The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS
ASSET MANAGEMENT

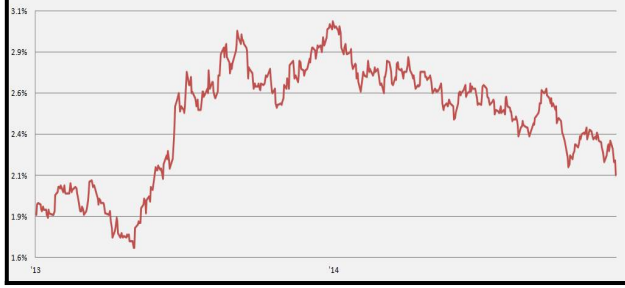
2014 - Issue 51
Week of December 14 - December 20

Tom Quealy, *Chief Executive Officer*
Larry Whistler, CFA, *President/Chief Investment Officer*
Nick Verbanic, *V.P./Portfolio Manager*
Chris Hugar, CFA, *Portfolio Manager*
Matthew Krajna, *Portfolio Manager*
Amy Fogle, *Trading Specialist*

Fixed Income

- Treasury security prices rose last week as equity indices sold off.
- The 10yr Treasury closed at 2.10%.
- The 2/10yr Treasury spread narrowed to 154 bps.
- The 30yr Treasury closed at 2.75%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. was 3.93% last Thursday.

US 10 Year Treasury Yield



Hot Topic: The Selloff in Energy Continues

Last week oil continued its rout, shedding more than -12% and closing below $60 per barrel. West Texas Intermediate (WTI) has now fallen more than -20% since the Organization of the Petroleum Exporting Countries (OPEC) met on Thanksgiving Day, and is down more than -40% since peaking over $100 per barrel in June. At their meeting the cartel announced no new cuts to production, even amongst a global economy awash with supply and facing bearish demand headwinds. OPEC kept its production at 30 million barrels per day, even as U.S. shale production has grown to nearly 9 million barrels per day, from roughly half that five years ago. WTI crude oil now trades below its 2009 lows and has dragged energy stocks down with it, with large-, mid- and small-cap energy stocks losing -16.5%, -29.8%, -42.9% in price return, respectively.

Furthermore, the International Energy Agency (IEA) again cut its demand outlook last week, reducing its projections for 2015 demand growth by 230k barrels per day. Moreover, OPEC's leader Abdalla Salem el-Badri reiterated the cartel does not have a fixed price target for oil and called for member countries to continue investing in exploration and production as prices decline. The fact that there is "no target price" is likely due to the fact many Gulf states such as Saudi Arabia can withstand lower oil prices due to their sizeable global reserves, in order to protect market share in the long term. That market share has been significantly eroded in recent years due to the U.S. fracking boom. However, with global oil prices plummeting, it remains to be seen who the first U.S. shale driller will be to cut production significantly. Large E&P companies will continue to pump oil, while smaller companies may go belly-up due to excessive leverage taken due to historically low interest rates and endless investor demand for high yield debt. According to el-Badri, "if there's no new investments and new supplies to the market, prices will end up over $100." While this scenario may play out at some point, it is likely to take some time for prices to stabilize.

In the mean time, for investors looking to gain passive exposure to the U.S. energy sector, the SPDR Energy Sector ETF (ticker: XLE) is a low cost way to add energy exposure as oil prices continue to fall. While it would be a fool's game to try to "pick the bottom" in oil prices, adding exposure as prices fall should prove beneficial for long-term investors.

This Week's Key Economic Data Releases:

December 15: Industrial production and capacity utilization data will be released.

December 16: Housing starts and building permits data will be released.

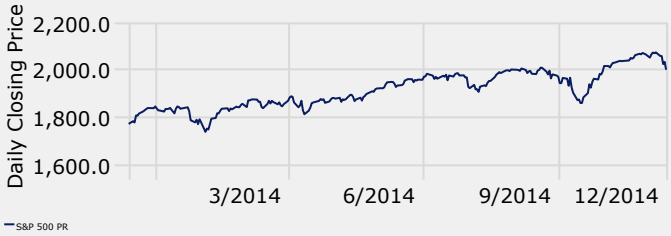
December 17: The latest CPI reading will be released and the FOMC concludes a two-day meeting.

Equities

- Equity markets fell sharply last week, with the benchmark S&P 500 shedding -3.5%, its largest weekly decline since May 2012.
- University of Michigan's Consumer Sentiment reached 93.8, beating estimates for a reading of 89.5, a nearly 8-year high.
- November retail sales rose +0.7% M/M, ahead of +0.4% M/M expectations. ex-Auto's rose +0.5% Y/Y, also ahead of expectations for a +0.1% M/M advance.
- The CBOE Volatility Index, known as the VIX, closed at 21.1.
- S&P 500 (+8.3% YTD): Healthcare leads (+23.5% YTD), while Energy (-16.5% YTD) lags.

S&P 500 – Large Cap

Time Period: 12/13/2013 to 12/12/2014



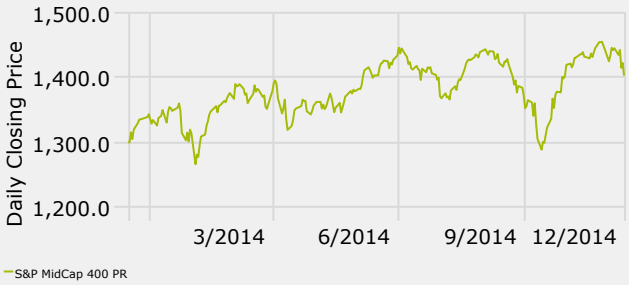
Source: Morningstar Direct

The Nottingham Advisor

Your Weekly Source for Market Information

S&P 400 – Mid Cap

Time Period: 12/14/2013 to 12/12/2014



S&P 400 – Mid Cap

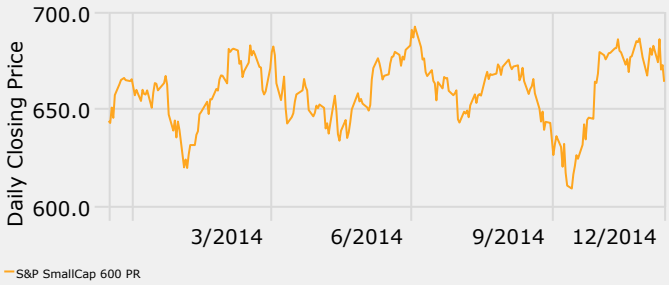
- +5.9% YTD
- Staples (+30.8% YTD) lead the way, while Energy lags (-29.8% YTD).

S&P 600 – Small Cap

- +1.1% YTD
- Utilities (+13.7% YTD) lead, while Energy is the worst performing sector (-42.9% YTD).

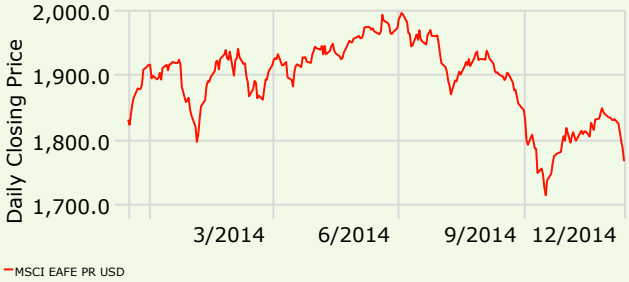
S&P 600 – Small Cap

Time Period: 12/14/2013 to 12/12/2014



MSCI EAFE – Developed International

Time Period: 12/14/2013 to 12/12/2014



MSCI EAFE – Developed International

- German consumer prices rose +0.5% Y/Y in November, in line with expectations.
- Japan's Q3 GDP contracted -1.9% Y/Y, worse than prior estimates.

MSCI EM – Emerging Markets

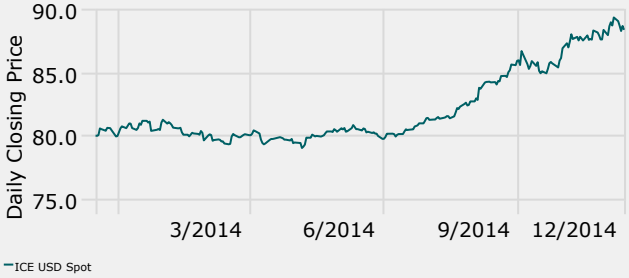
- The selloff in crude oil continues to pummel the Ruble, as the Russian currency continues to make new all-time lows against the U.S. Dollar. The last check was nearly 60.5 Rubles per Dollar, compared with nearly 33 Rubles per Dollar on January 1.

MSCI EM – Emerging Markets

Time Period: 12/14/2013 to 12/12/2014

USD – Dollar

Time Period: 12/14/2013 to 12/12/2014



USD – Dollar

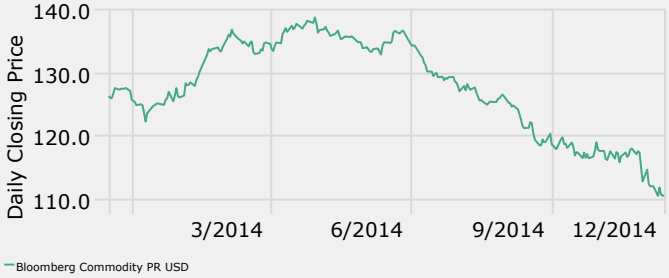
- The Dollar index rose last week, remaining near multi-year highs.
- The Yen strengthened against the Dollar last week, closing at 118.9 JPY/USD.

DJ UBS – Commodities

- Gold prices rose last week, closing at $1,223/oz.
- West Texas Intermediate (WTI) crude closed near $57/bbl.

DJ UBS – Commodities

Time Period: 12/14/2013 to 12/12/2014



Source: Morningstar Direct