little overlap in the individual securities held. FPM Management Approach.

GROWTH STRATEGIES

Growth Portfolio Plus (GPP): This portfolio strategy normally uses two to eight ETF's to trade Short to Intermediate term opportunities based on our Technical Analysis of broad market and/or sector trends. Both Bull & Bear equity securities are utilized.

Global Opportunity Plus (GOP): This is a multi-cap, multi-style growth strategy that uses research from a variety of sources in the portfolio selection process. This portfolio is global in reach but the primary focus is on domestic companies FPM Management Approach.

Focus List Plus (FLP): This is a growth portfolio that focuses on Raymond James research recommendations including the Analysts Favorites and Best Picks. The FLP typically has 15 to 20 security selections. FPM Management Approach.

International Growth (IEG): The IEG is a portfolio that focuses on international exposure in both developed and emerging markets. Securities representing equities in the international countries and regions are utilized rather than individual international company stocks. FPM Management Approach.

MACRO INVESTMENT TRENDS

Energy/Defense/Resources Plus (EDRP): This strategy is appropriate for investment objectives that seek to respond to opportunities that arise from resource shortages and/or political/economic turmoil in a global perspective. FPM Management Approach.

Global InDe-flation Plus (GIP): This portfolio is structured to respond to inflation or deflation trends guided by the Harry Browne philosophy of having a permanent portfolio that is designed to respond to basis macro trends over the long term. However, we have added the flexibility to be very responsive to the vagaries of macro trends. FPM Management Approach.

Power Pak Managers (PPM): This is a portfolio of a few selected outside investment managers that focus on global macro trends with risk management philosophies. FPM Management Approach.

There is no assurance that any of the Investment Management Strategies offered through IPMG will obtain their respective objectives or that losses will not be experienced. We suggest that investors consider investing in several of our strategies in order to create a balanced Strategic Asset Allocation. Past performance is not indicative of future results.