THE LONG RUN

Reynders, McVeigh Capital Management | January 2015

"They didn't understand it, but like so many unfortunate events in life, just because you don't understand it doesn't mean it isn't so."

~ Lemony Snicket, *The Bad Beginning*

Years of investing have taught us at least one lesson: It is better to predict the direction of change rather than its magnitude. We thought 2014 could be a good year for stocks. It ended up a little better than good as the S&P 500 recorded a 14% increase while the MSCI World Index rose by 5%.

We also thought the U.S. economy would grow a little stronger than it had in previous years, leading to an increase in employment. In fact, it grew faster than we thought, with GDP around 4% for the last three quarters of the year, double its previous rate. Employment proved to be the real surprise to the upside with more private-sector jobs created than in any year since 1997. Millennials (those in the 25- to 34-age group), who we had previously cited as a key to the country's growth, saw their employment grow by the most since 1987.

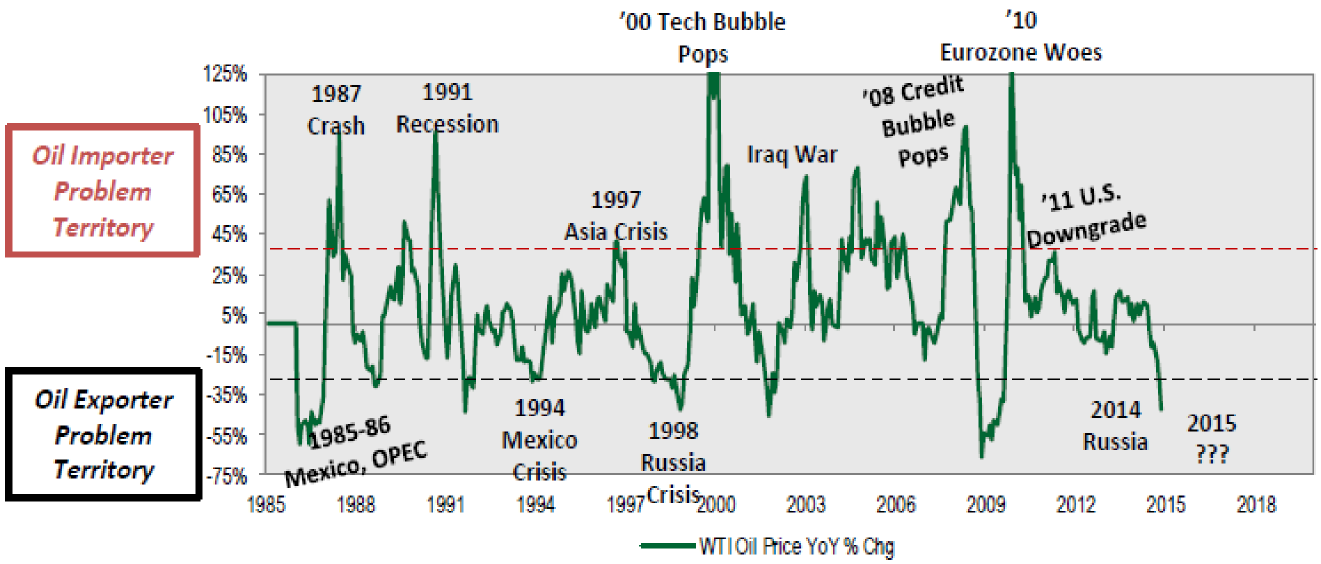
Finally, we had positioned portfolios for a decline in commodity and energy prices due to growing supplies and declining demand. Again, while we were correct in the direction of this trend, we were surprised by the magnitude of the change as oil prices are down nearly 60% from their high of the year, and gasoline prices have declined by $1.75 per gallon. Given all this, it is no wonder that consumer confidence soared, hitting its highest point in eleven years.

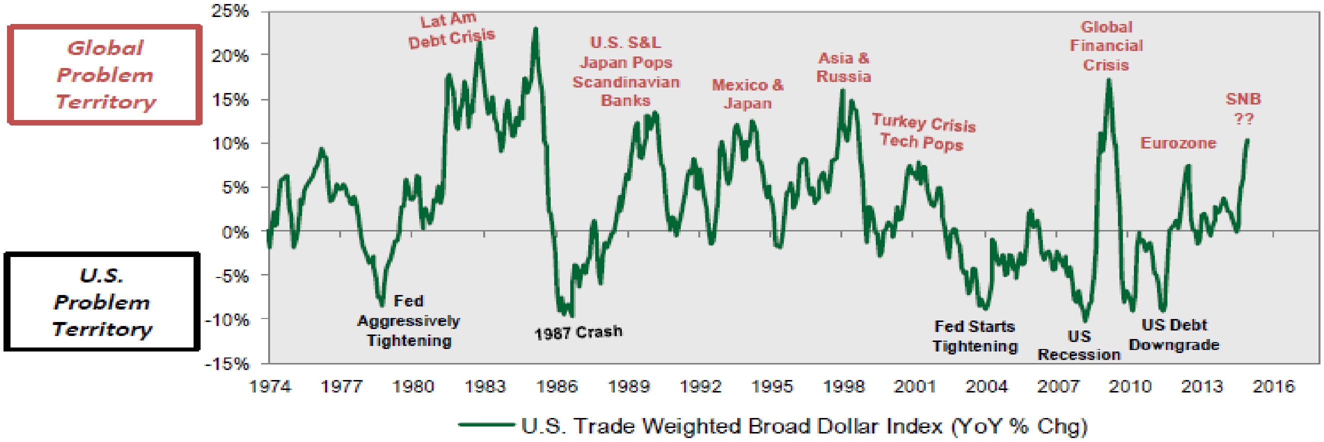
With these positive trends set to continue in 2015, common understanding would be that stocks would again have a good year. Studies have shown that when employment grows, energy falls and the value of the U.S. Dollar goes up, stocks have had positive returns 90% of the time. So our bias remains positive.

Yet, it is what we didn't predict correctly for 2014 and the magnitude of the changes last year that give us some pause as we consider 2015. We incorrectly thought interest rates would increase last year based on an improving U.S. economy. They actually fell, dragged down by slowing growth in nearly every country outside the United States. While the outlook for the U.S. is great, the risk of deflation due to slow growth and high debt outside our country appears greater than we had anticipated. While inflation is still commonly discussed as a risk, deflation, which we find most investors don't fully understand, is a potentially serious threat that we need to consider and guard against.

While the aforementioned positive trends of employment, energy and currency benefit the market 90% of the time, there are a few instances when they haven't. When these changes happen too quickly, economies have a difficult time adjusting and problems can result. There is truth to the adage that you can have too much of a good thing. Lower oil prices are great for the world economy in the long run, but in the short-term, significant drops can lead to financial difficulties for banks and oil-producing regions. This is shown on the first chart on the following page.

The same holds true for rapid changes in the value of currencies. While the U.S. Dollar has gained in value this past year, the Euro, Yen, Ruble and other commodity-related currencies have plummeted. In the 1990s, this led to such unfortunate events as the 1995 Mexican Peso devaluation, the 1997 Asian financial crisis, and the 1998 Russian debt default. Recently, we just experienced the Swiss Franc gaining 30% against the Euro in a single day. The second chart illustrates that rapid moves up in the value of the Dollar have tended to result in economic problems in some parts of the world.





So, while we continue to remain positive on the U.S. economy and think this should lead to a rewarding stock market this year, we have concerns that the magnitude of changes in oil prices and the Dollar could lead to some unforeseen shocks in the world economy. As a result, we expect more volatility in equity markets this year, and will be locking in some of the extraordinary gains won over the last few years as we rebalance portfolios.

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We are very pleased to welcome two talented additions to our firm. Bringing more than 15 years of experience as a researcher, teacher, and investment professional, Carrie Endries joins us in the position of Senior Portfolio Manager and Director of Social Research. Assisting us in building out our financial planning services is Ryan Lowry. She has a law degree from Suffolk University and will have the title of Estate Services and Planning Associate.

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Enclosed, please find a copy of our updated Privacy Policy. If, at any time, you would like a copy of our most recent ADV, please contact our office directly at (617) 226-9999. Or, visit the SEC's Investment Adviser Public Disclosure (IAPD) website at www.adviserinfo.sec.gov. Please do not hesitate to contact us if you have any questions.

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