

# Q1 2015 CHART BOOK



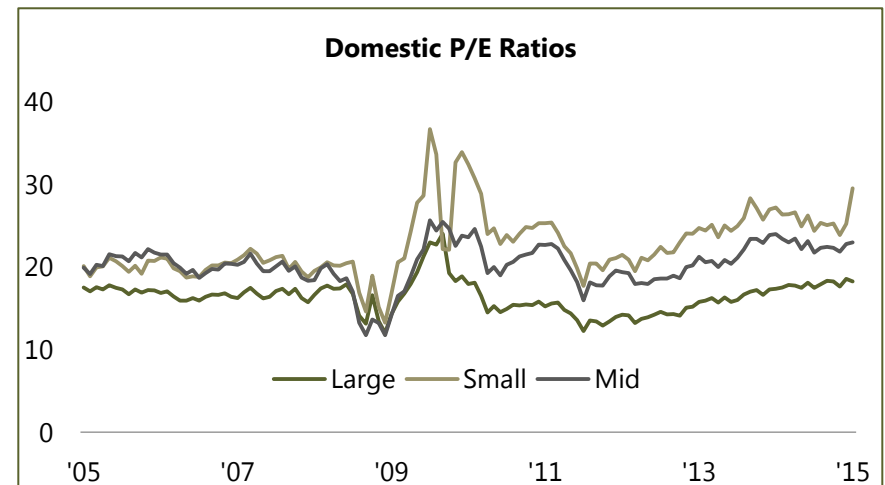
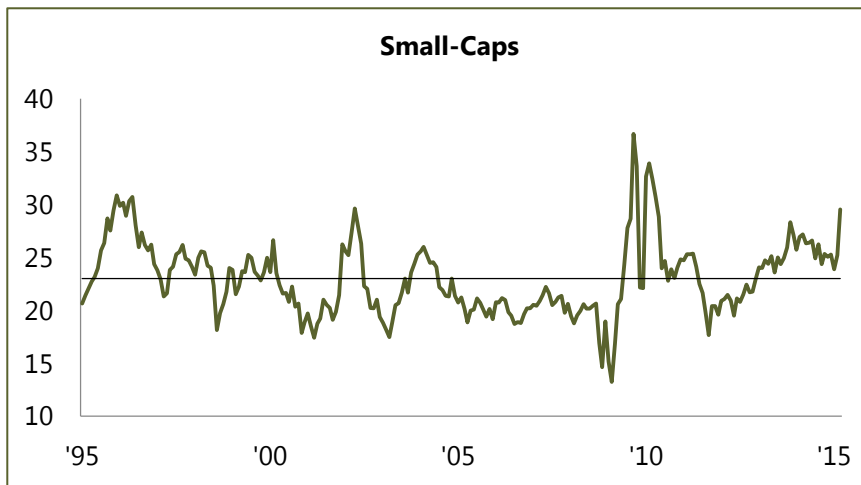
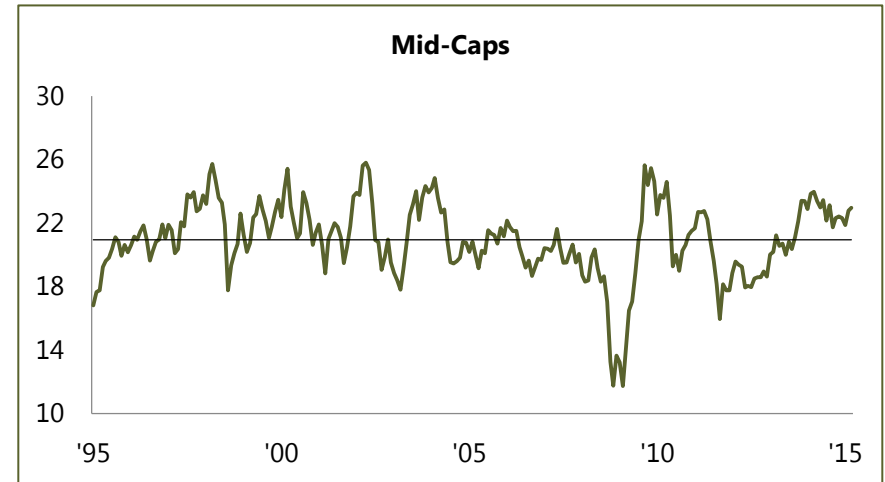
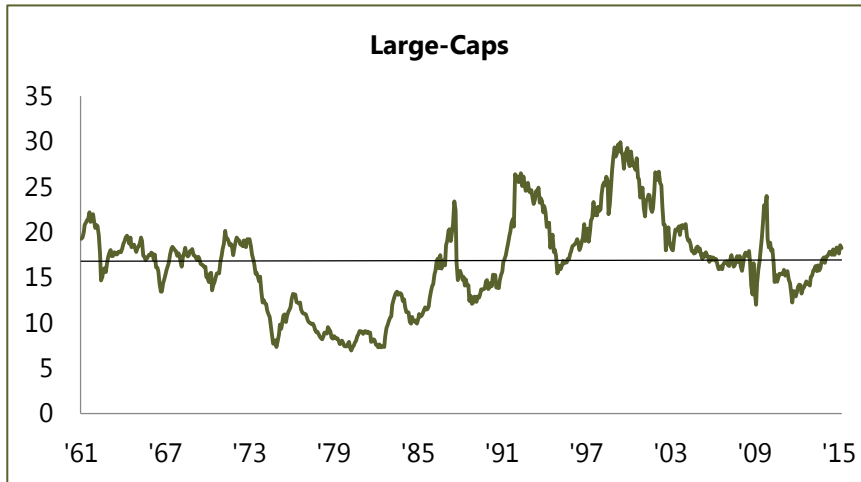
Buffalo, NY



North Palm Beach, FL

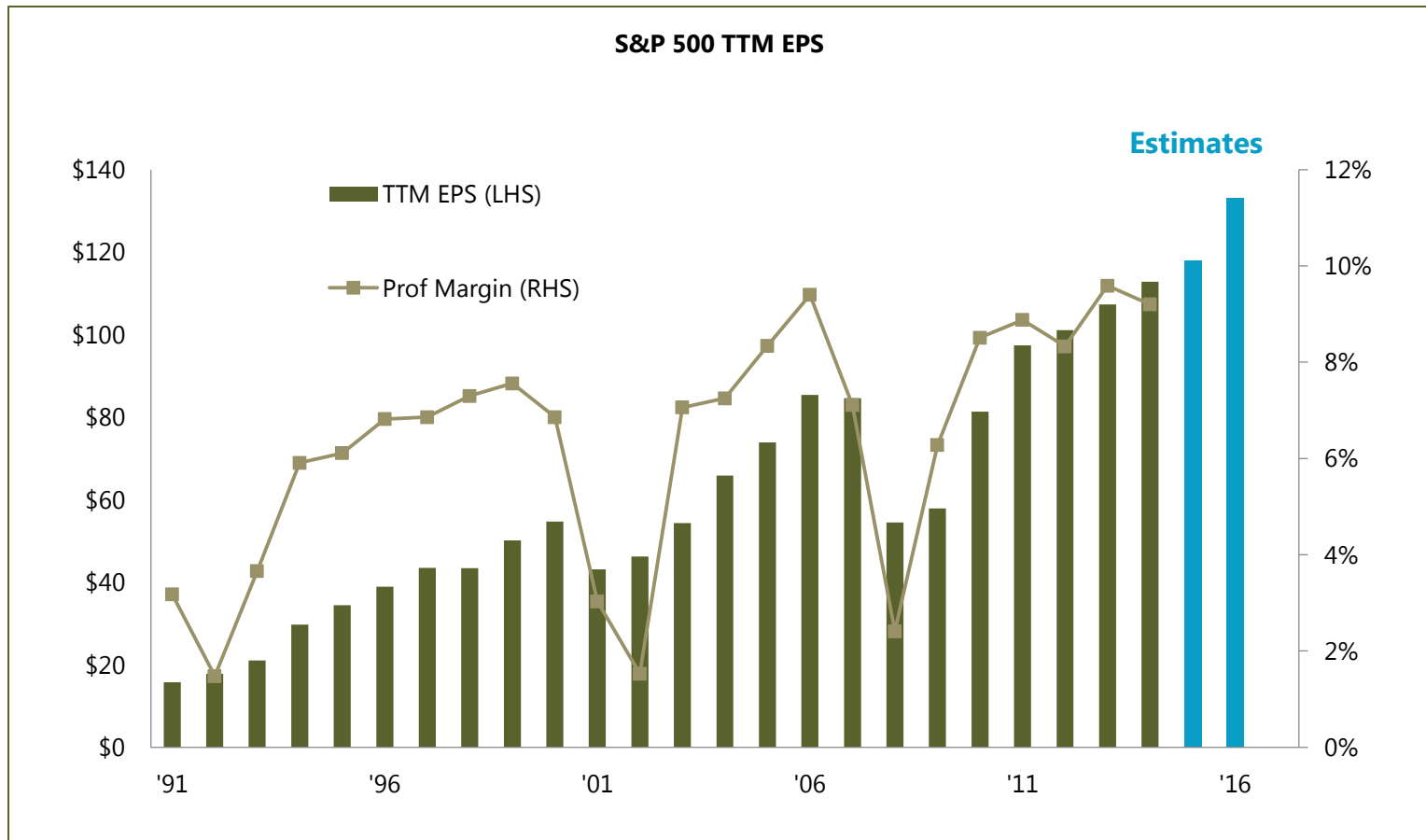
# Domestic P/E's

PE's elevated but stocks probably close to "fair" value due to Fed's zero-interest rate policy.



# S&P 500 EPS and Profit Margins

EPS estimates for 2015 have been revised down due to falling energy prices and F/X headwinds. Profit margins remain near historical highs.



# Current Sector Valuations

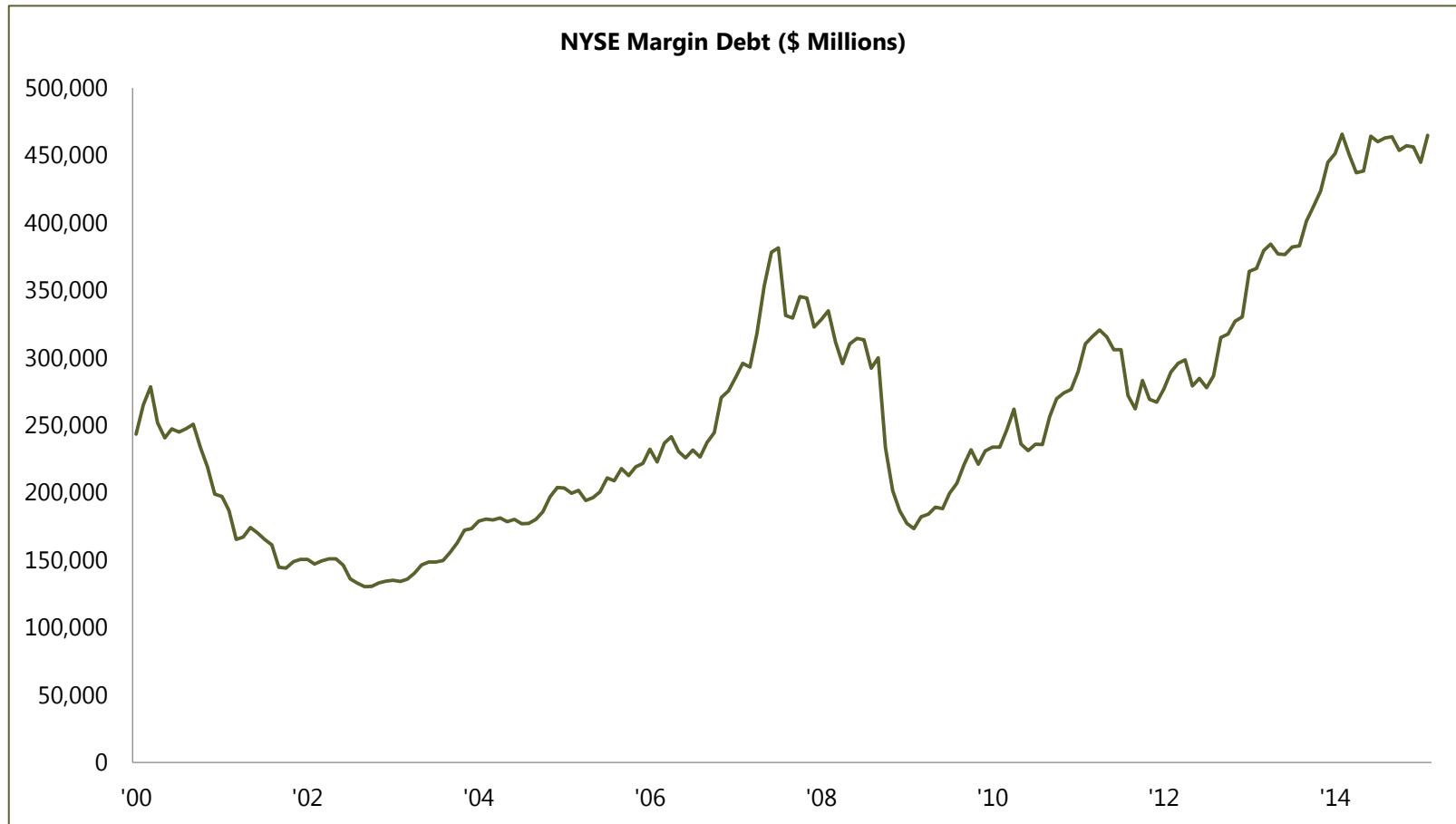
Most sectors are trading at the high end of fair value... low interest rates can support higher P/E's however. What will investors think when the Fed begins raising interest rates?

<u>S&amp;P Sectors</u>	<u>ETF</u>	<u>P/E</u>	<u>P/B</u>	<u>Cheap on P/E?</u>	<u>Cheap on P/B?</u>	<u>Div Yield</u>
Health Care	XLV	24.0	4.4	Fairly Valued	Fairly Valued	1.4%
Consumer Discretionary	XLY	21.8	4.9	Fairly Valued	SELL	1.4%
Consumer Staples	XLP	20.3	5.4	Fairly Valued	Fairly Valued	2.7%
Tech	XLK	19.0	4.1	Fairly Valued	Fairly Valued	1.6%
Materials	XLB	18.5	3.5	Fairly Valued	SELL	2.1%
Industrials	XLI	17.7	3.6	Fairly Valued	Fairly Valued	2.1%
Utilities	XLU	17.1	1.7	Getting Exp	Fairly Valued	3.6%
Financials	XLF	14.9	1.4	Fairly Valued	Fairly Valued	1.8%
Telecoms	VOX	14.8	3.4	Fairly Valued	Fairly Valued	5.0%
Energy	XLE	13.8	1.7	Fairly Valued	Fairly Valued	2.9%



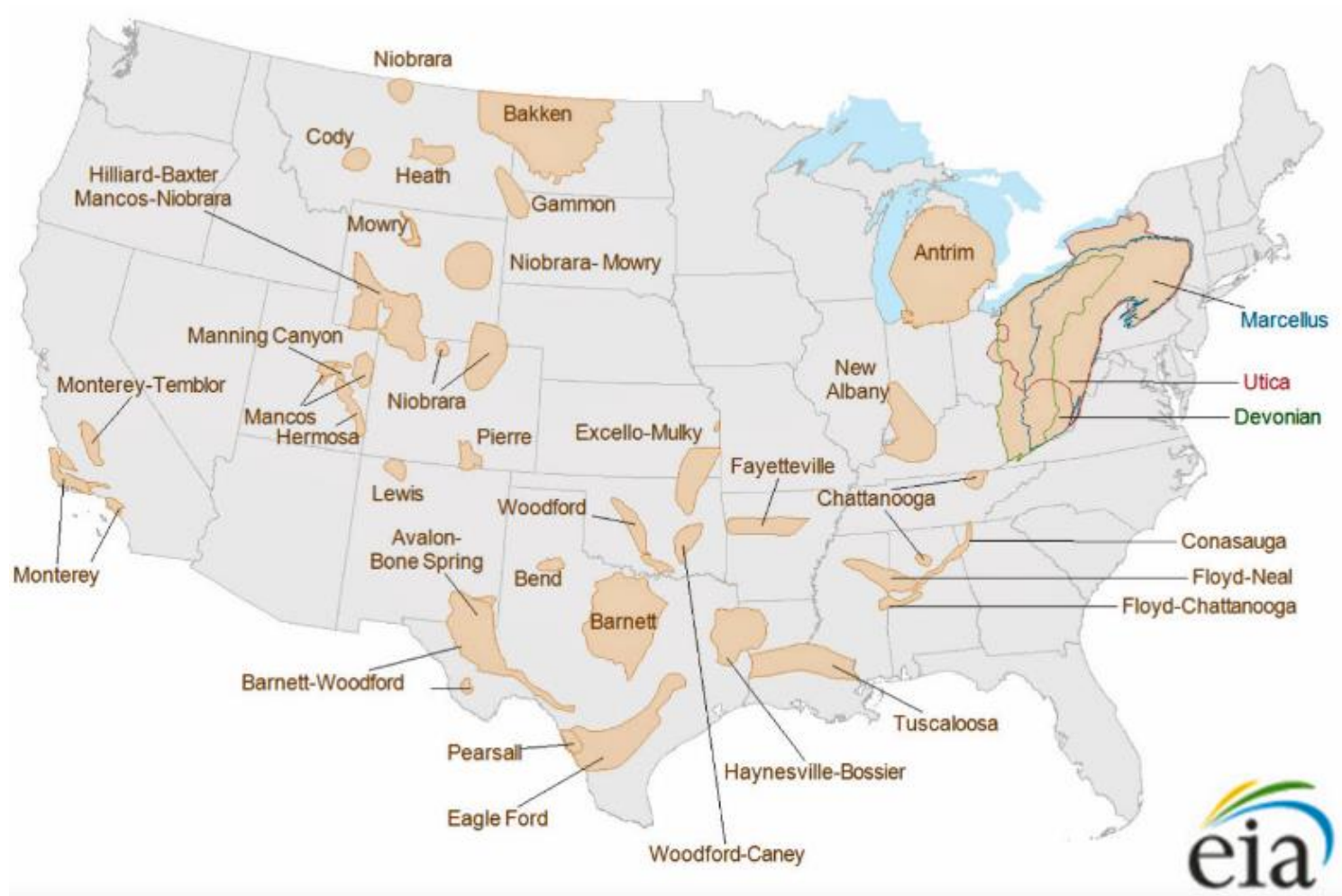
# Equity Margin Debt

Rising equity margin debt typically preceded large sell-offs in stocks. This bears watching...



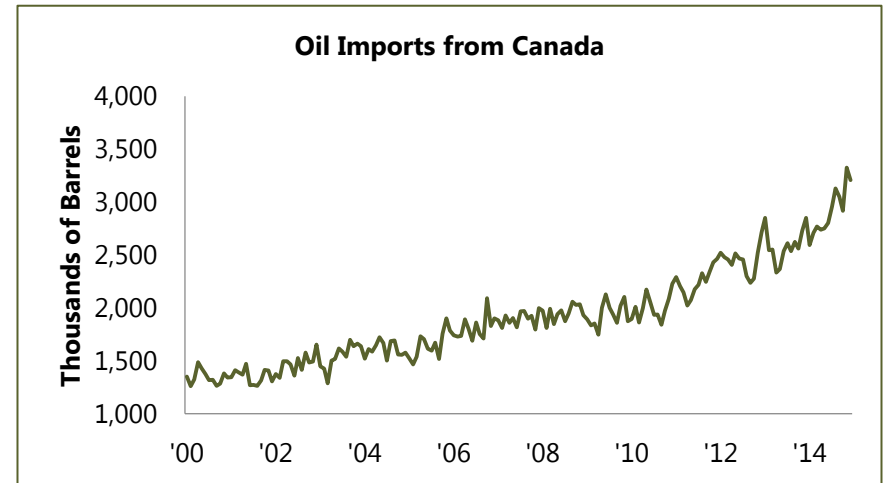
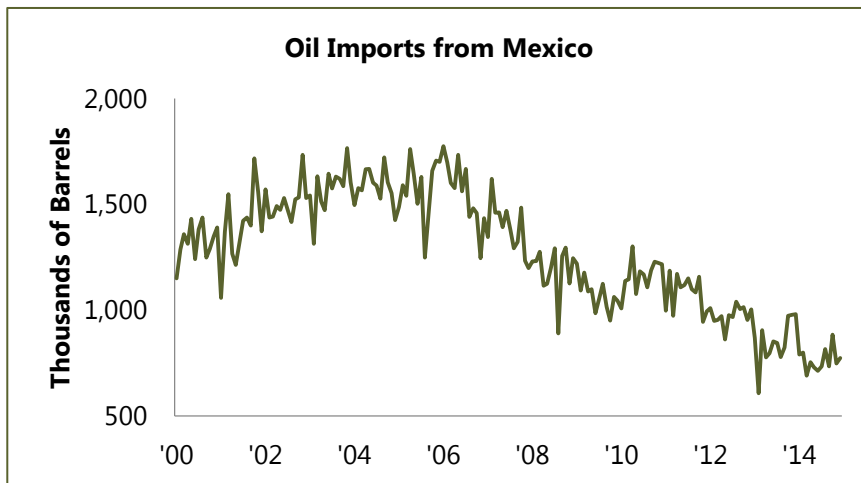
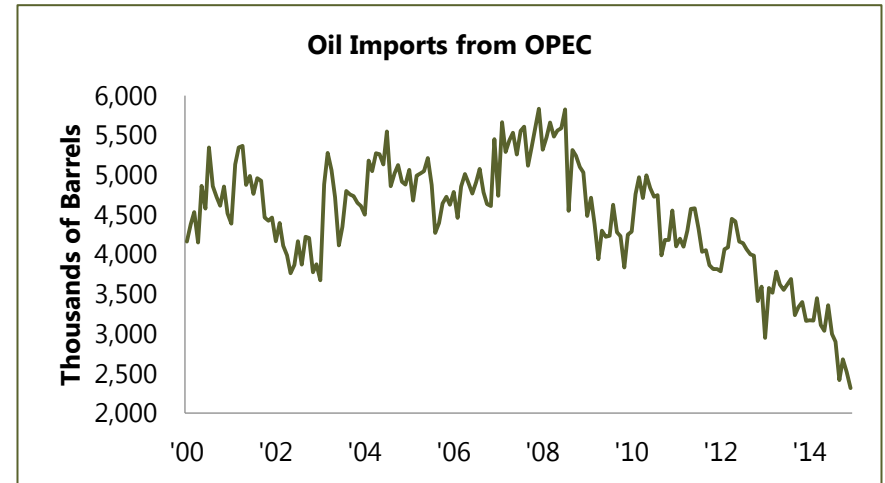
# Domestic Shale Plays

The shale-gas industry is struggling in the face of lower energy prices with many wells left half-drilled or capped. Texas is feeling the bulk of the pain.



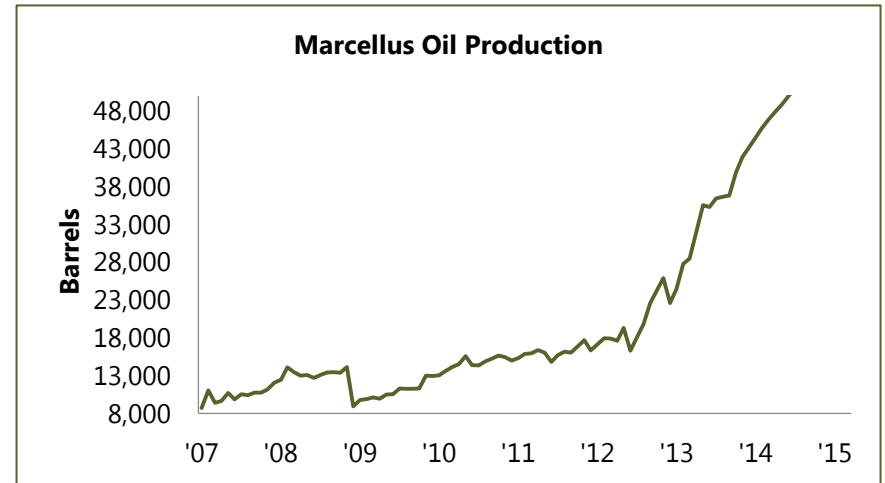
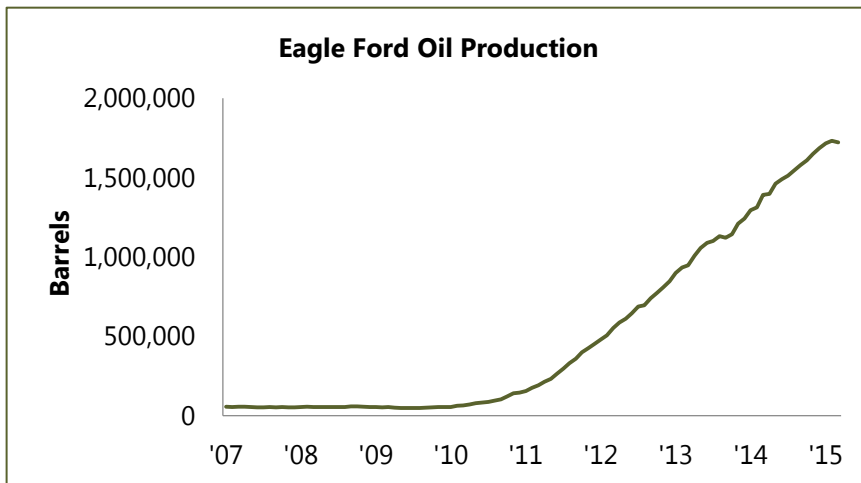
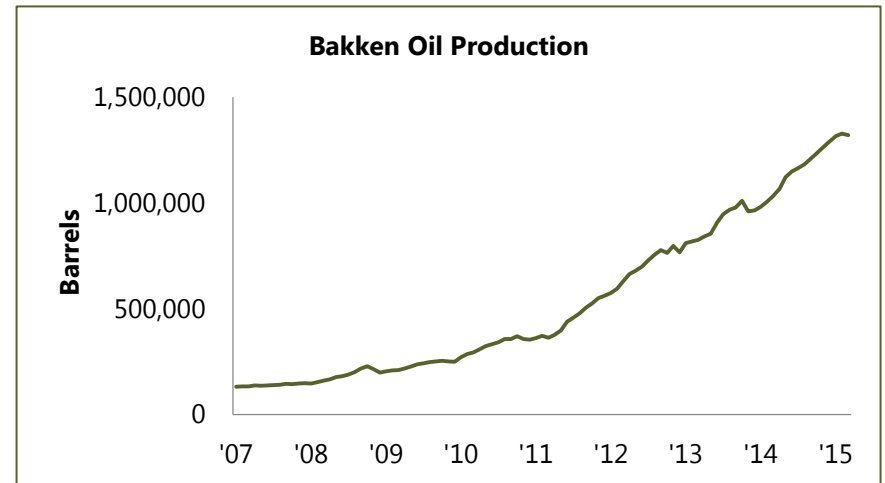
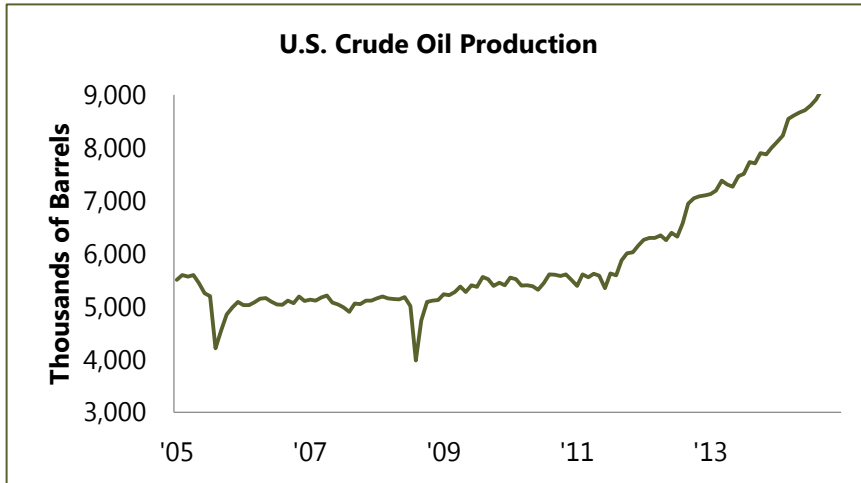
# U.S. Imports

The rise of the US Dollar has been a boon for US Consumers, but is starting to negatively impact US exporters. Exports account for 14% of US GDP.



# Domestic Daily Oil Production

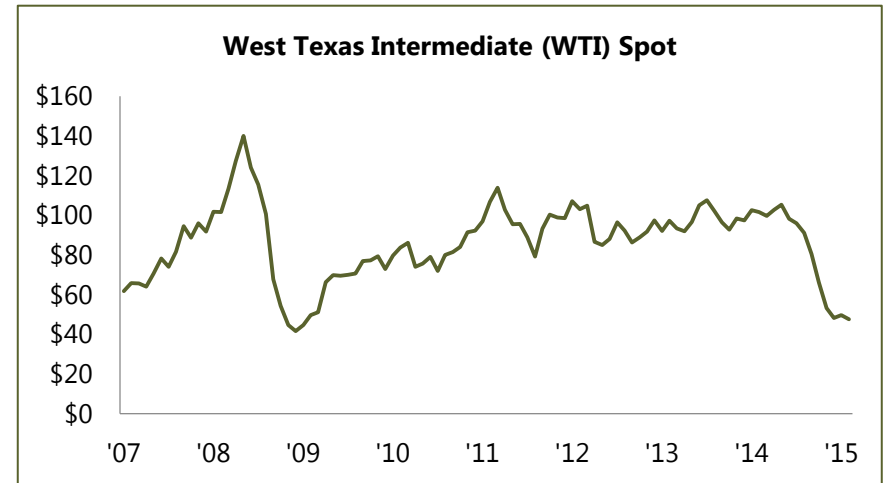
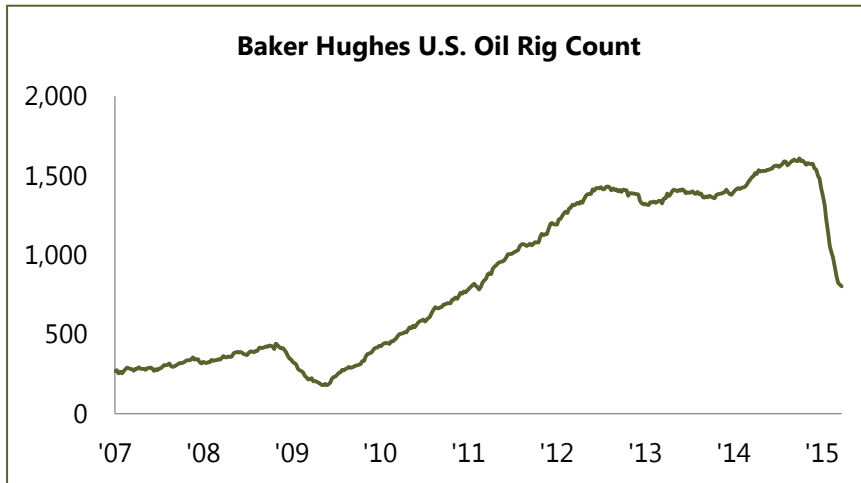
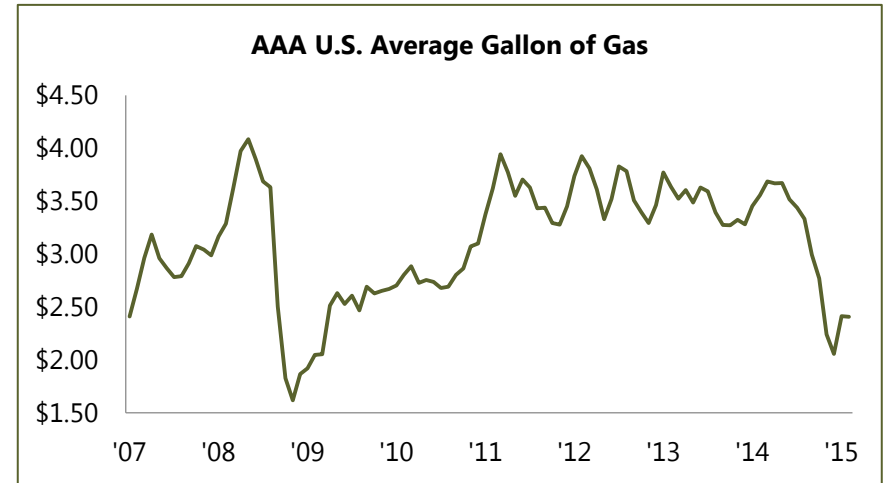
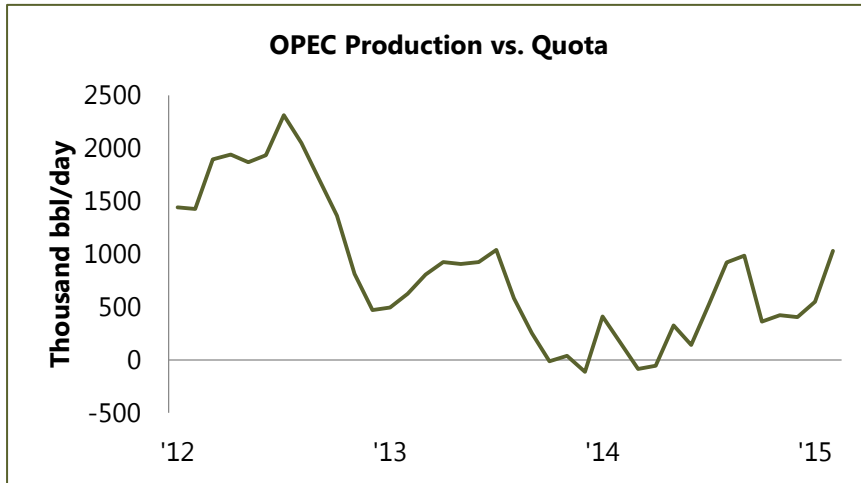
Despite the 50% drop in the price of oil, production hasn't pulled back too meaningfully. Marginal producers are feeling the most pain.





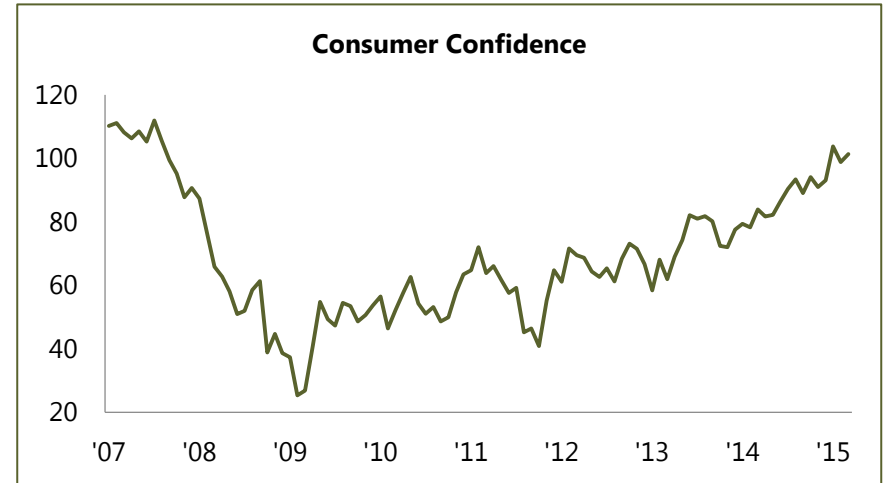
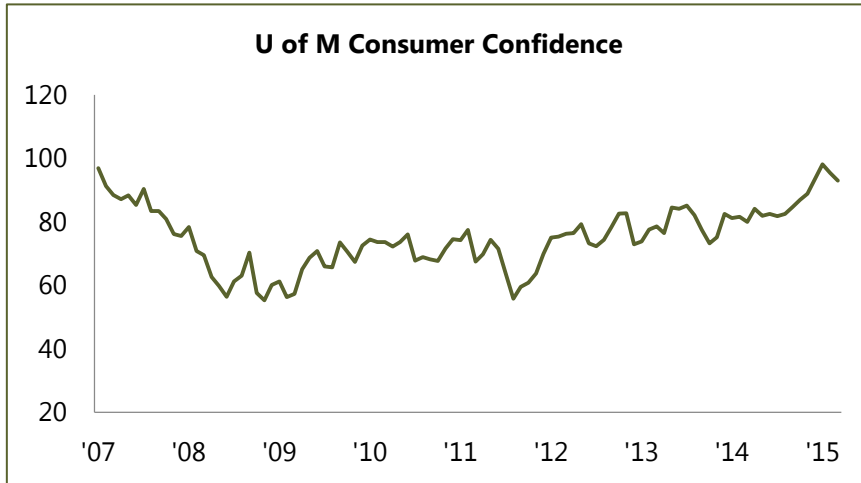
# Oil Prices and Rig Counts Drop

Rig counts continue to steadily decline as the price of oil and gas drops. Production globally remains elevated.



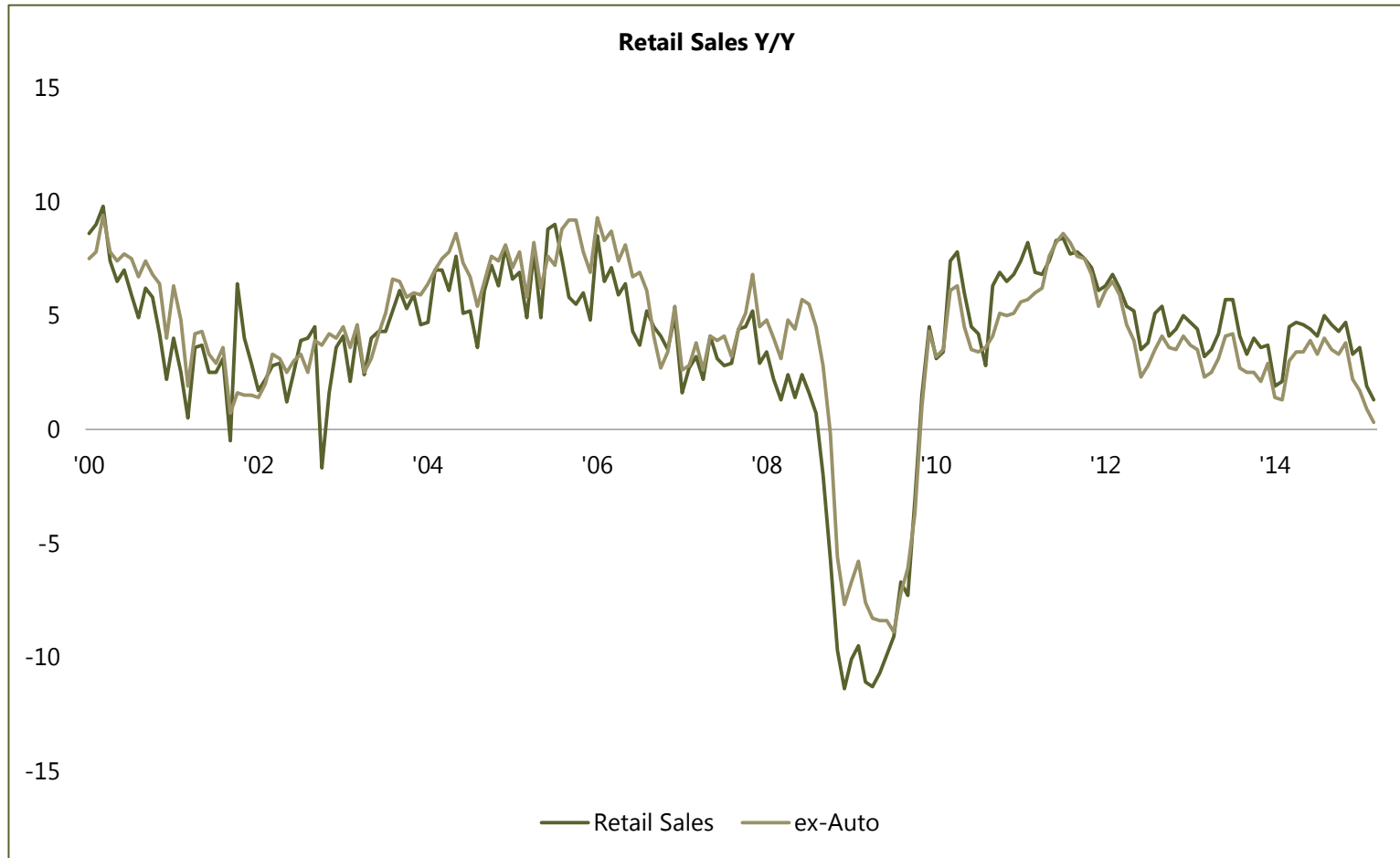
# Measures of Confidence

Consumers account for 70% of the US economy and rising consumer confidence should push US GDP towards 3% growth in 2015.



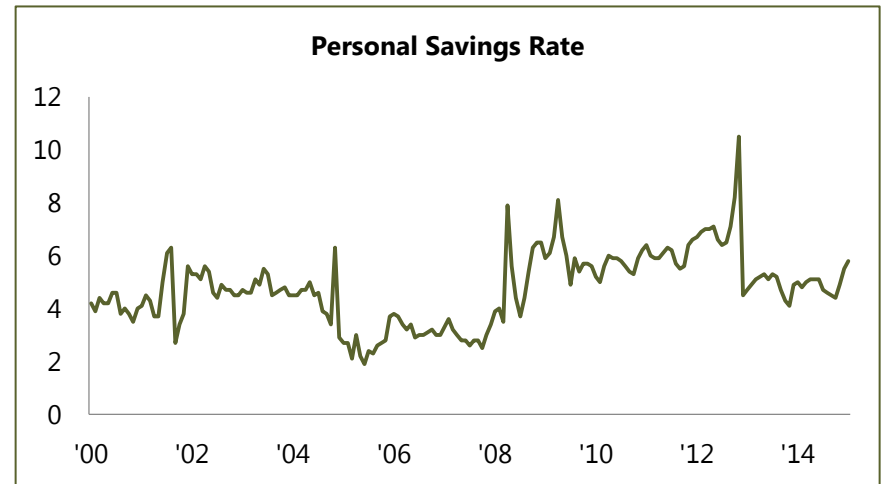
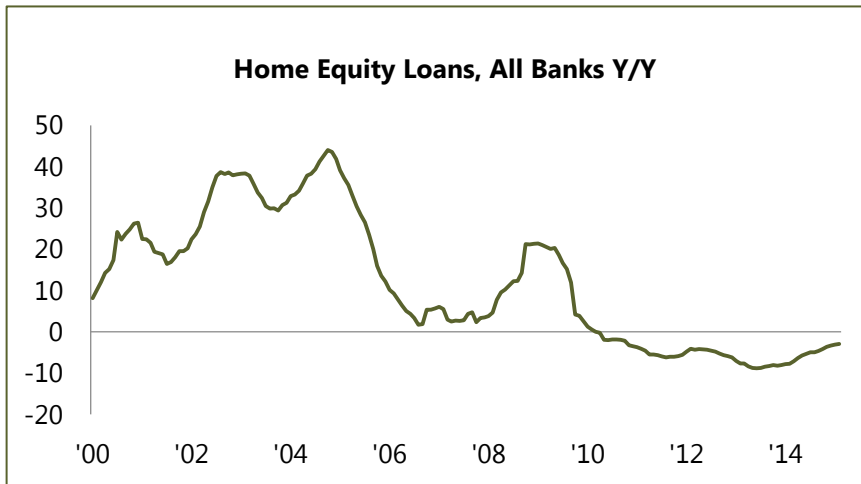
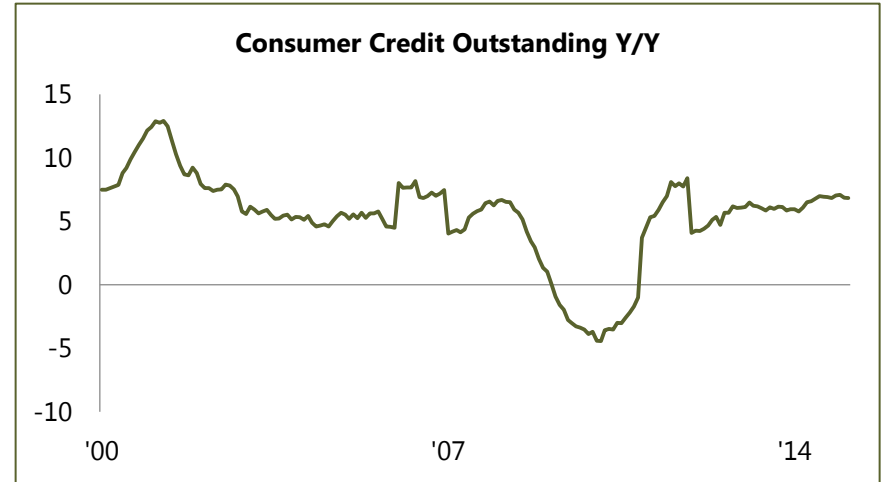
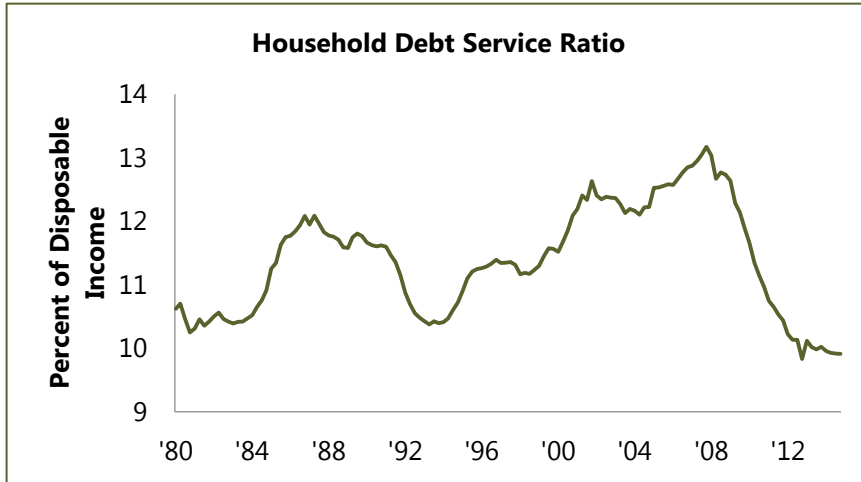
# Retail Sales

Retail Sales have been declining despite falling gas prices, leaving more discretionary income in consumer pockets.



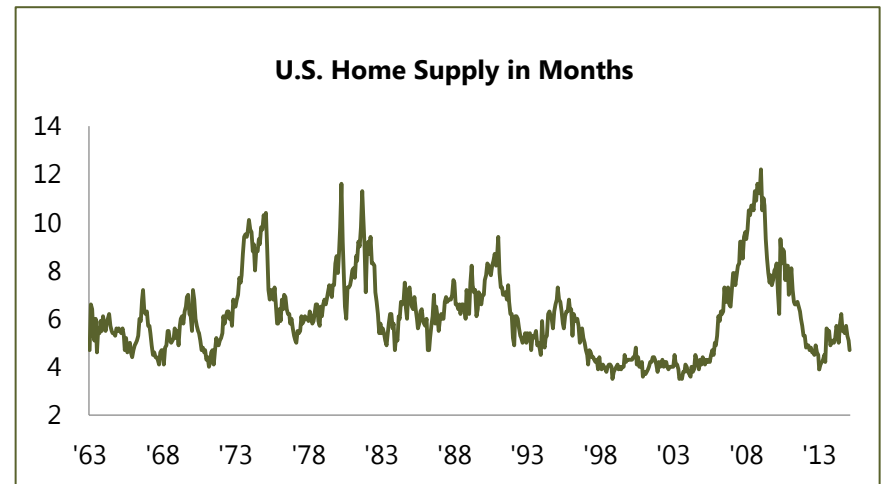
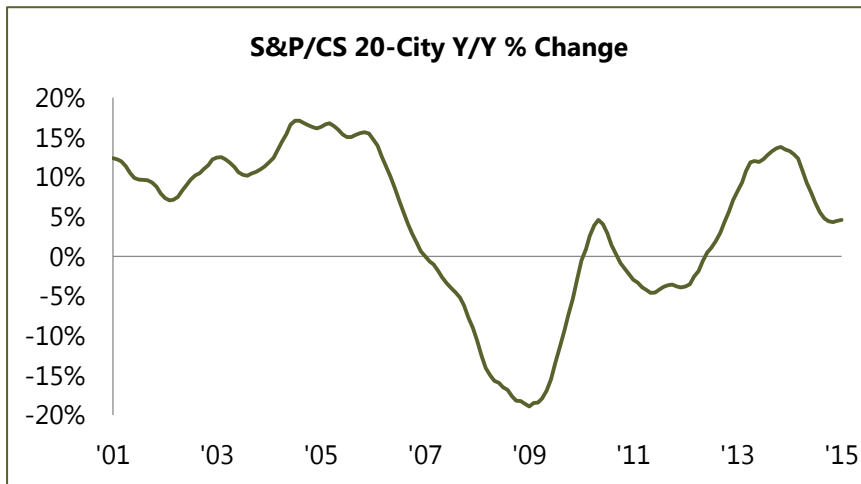
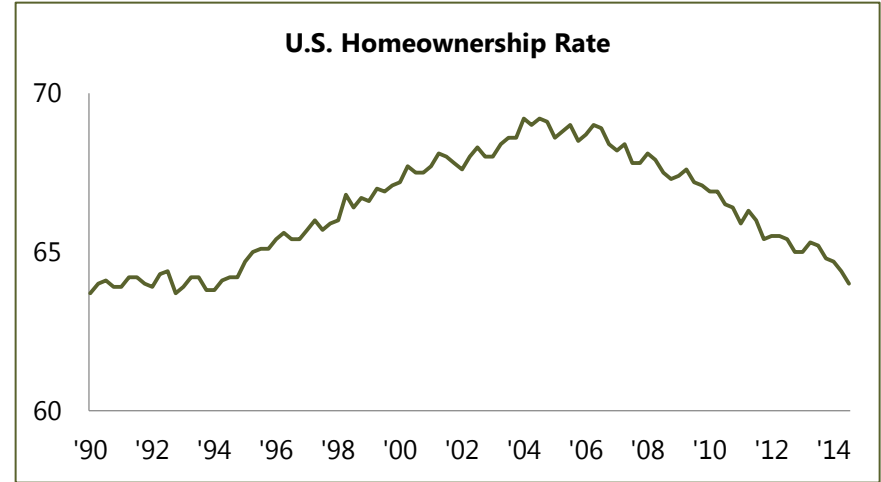
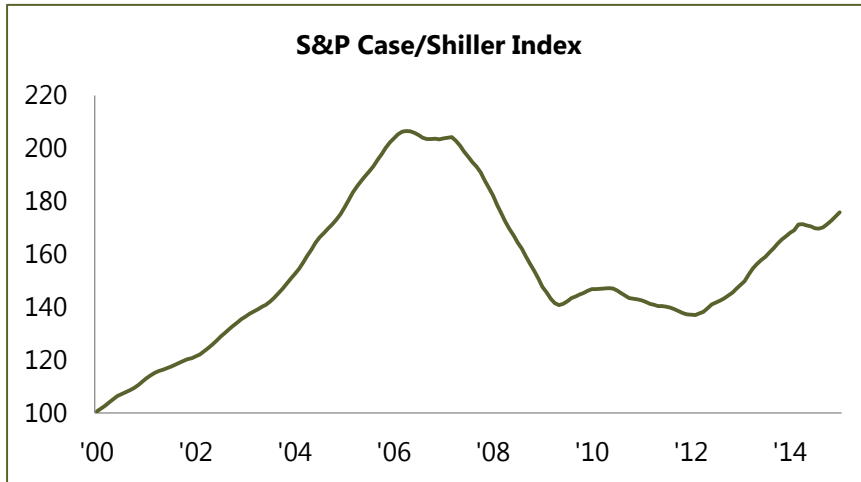
# Consumer's Balance Sheets

The average US consumer is in far better shape versus 2007. A higher personal savings rate will negatively impact the economy in the short-run, but should prove beneficial long term.



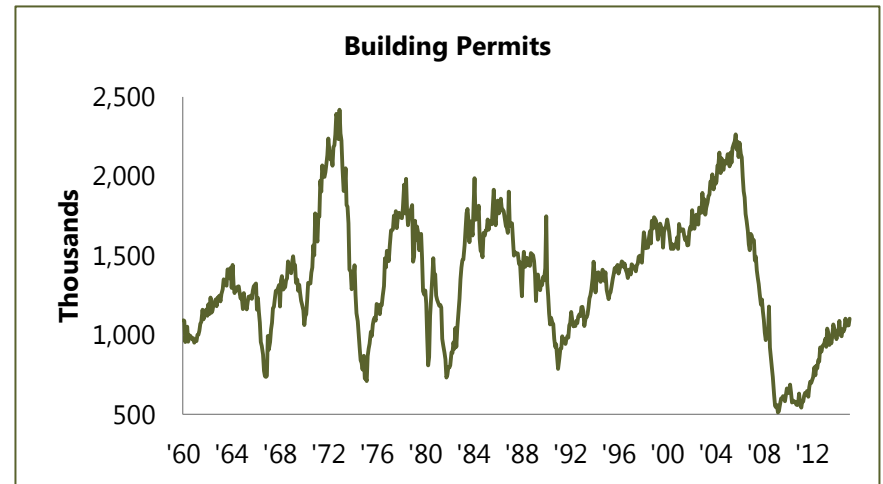
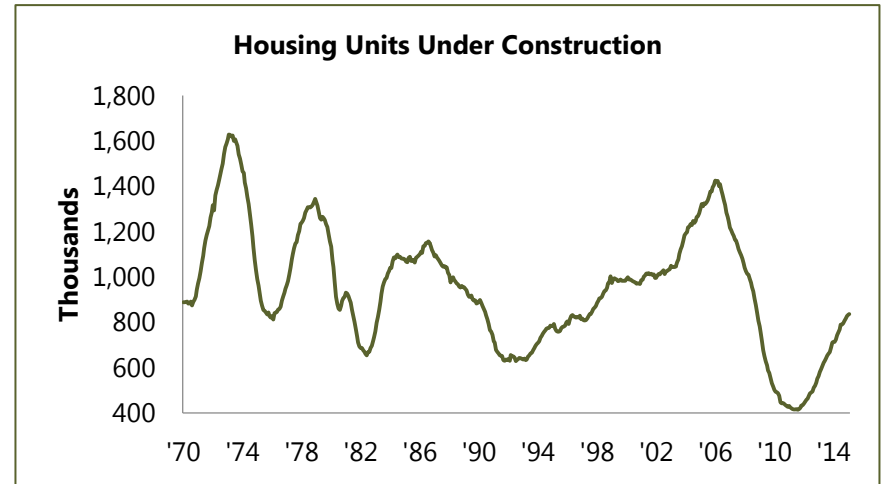
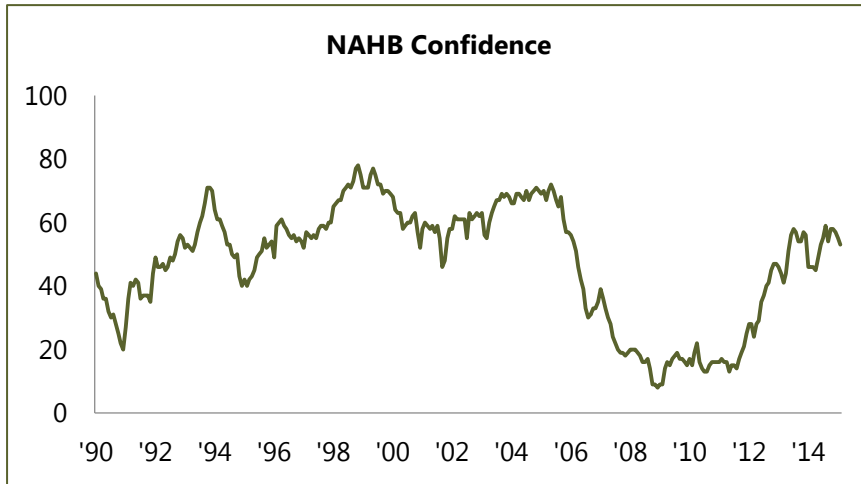
# Housing

Housing continue to recover from the 2008-09 collapse, despite a declining US homeownership rate. Rising rents should drive first-time homebuyers back into the market.



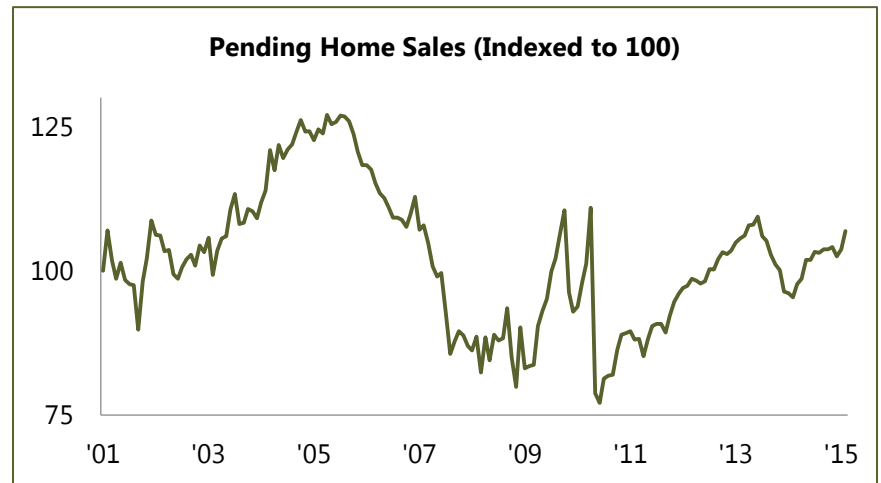
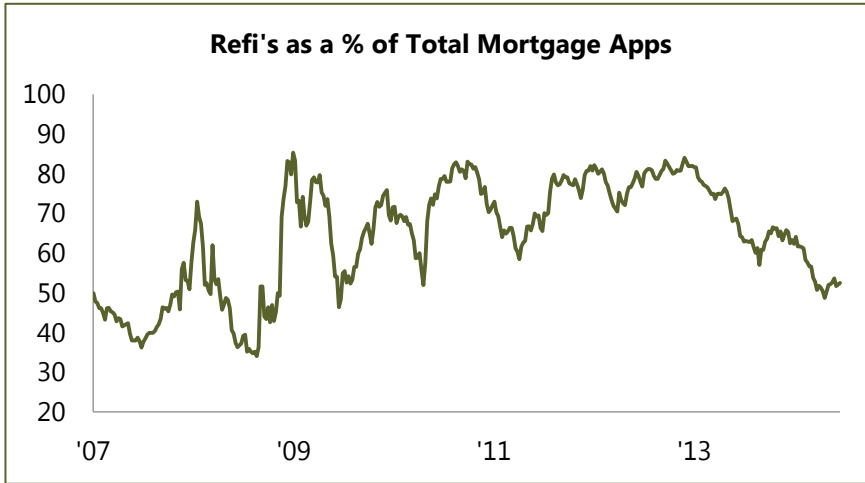
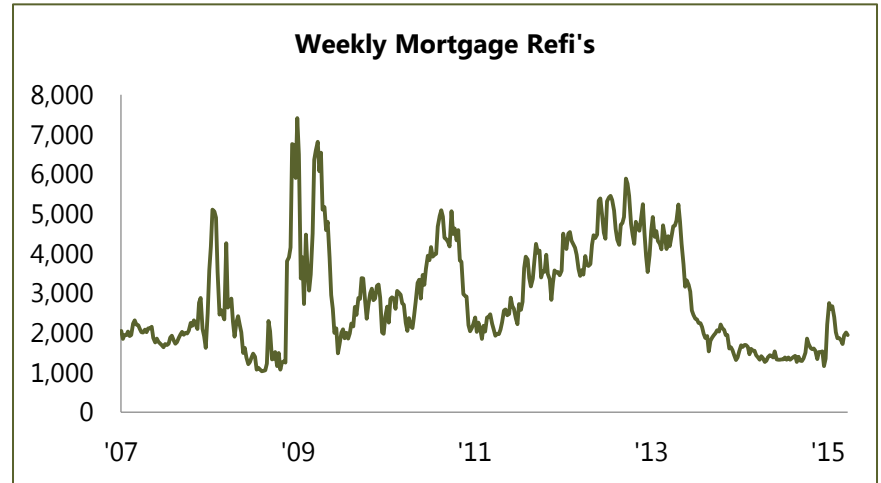
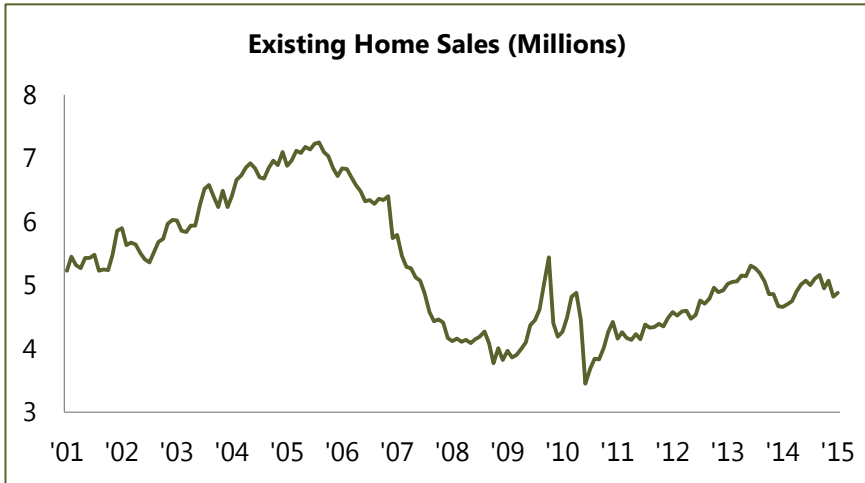
# Housing

As home price affordability has declined, the demand for “entry-level” housing has risen. Building permits and housing starts should continue to rise through 2015 as imminent Fed rate hikes pull buyers forward.



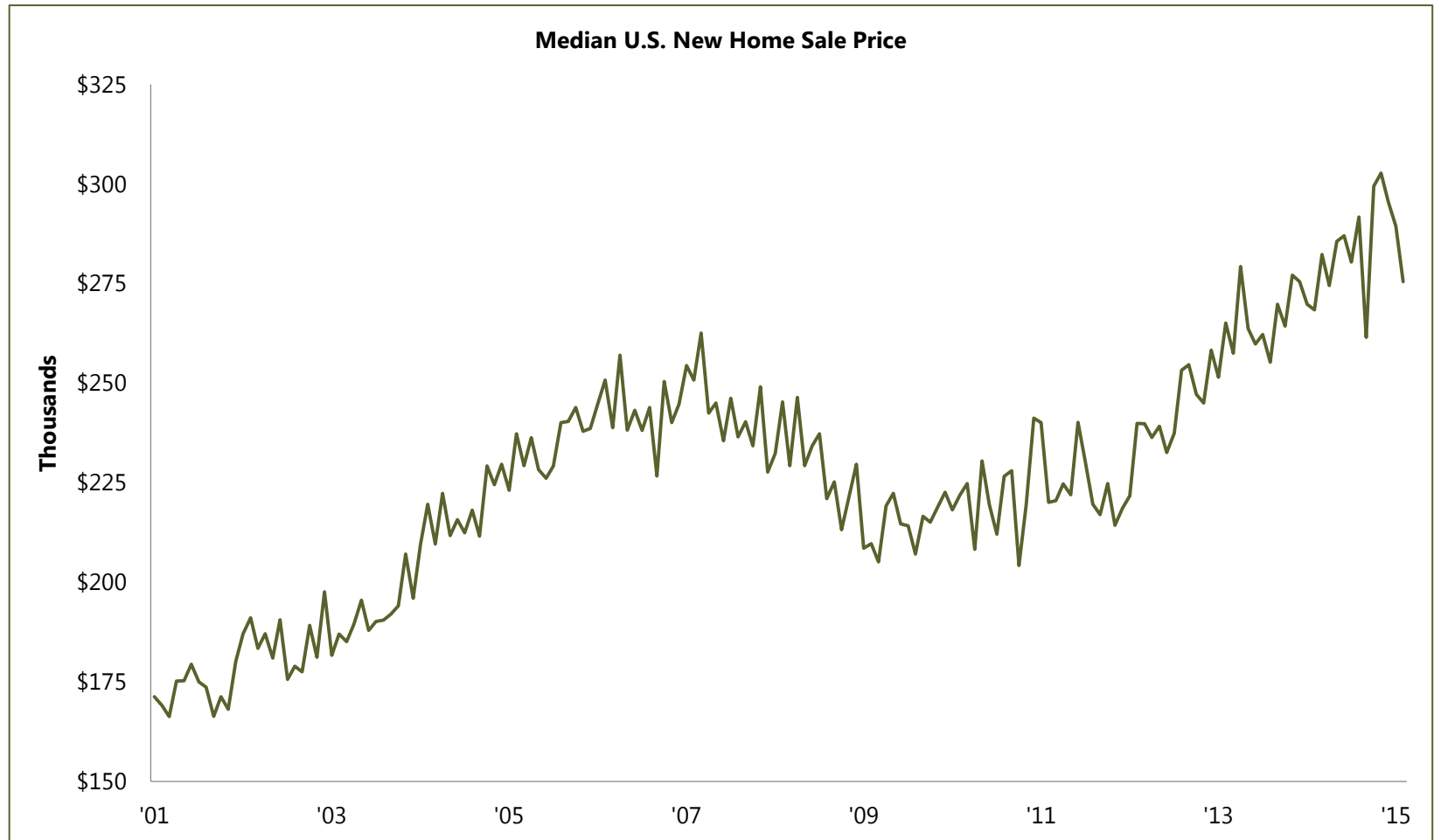
# Housing

The prospect of higher interest rates by year-end should drive heightened refinance activity into the summer. Stricter bank lending rules may prove a hindrance, however.



# Housing

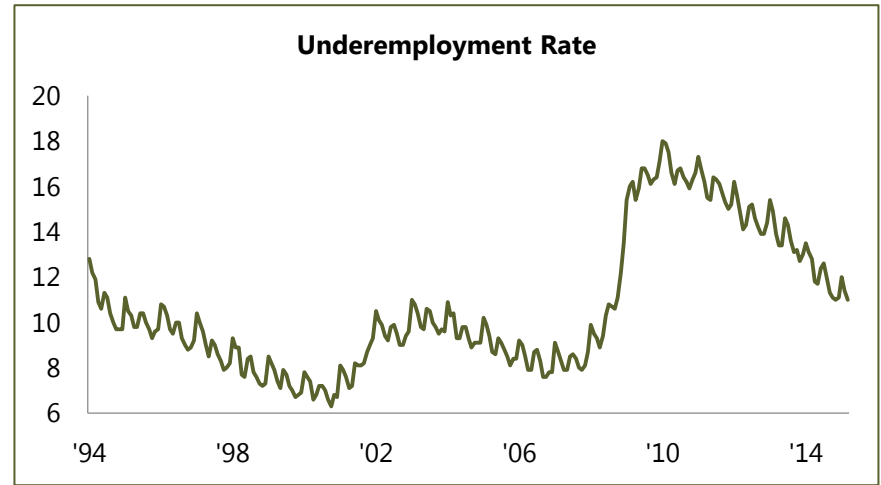
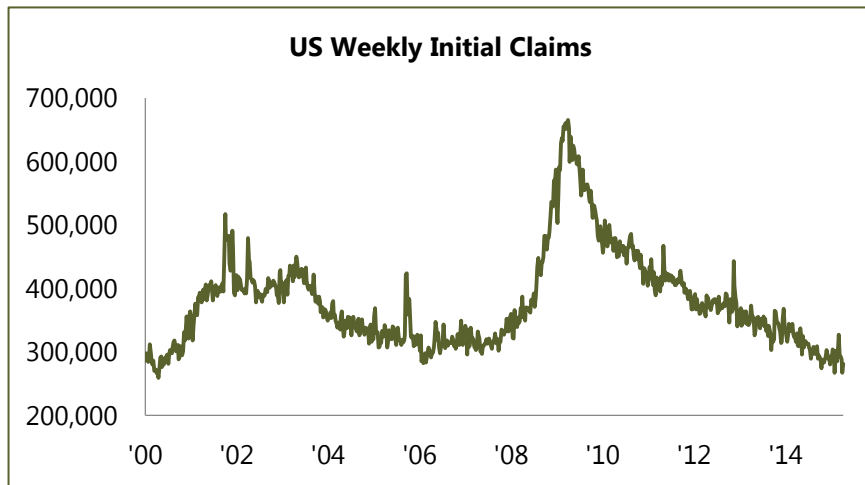
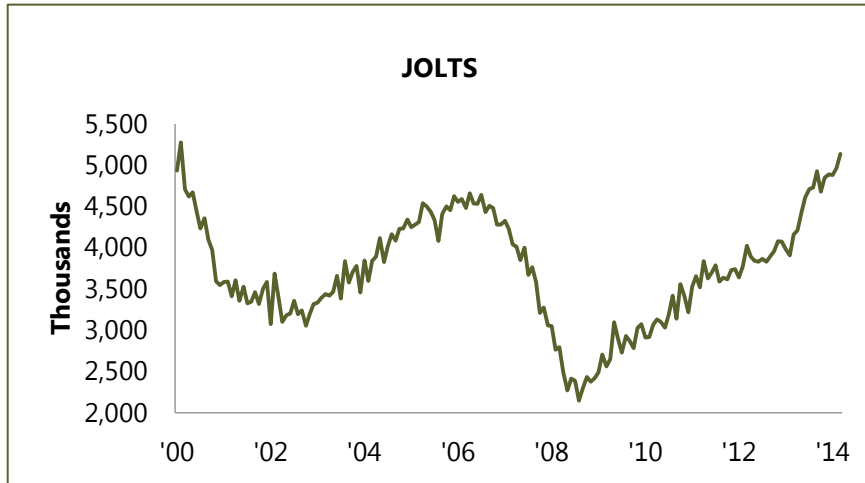
Demand for higher-end housing has pushed the median price of a new home towards all-time highs.





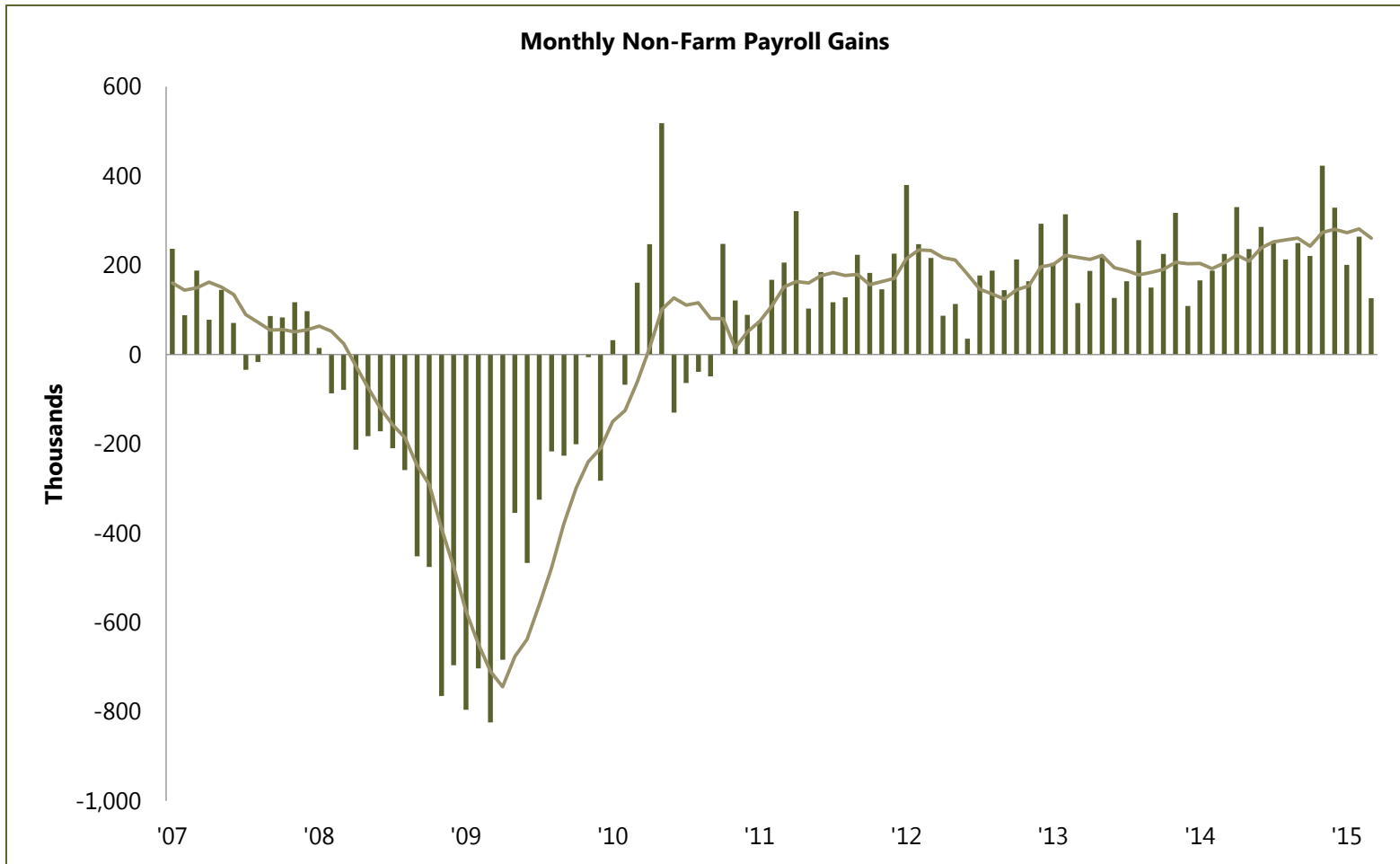
# Labor Market Conditions

The US employment picture has dramatically improved since 2008. The jobs openings & labor turnover survey (JOLTS) points to higher job vacancies, a key sign of a healthy employment market.



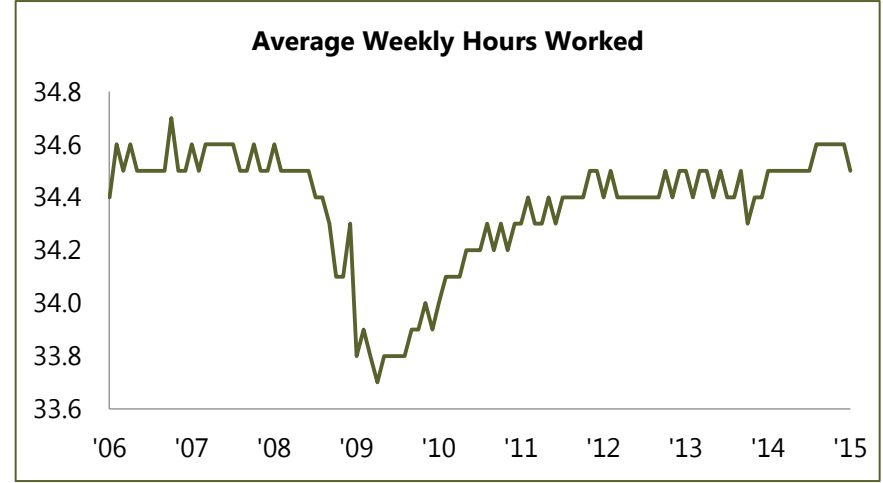
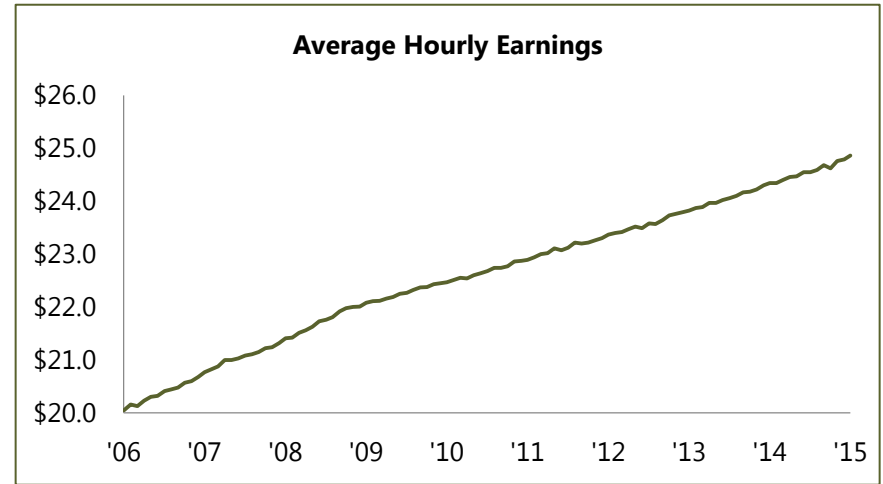
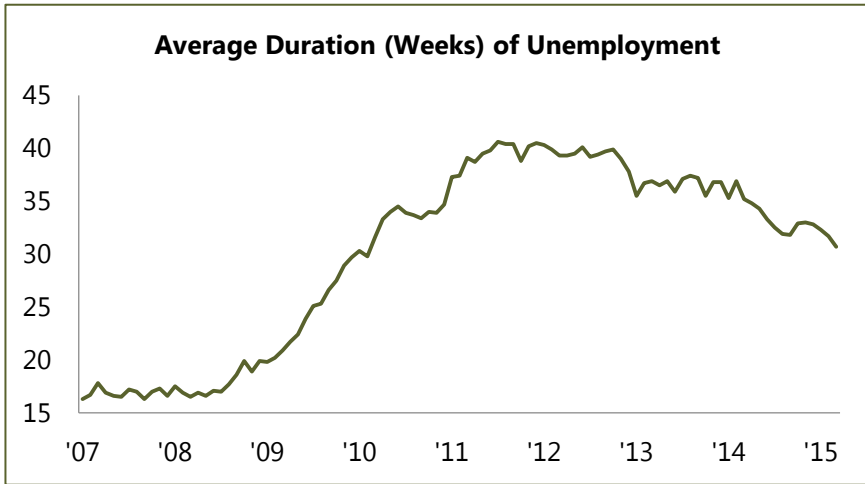
# Labor Market Conditions

Despite an unemployment rate of only 5.5%, the Fed remains very accommodative. It will likely take a jobless rate below 5.0% before concerns arise.



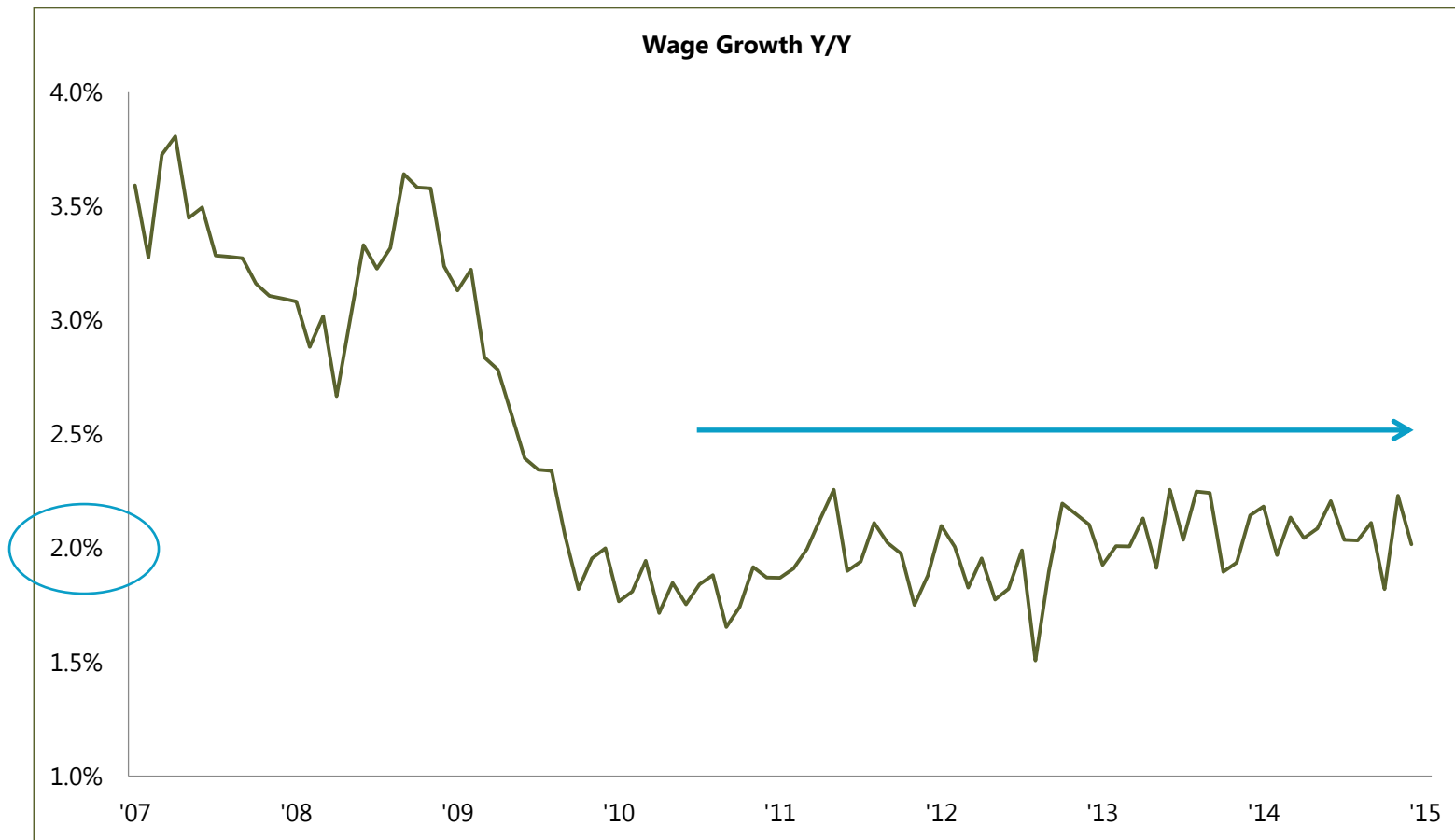
# Labor Market Conditions

Despite low unemployment, wages remain stuck. Rising JOLTS and falling Labor Force Participation rates should drive wages higher.



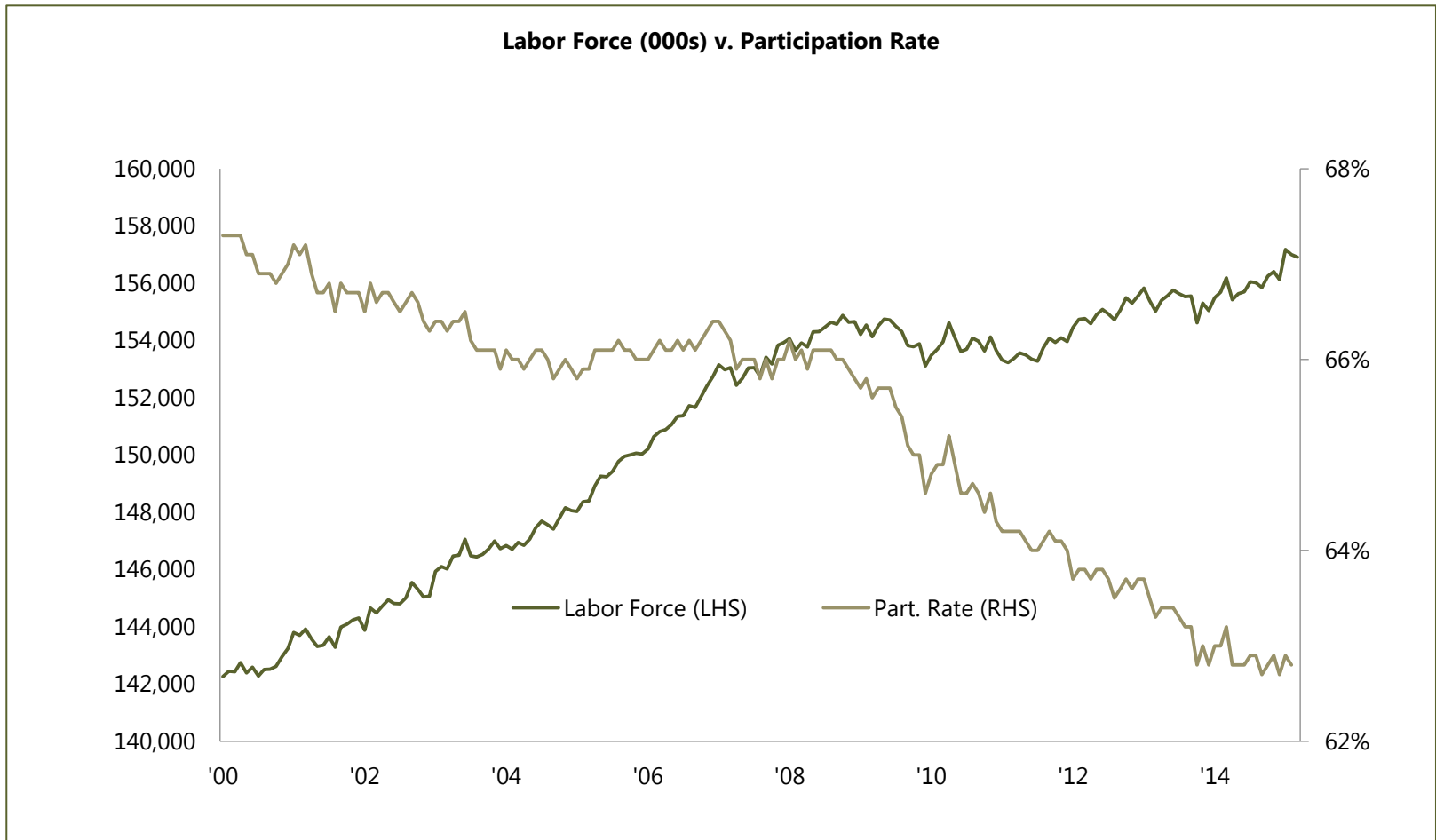
# Labor Market Conditions

Rising wages are a necessary ingredient to broader price inflation. Growth above 3% would be most welcomed by the Fed.



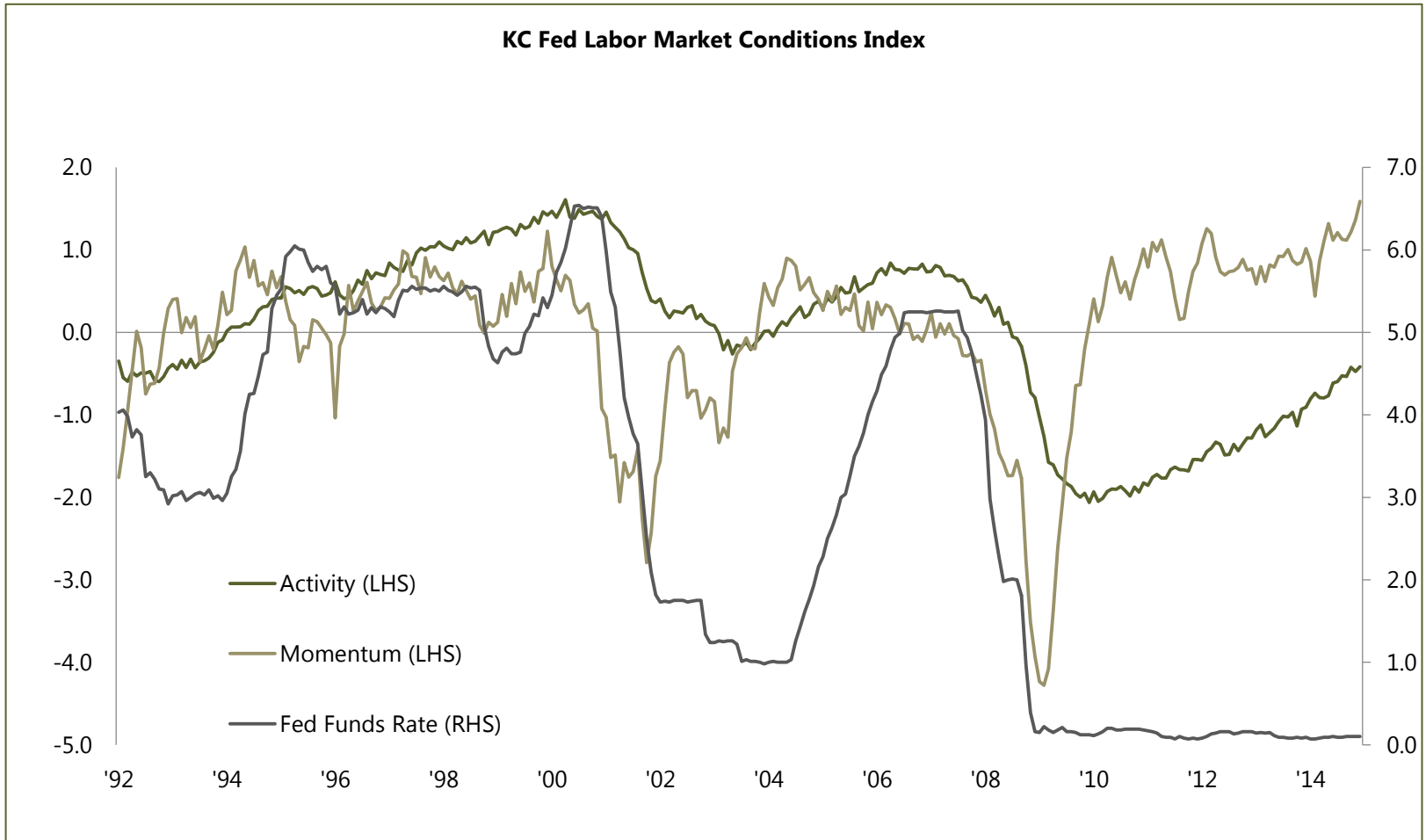
# Labor Market Conditions

The LFPR continues to fall as baby boomers retire and the long-term unemployed opt out. No one really has an explanation for why this rate is so low, but it should ultimately lead to higher wages.



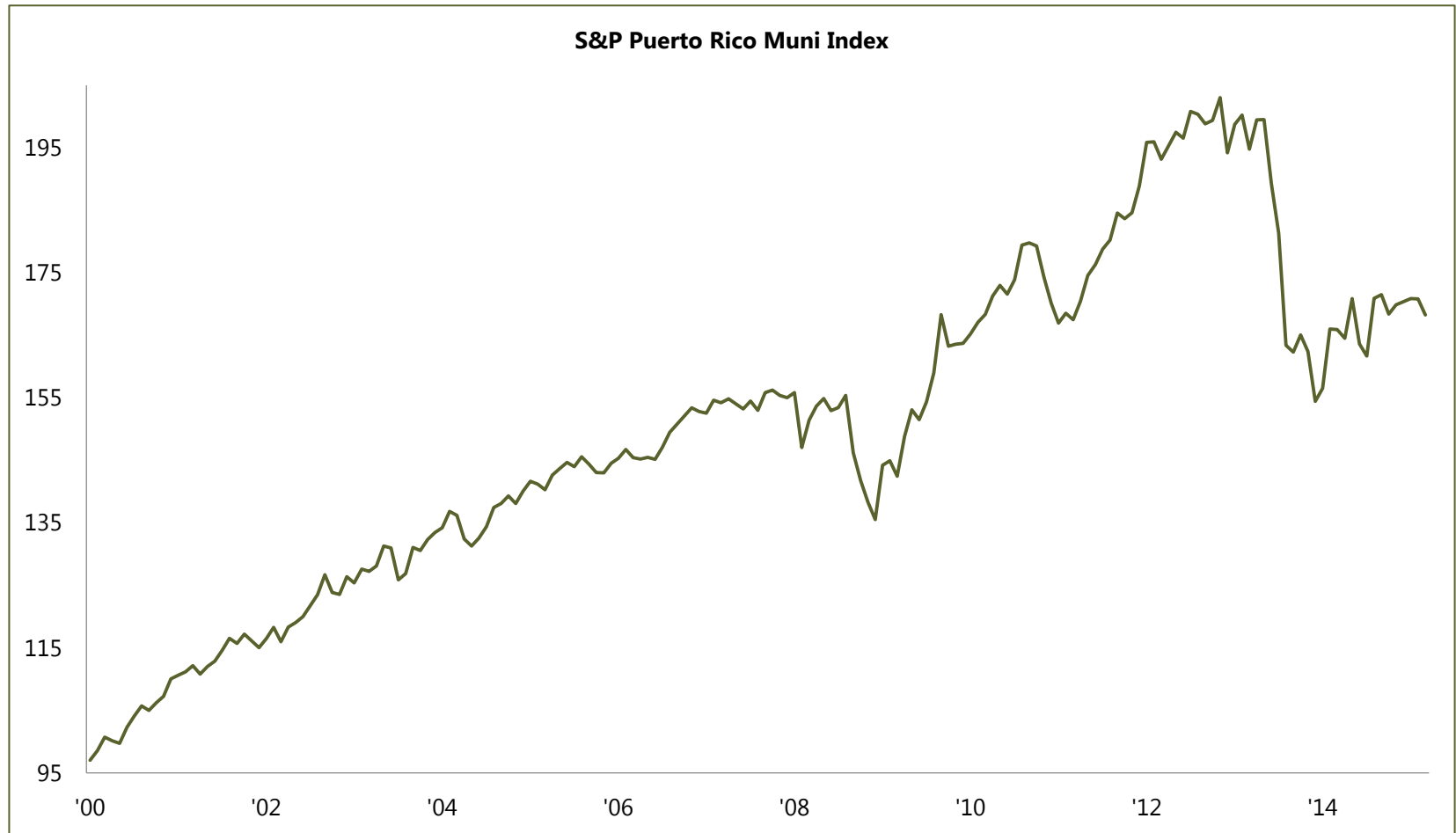
# Kansas City Fed Labor Market Conditions Index

The Fed would like to see both Activity & Momentum turn positive before raising the Fed Funds rate.



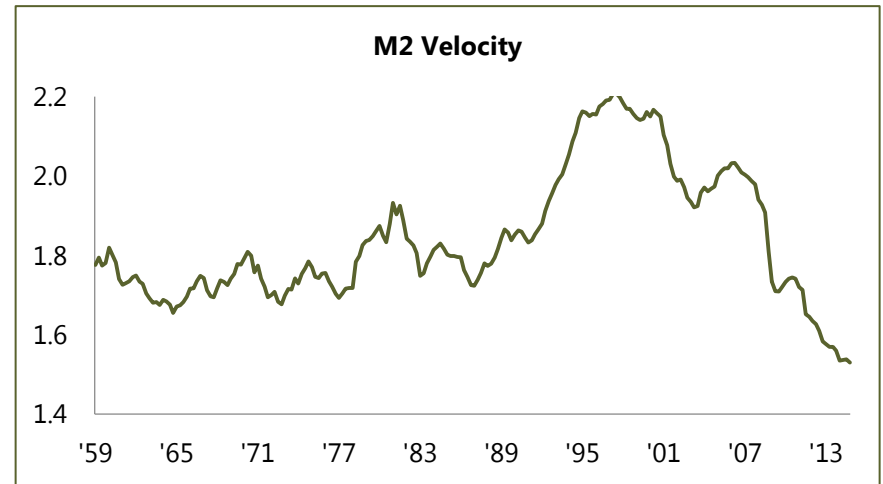
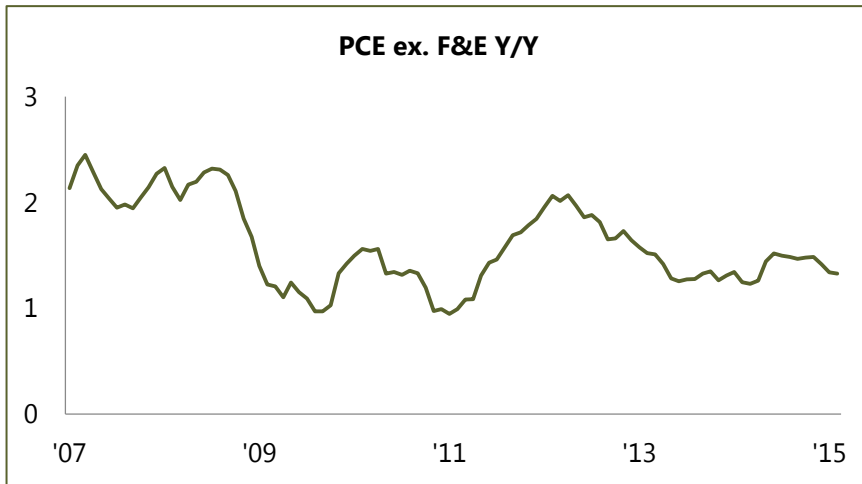
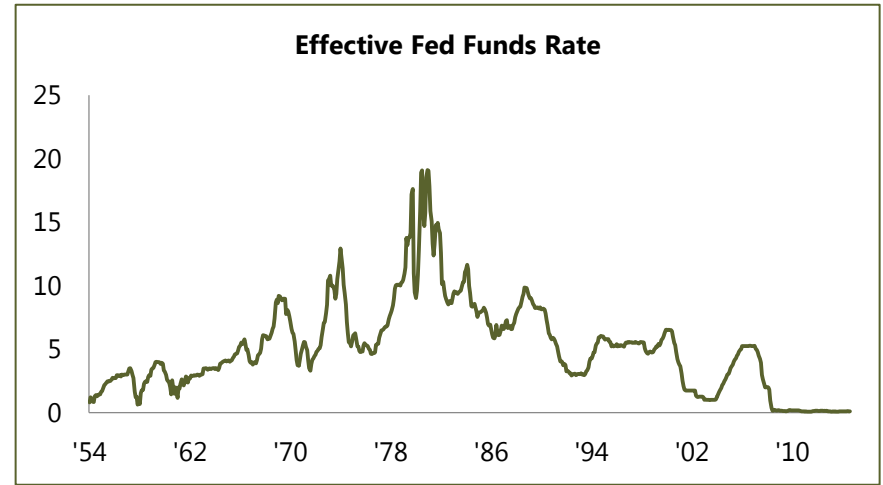
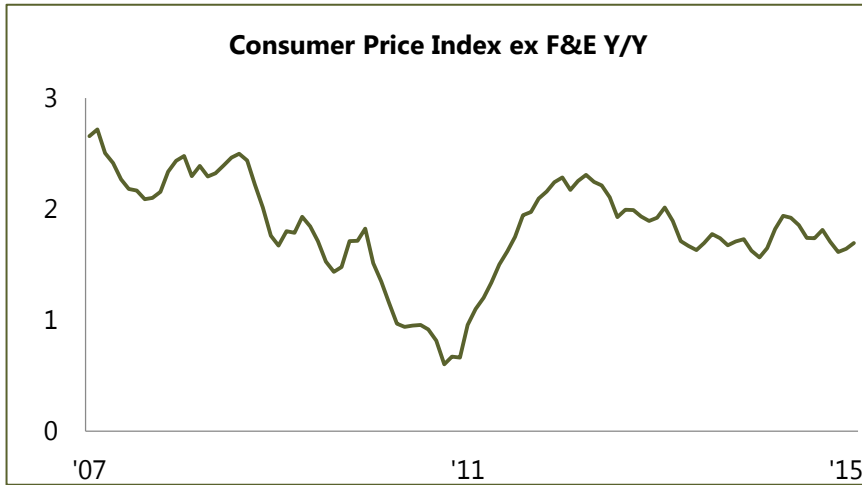
# Monitoring Puerto Rico for a Credit Crisis

The tiny Commonwealth of Puerto Rico is saddled with a huge amount of debt. A default here could really rattle the municipal bond market.



# Inflation a Non-Issue

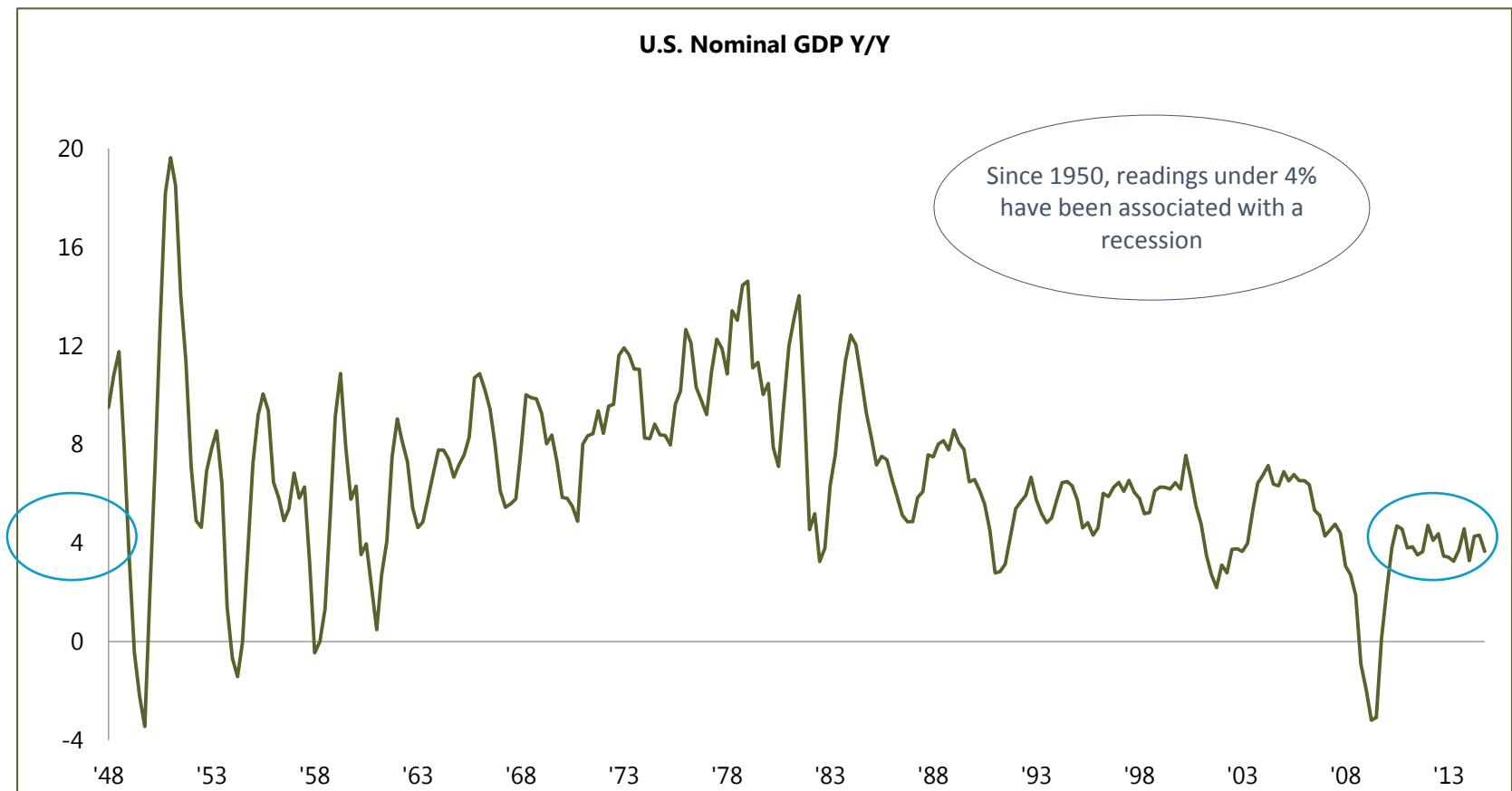
The huge increase in the size of the Fed's balance sheet has led to a collapse in the Velocity of money. Until the velocity of M2 stabilizes, inflation likely won't be a problem.





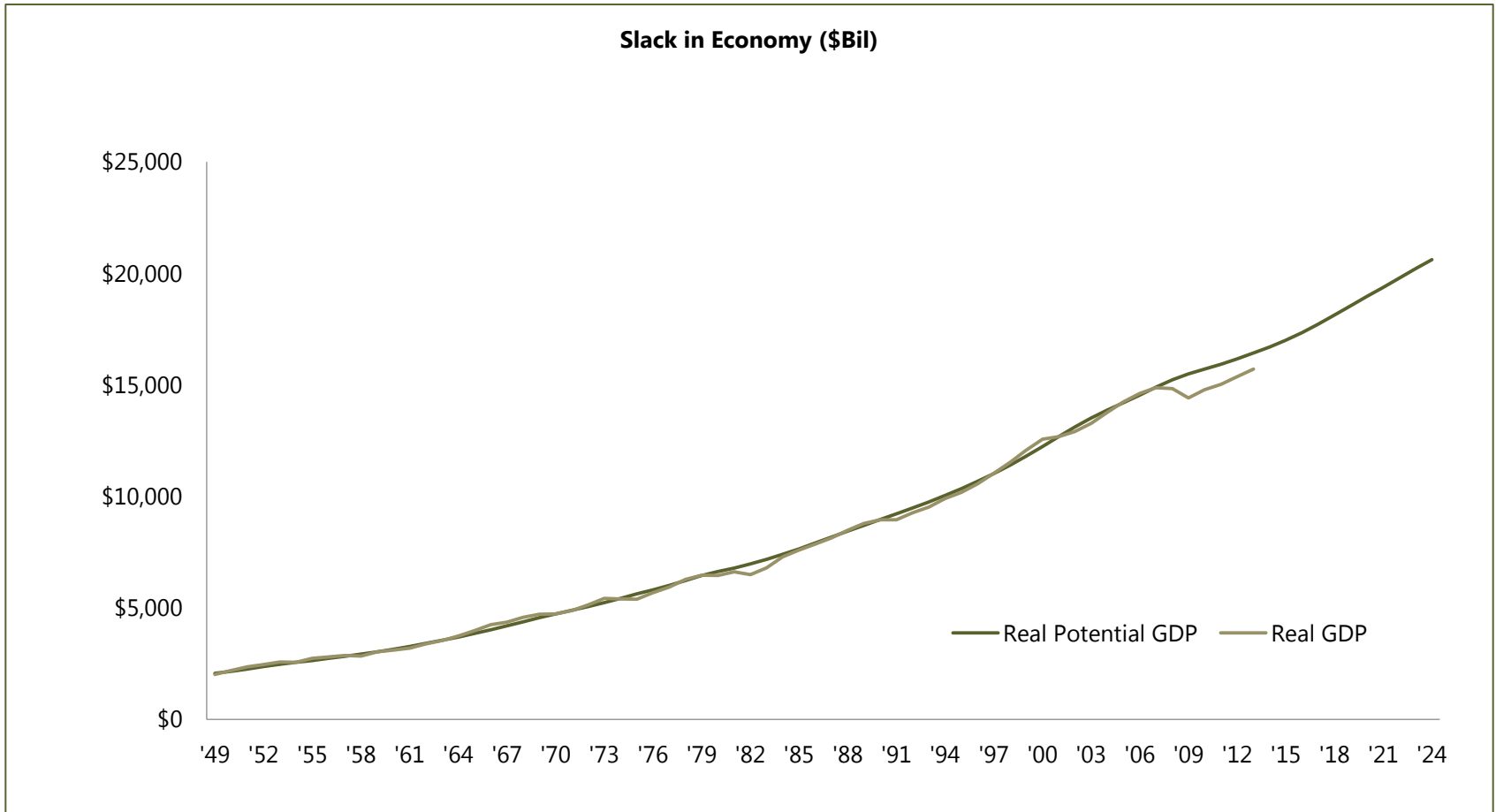
# Nominal GDP Remains Weak

Most economists are calling for US GDP growth of 3% in 2015. Anything less would be considered disappointing at this point in the recovery.



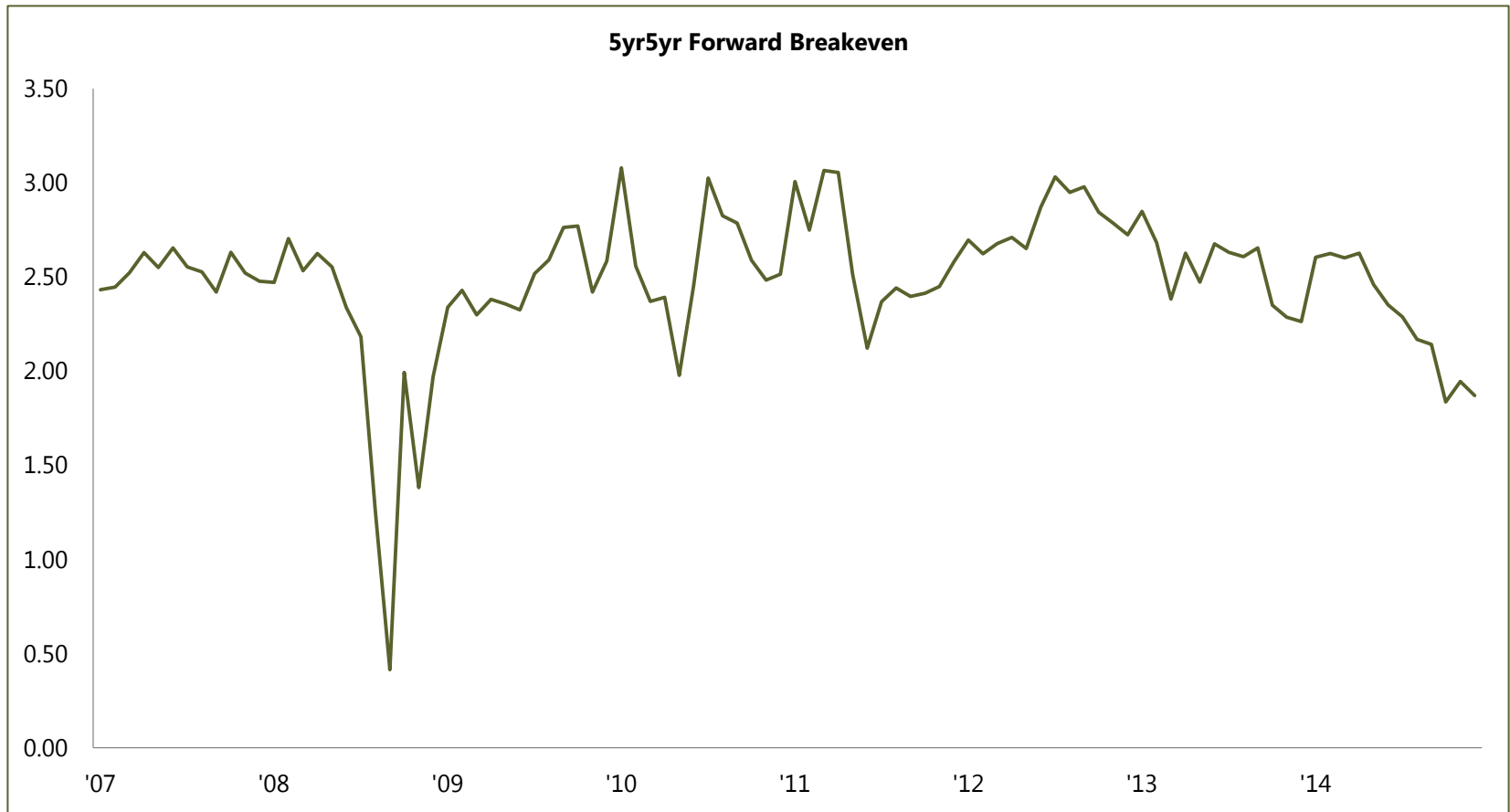
# Slack in Economy?

Part of the reason for the Fed's reluctance to raise interest rates stems from the perceived "slack" in the US economy. We need to close this gap before monetary policy can be tightened.



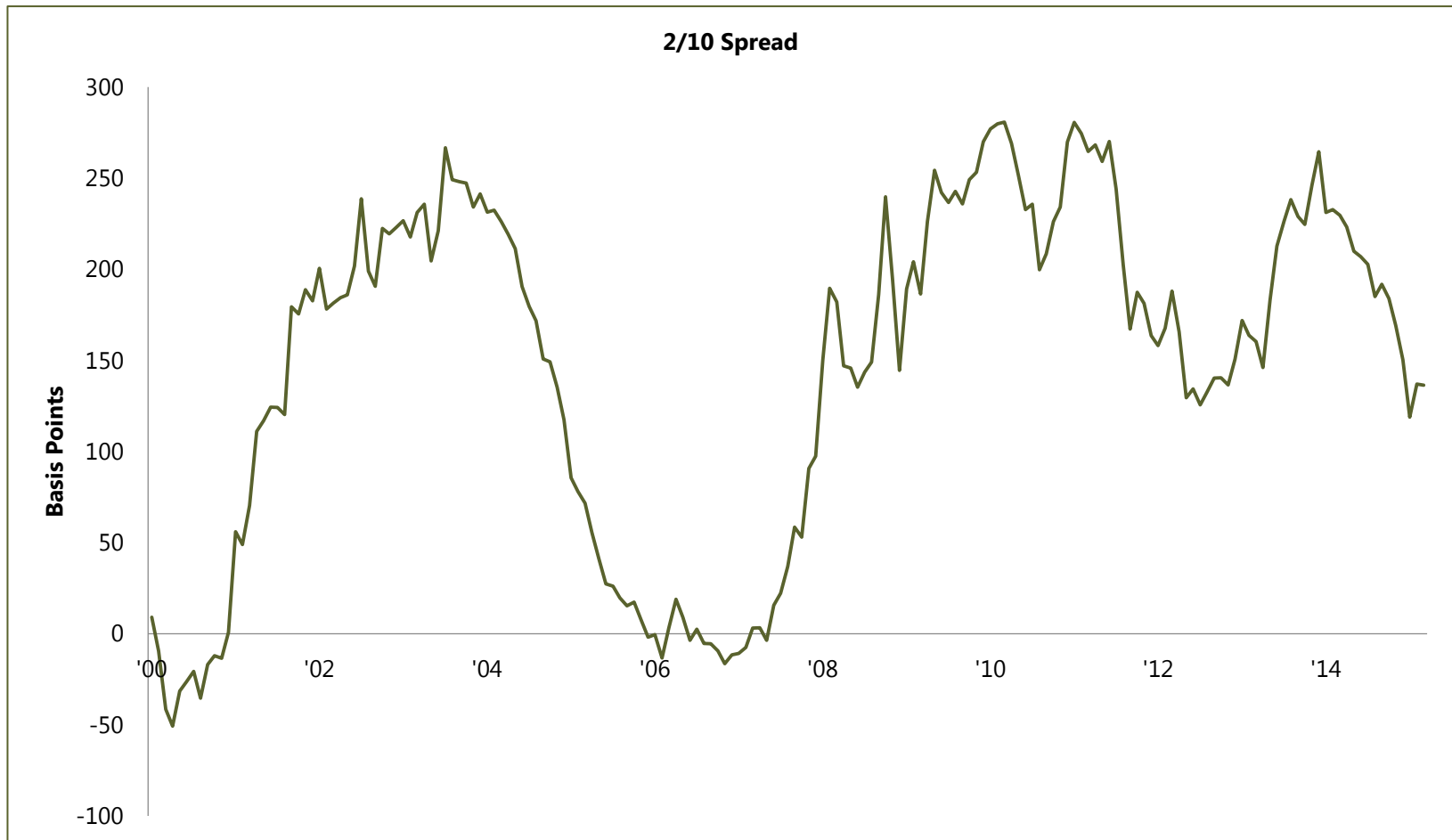
# Forward Breakeven Inflation Expectations

Despite low unemployment and the prospects for high interest rates, the market doesn't seem too worried about inflation as this chart indicates.



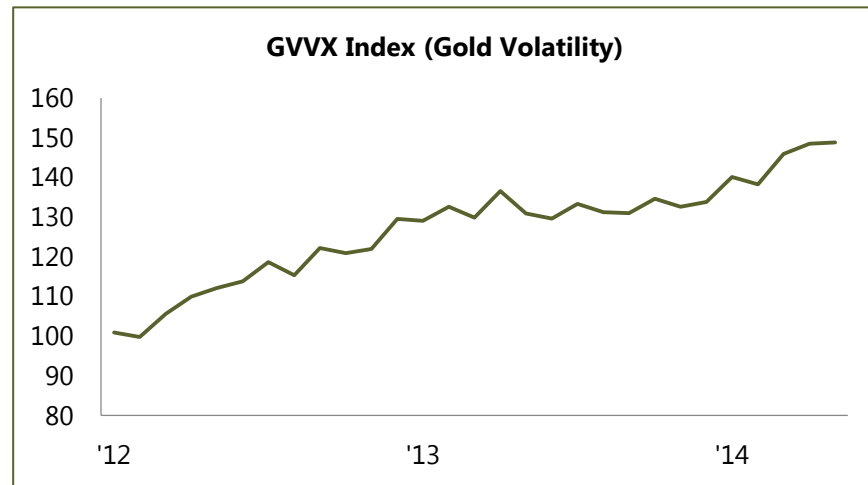
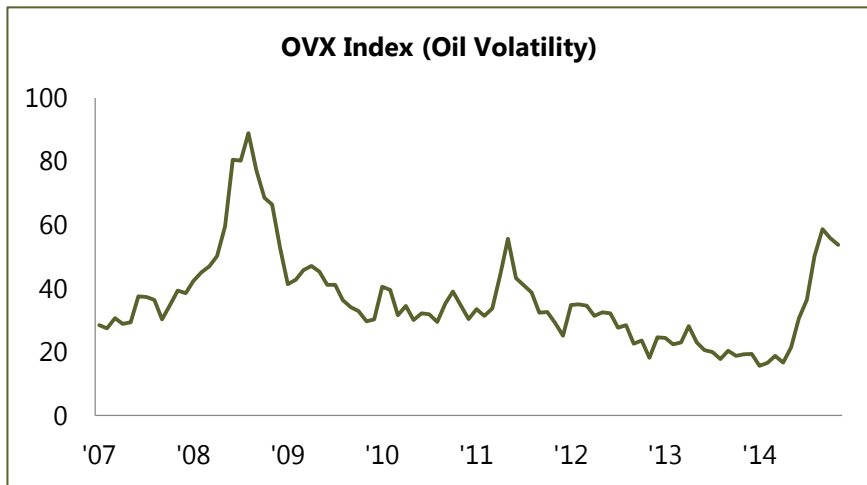
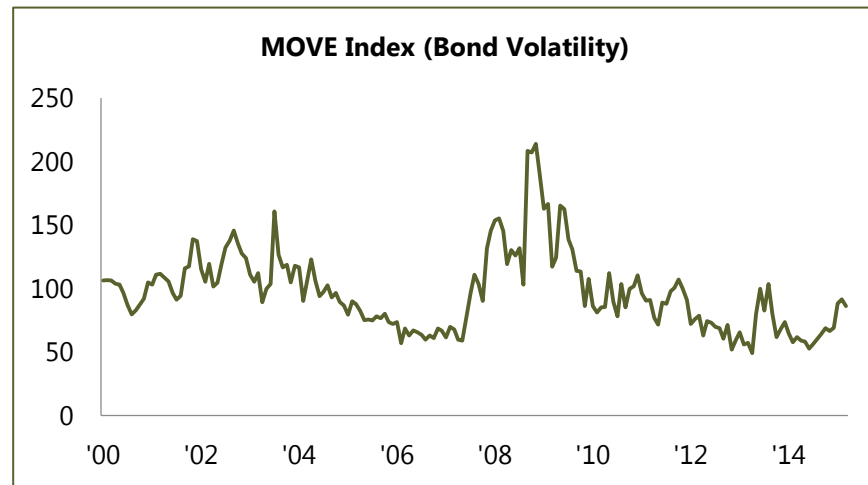
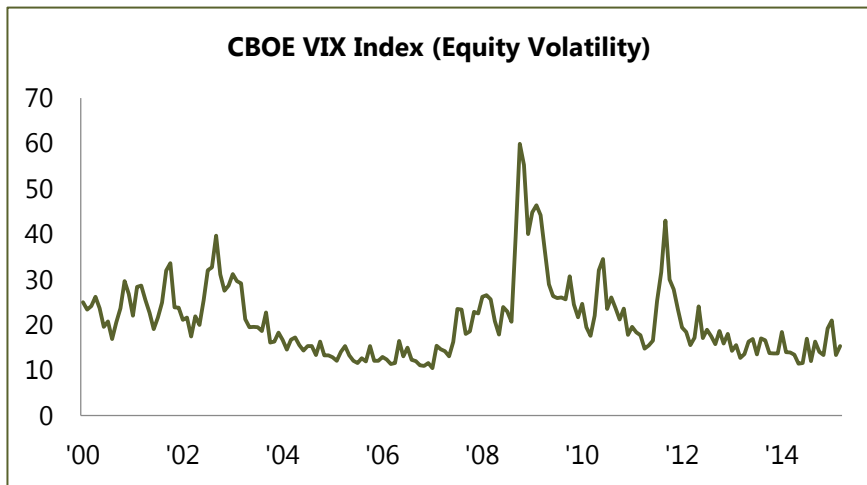
# 2/10 Spread (Bear Flattener Continues)

Inflation remains muted while the Fed's "liftoff" is targeted for the 2nd half of 2015. The curve flattening trend is likely to continue.



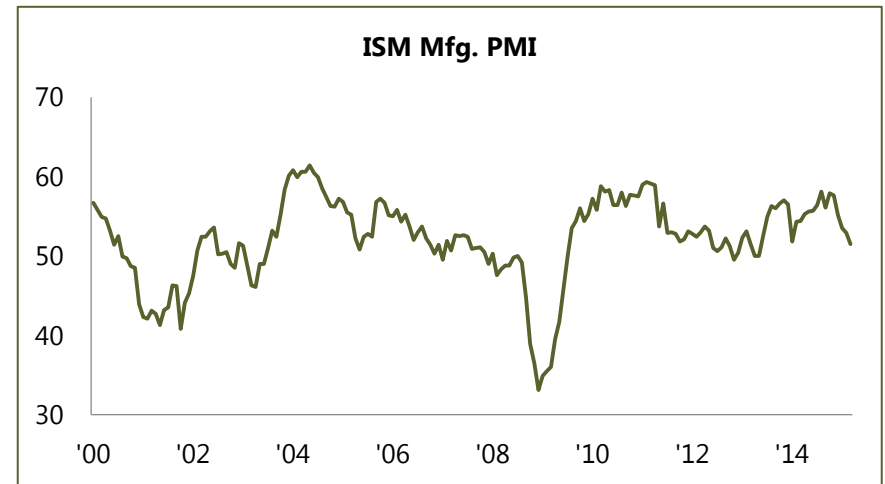
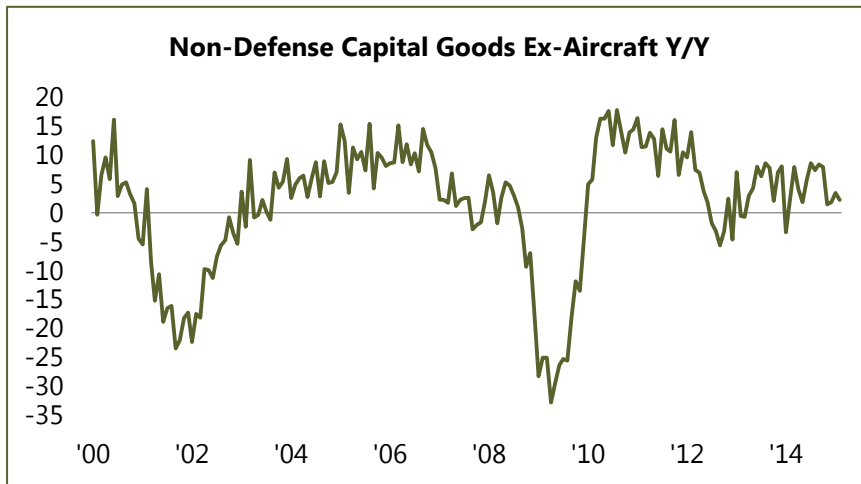
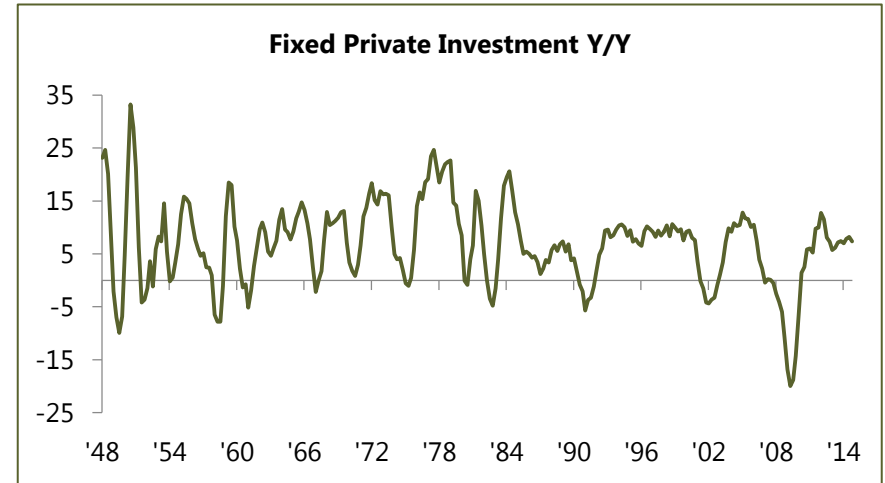
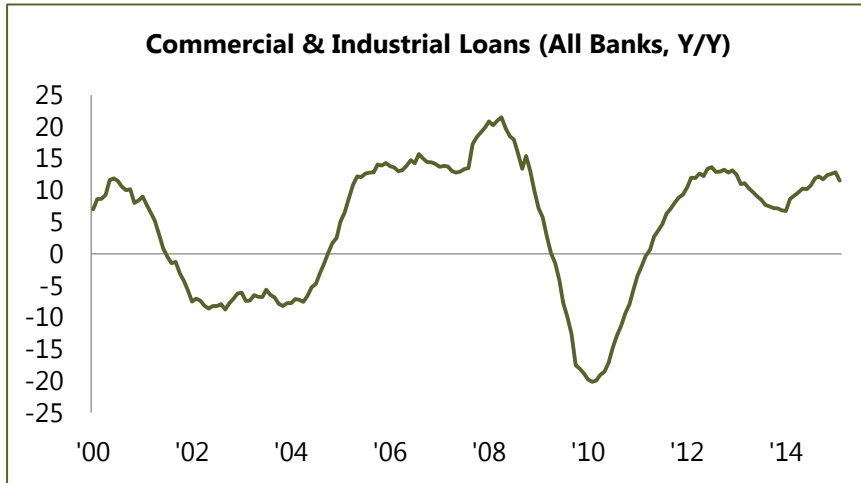
# Volatility Monitor

Broad asset class volatility measures have ticked up in 2015 as US Central bank policy continues to diverge from foreign counterparts.

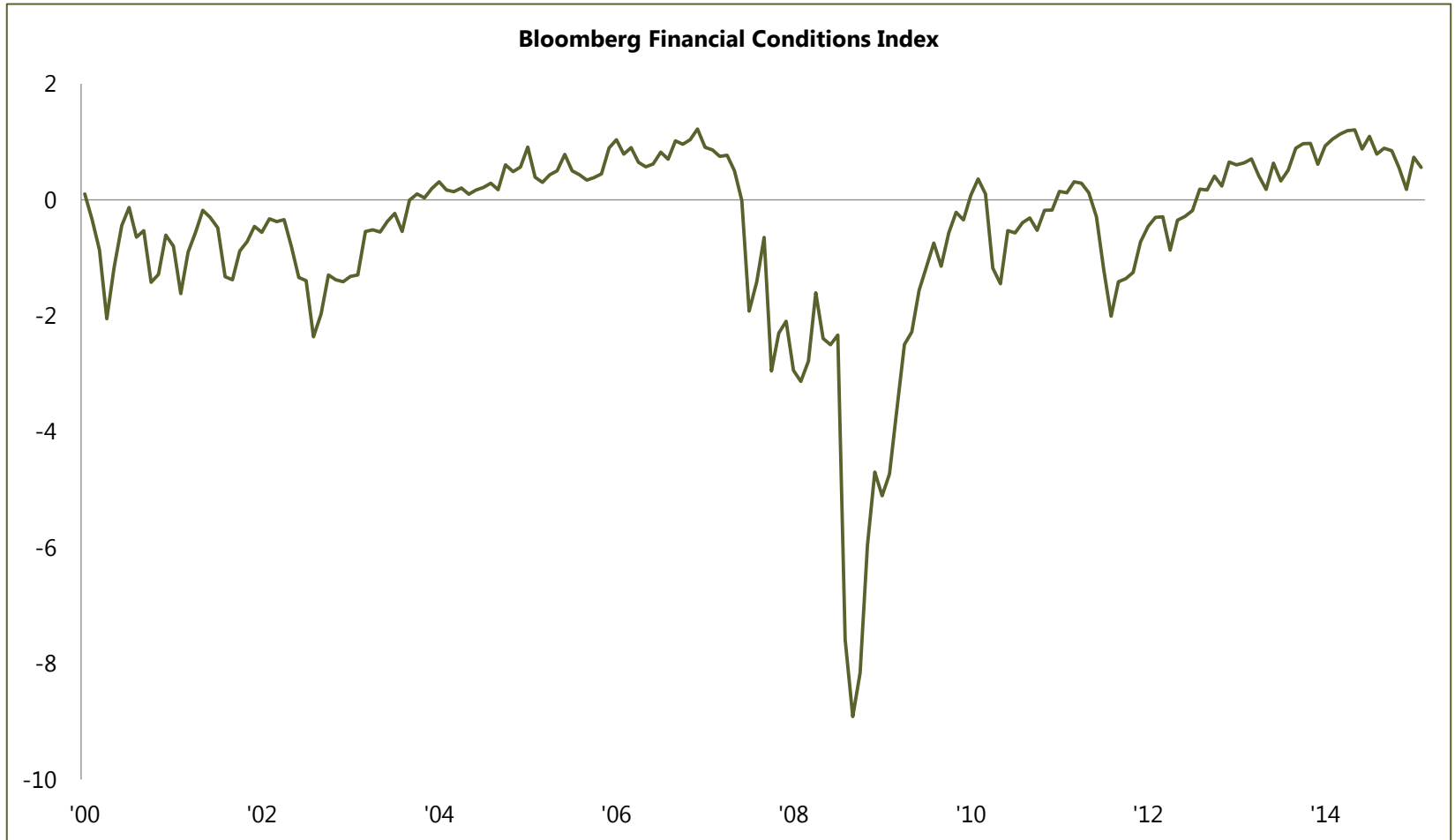


# Key Economic Indicators

The US economy is currently growing at a 2% annualized rate despite increased bank lending and low unemployment. A decline in capex is weighing on manufacturers.

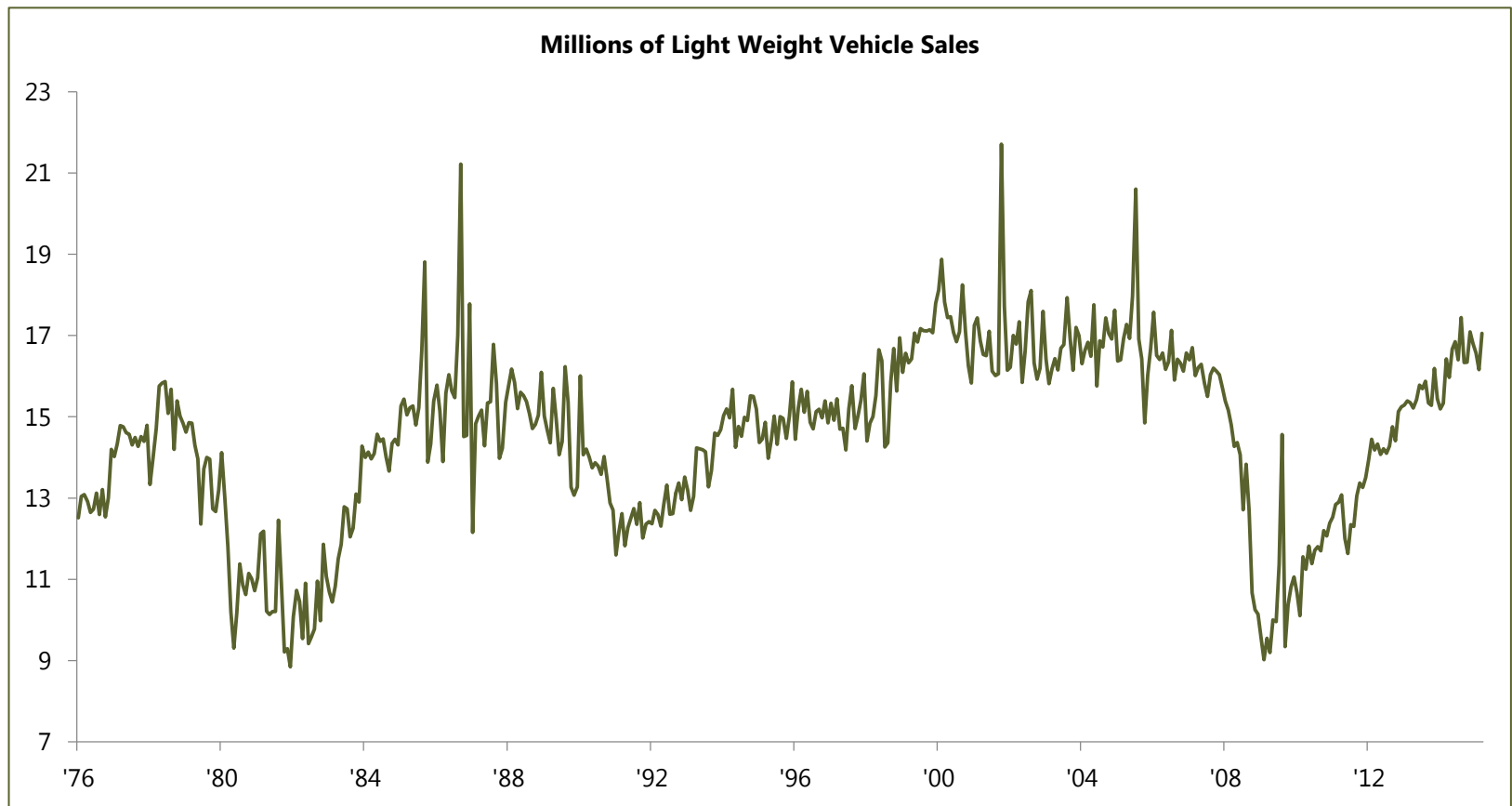


# Key Economic Indicators



# Auto Sales

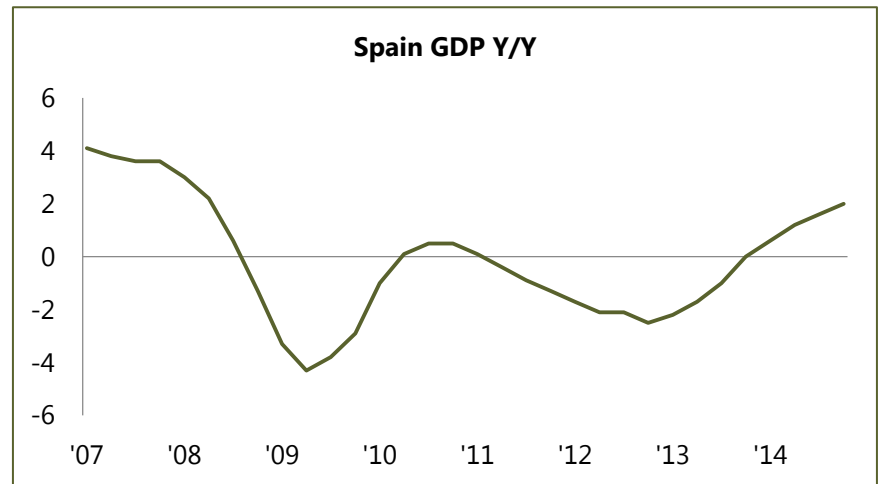
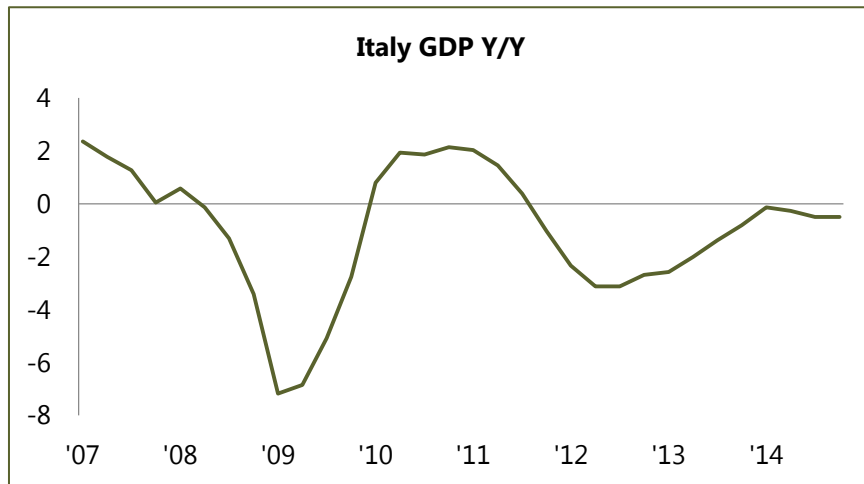
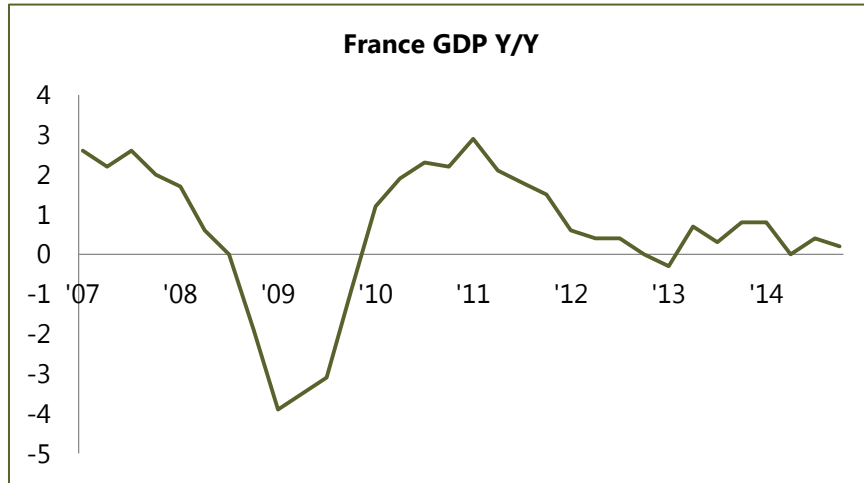
Auto Sales have rebounded sharply from the recession. Even Warren Buffett's in the car business now!





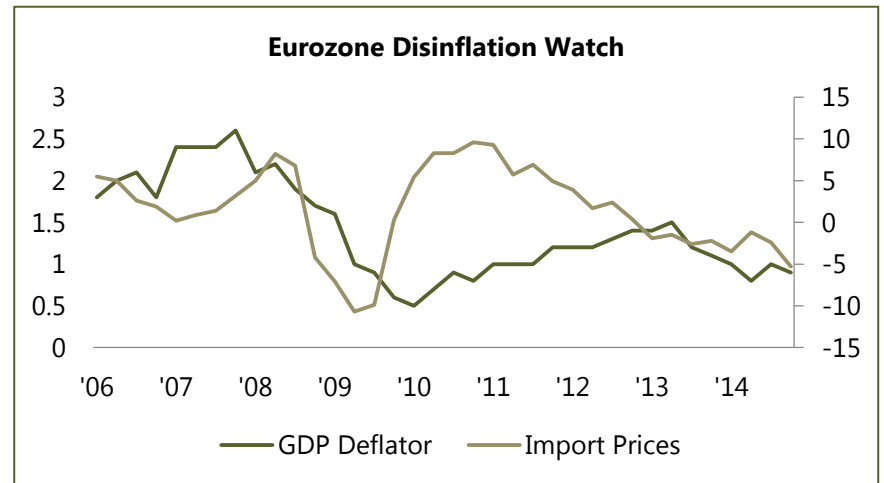
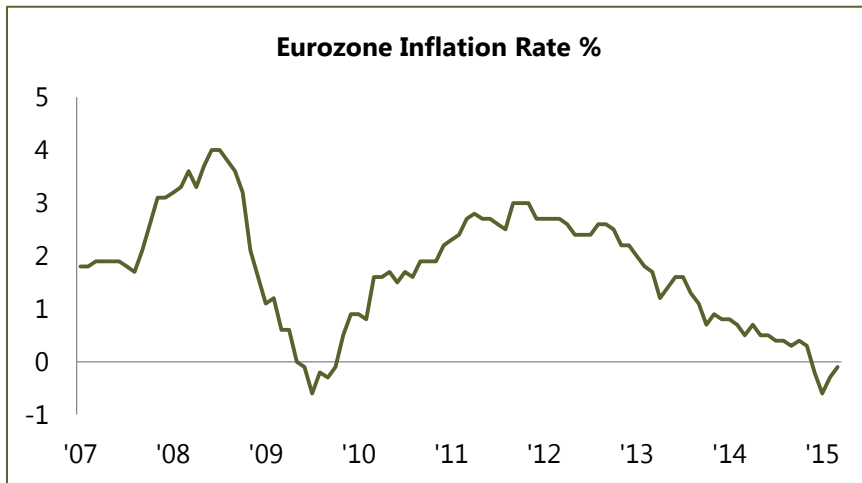
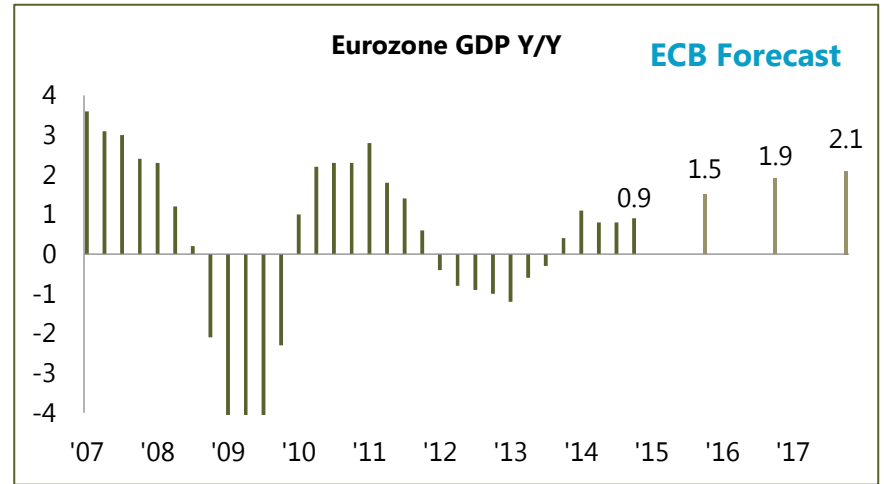
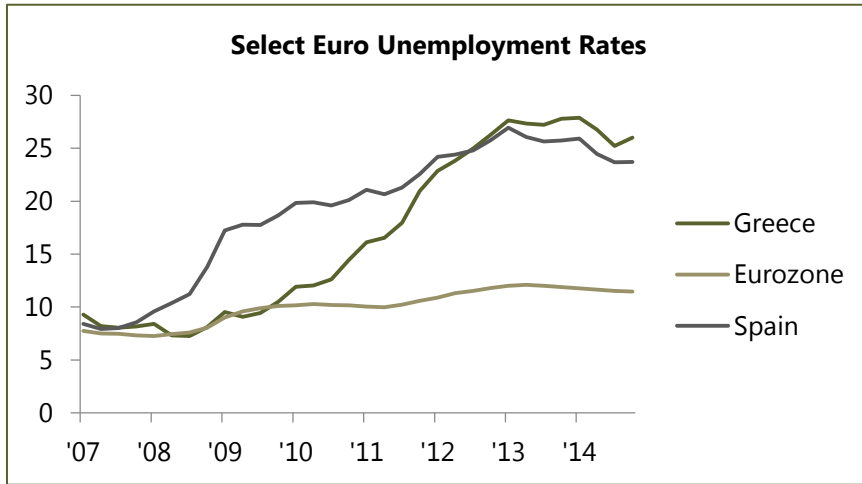
# Eurozone GDP Growth Rates

Tepid growth in the Eurozone has forced the ECB's hand at initiating a large-scale quantitative easing program. The Eurozone economy has responded favorably to the ECB's bond-buying program.



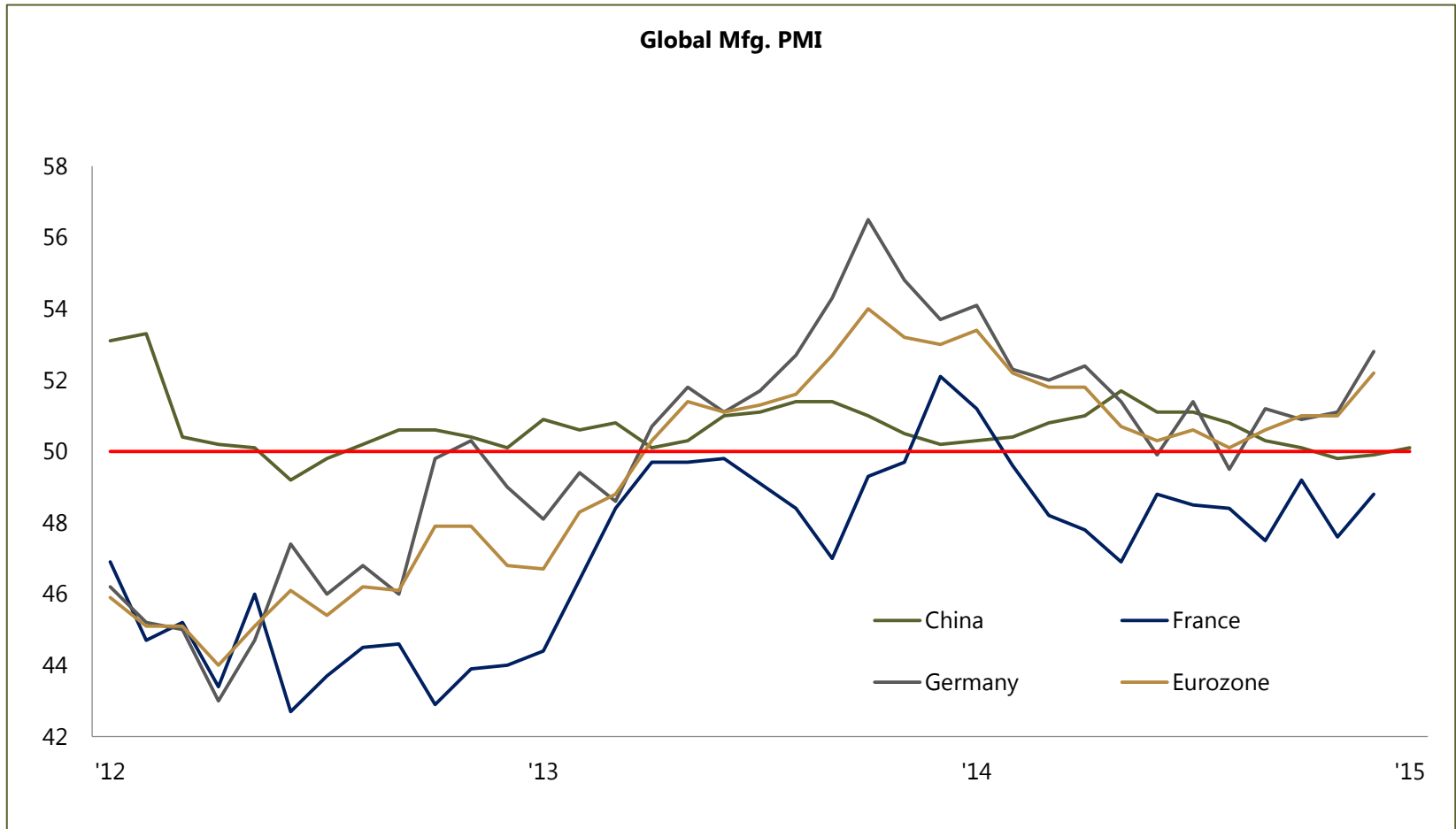
# Eurozone

The ECB's QE program has met with some early success as numerous economic indicators have turned positive.



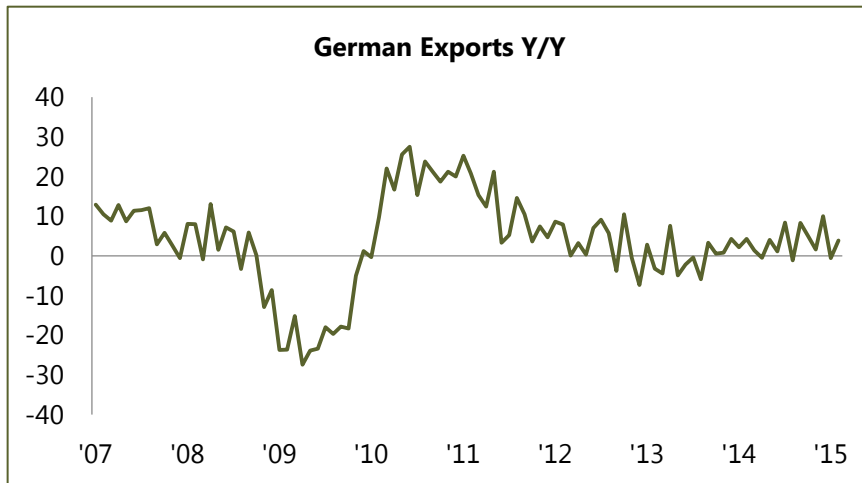
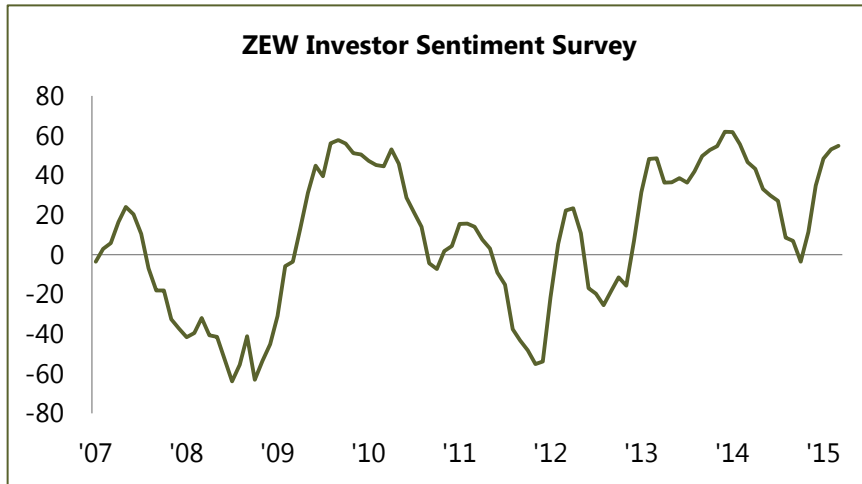
# Global Mfg. PMI

Global Central Bank policy remains highly stimulative, supporting manufacturing around the globe. China remains the wild card as most recent data points to the Chinese economy falling short of its 7% growth target.



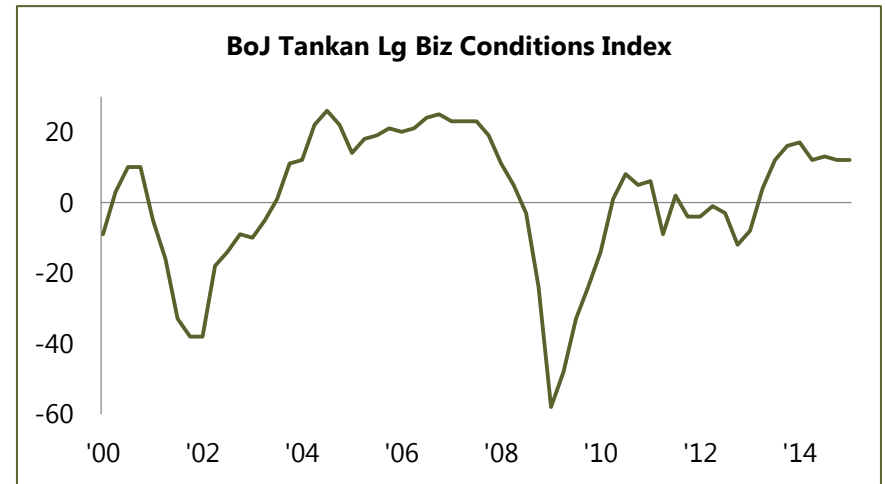
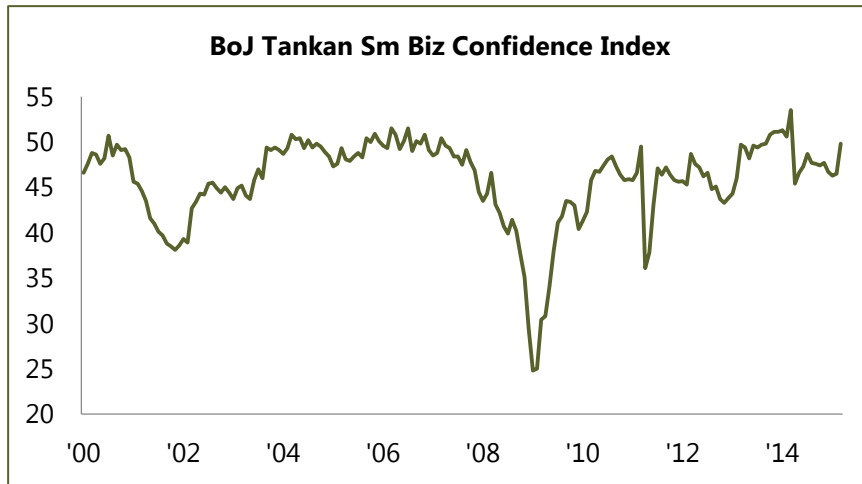
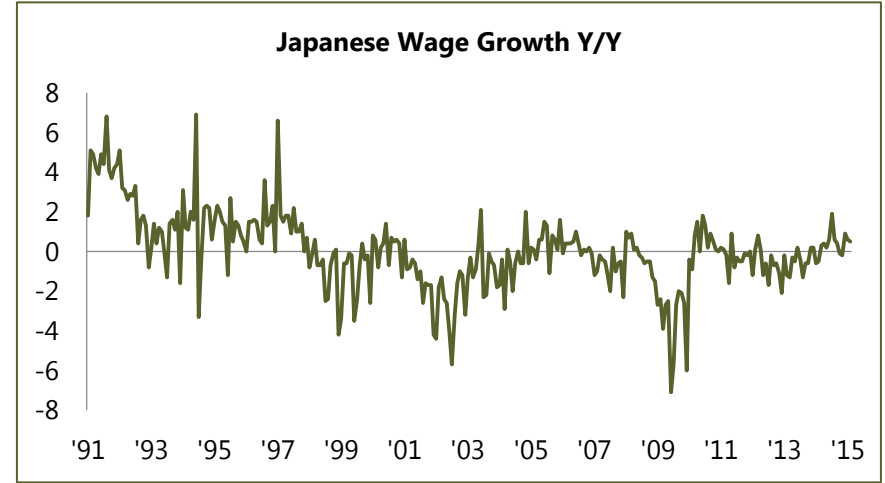
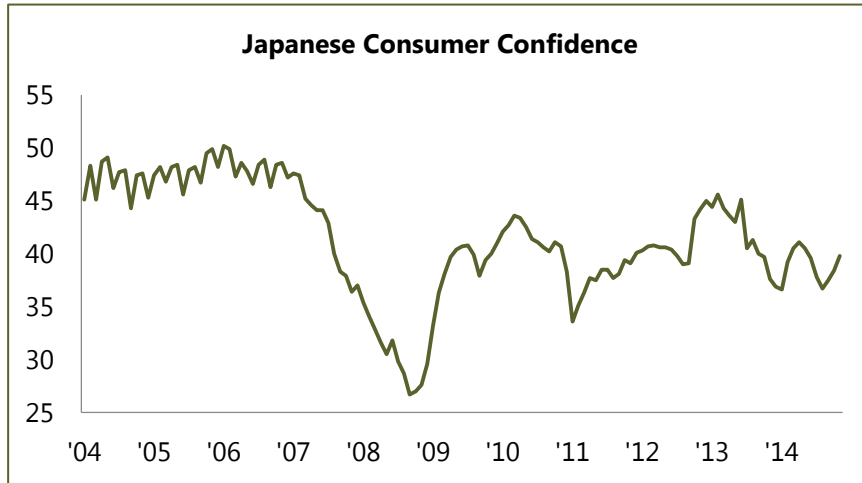
# Germany

Germany is poised to benefit the most from a change in the Eurozone economy as exports account for 45% of it's GDP. It remains the economic engine of Europe.



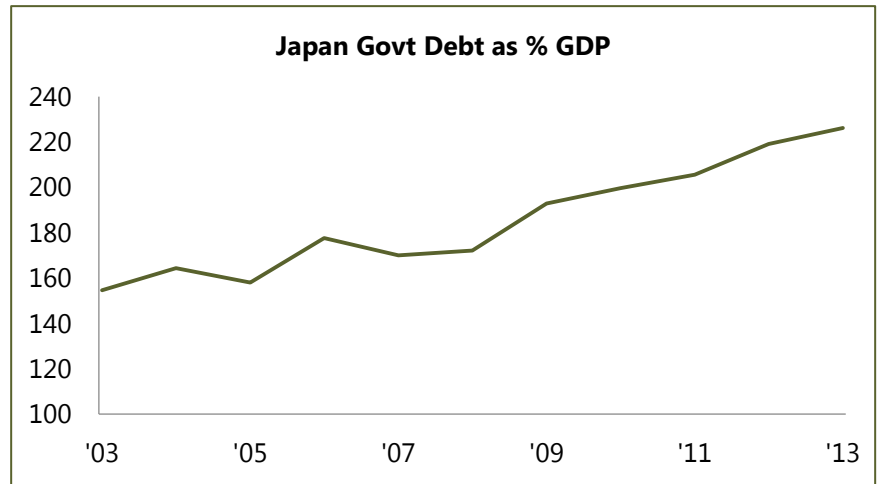
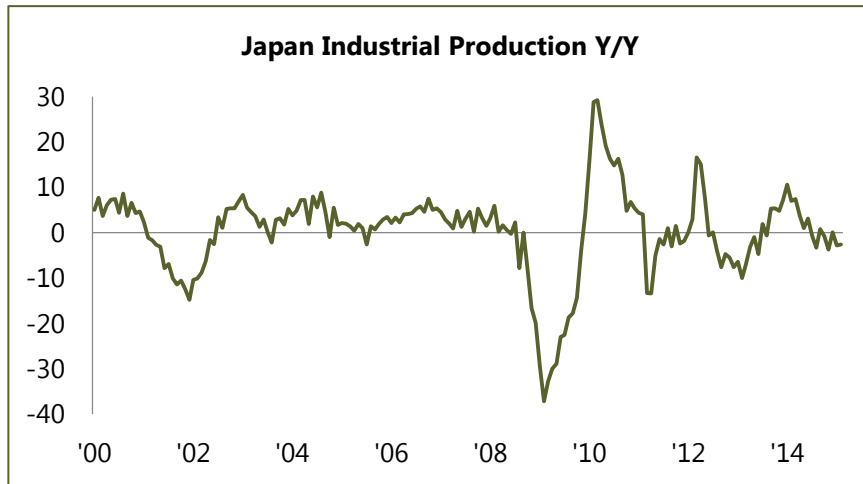
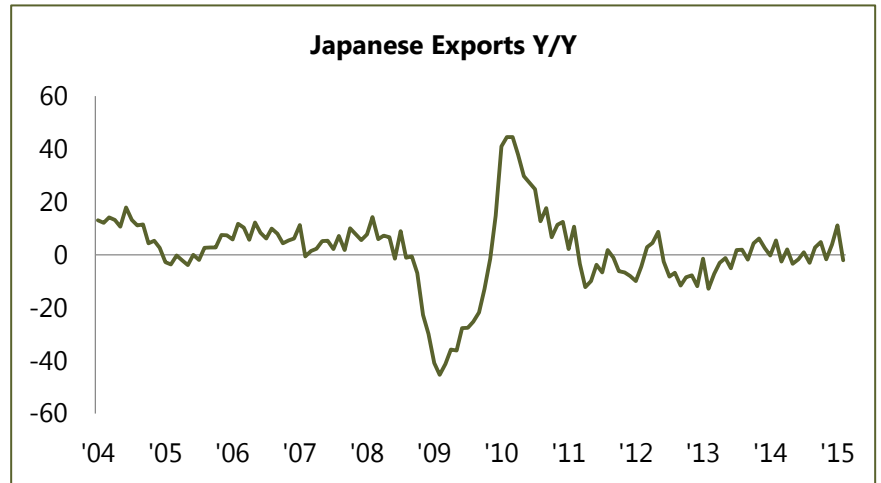
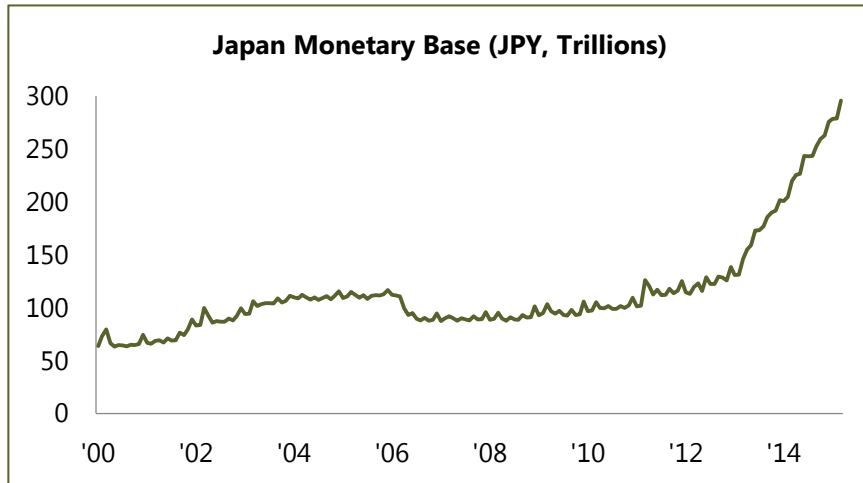
# Tracking *Abenomics*

The early results have been mixed with respect to Japan's latest effort to slay the deflation dragon. A dramatic weakening of the Yen, combined with unprecedented QE and attempts at regulatory reform has boost inflation and raised consumer confidence.



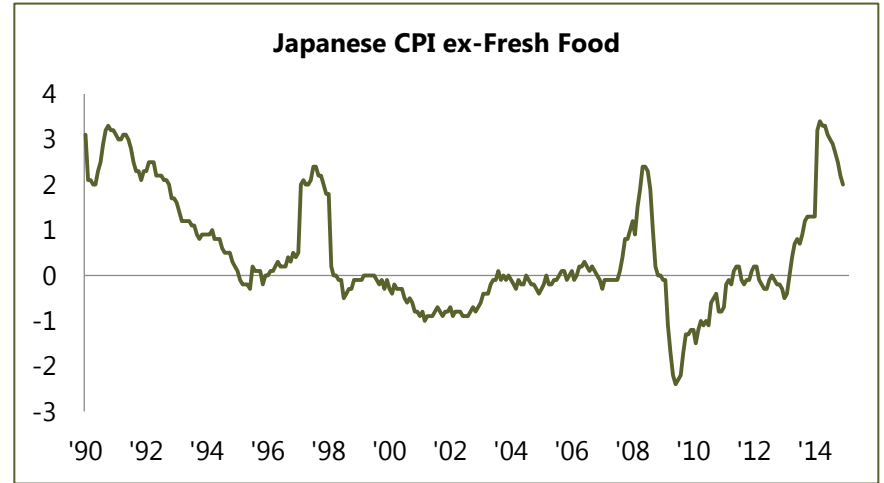
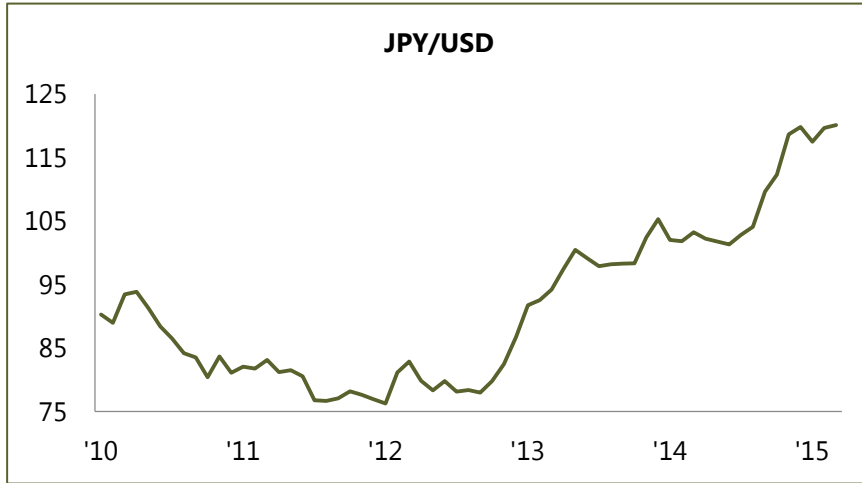
# Japan

It remains to be seen whether or not Japan's policy can influence domestic spending and revive exports. Demographics and cultural trends indicate that this island-nation has a tough road ahead dealing with its massive debt load.



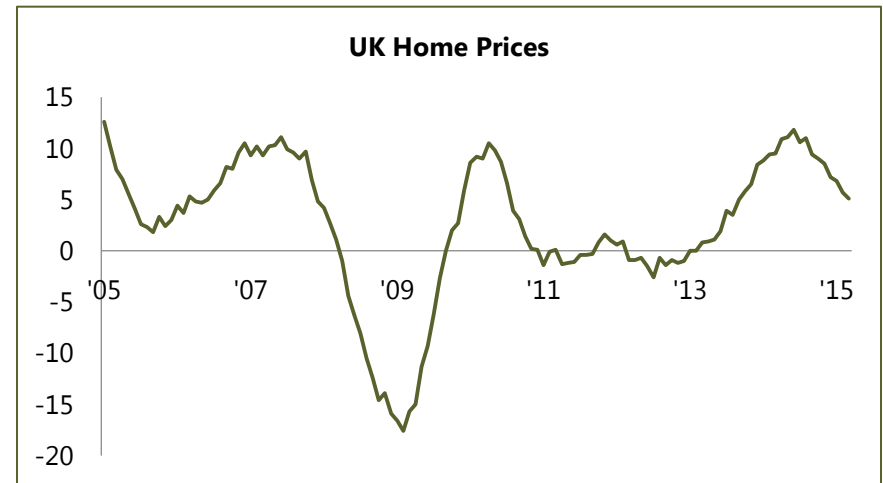
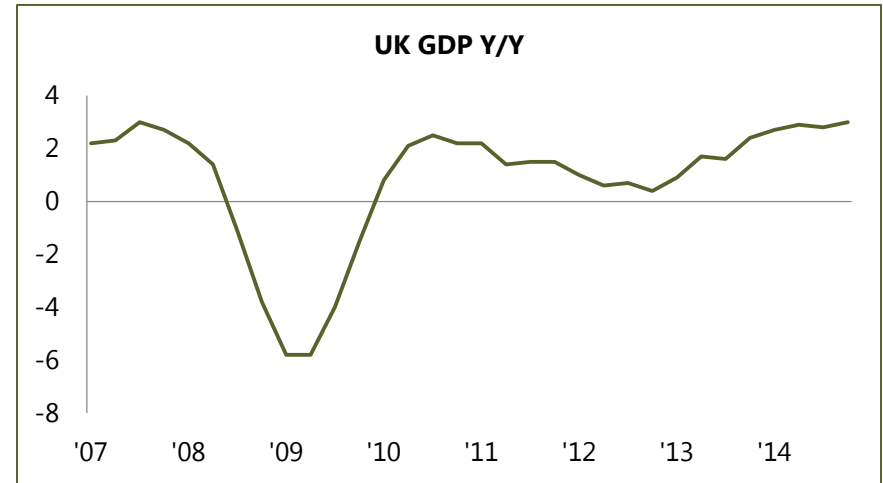
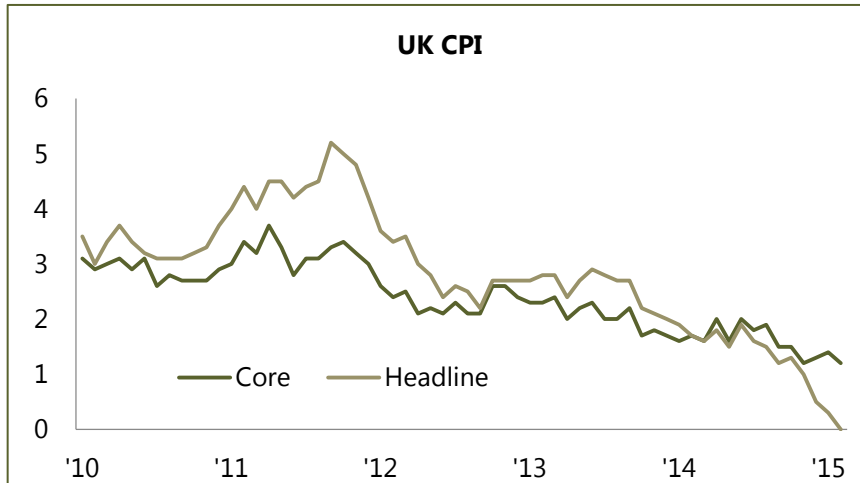
# Yen Continues to Weaken

The Yen has dropped for 80/\$ to 124/\$ over the last 1 ½ years, increasing the attractiveness of Japanese exports.



# United Kingdom

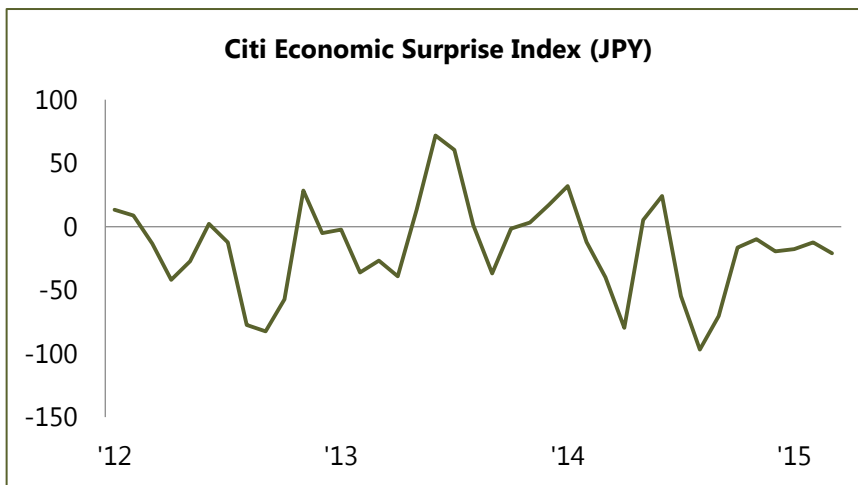
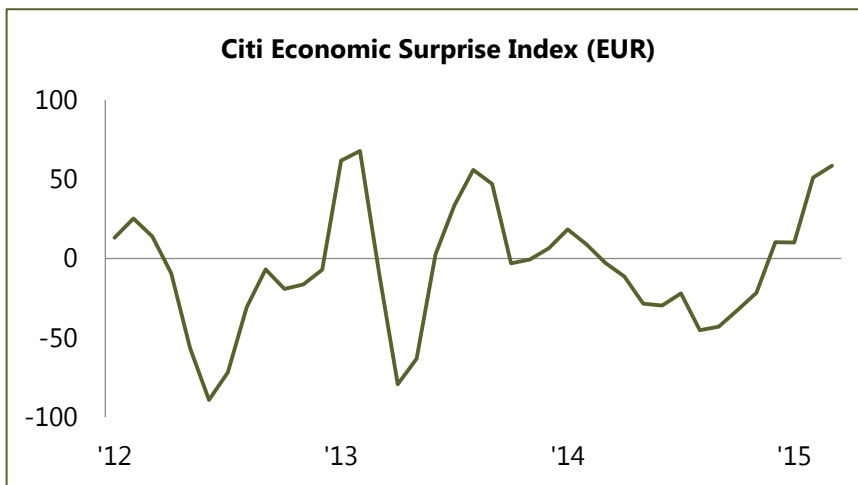
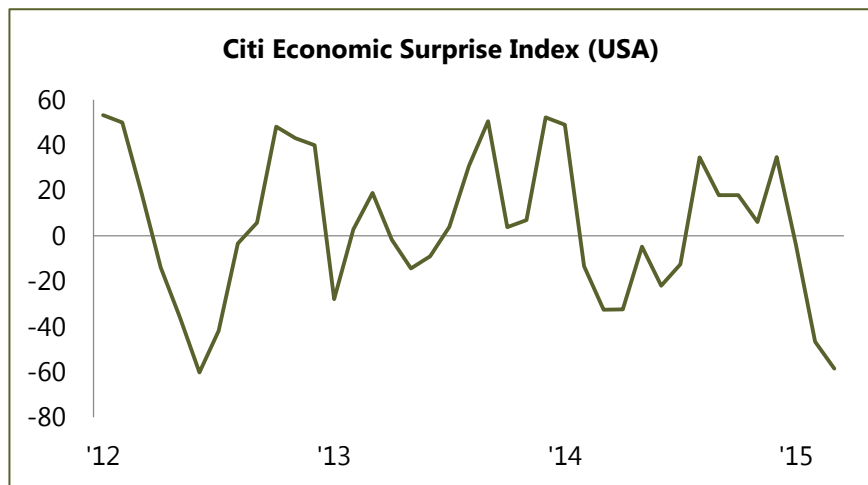
The UK is fighting many of the same disinflationary headwinds as the Eurozone. Home prices are falling, albeit from elevated levels. The UK remains further into recovery than most of its European peers.



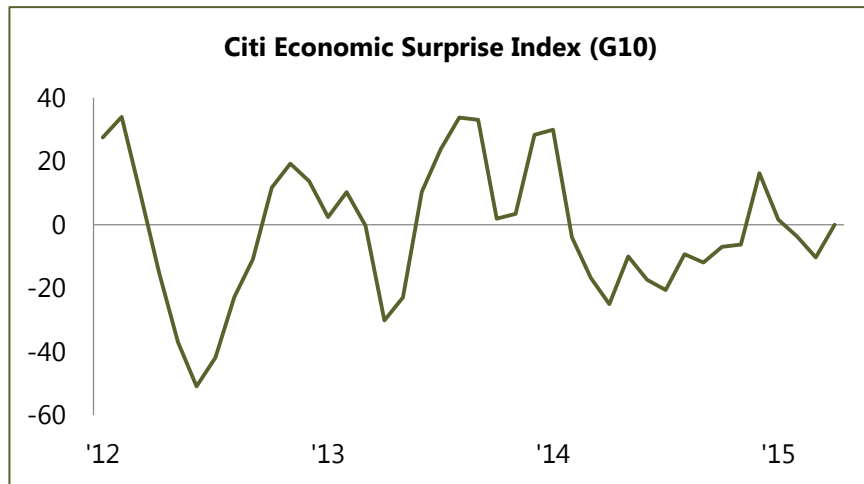
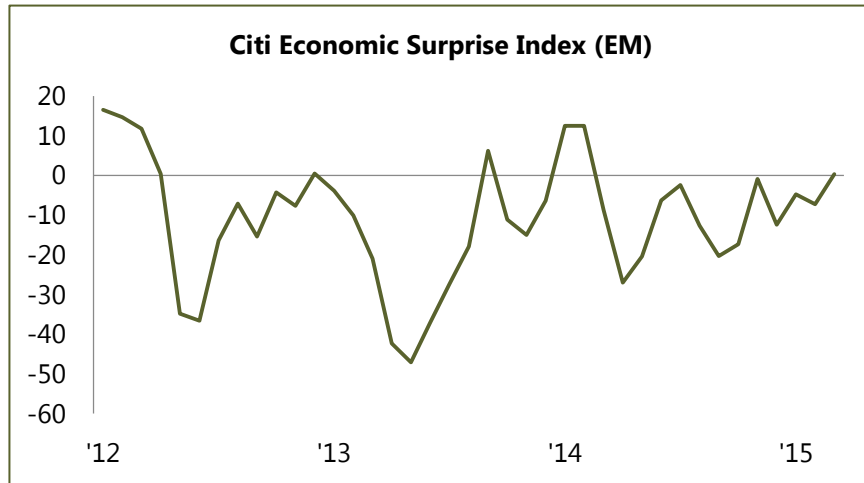


# Economic Surprise Indices

A mixed bag here, with the US showing a surprise decline while European & Chinese indices reflect new Central Bank stimulus efforts.



# Economic Surprise Indices



An Economic Surprise Index reading that is **positive** signals that key economic data releases have **exceeded** market expectations.

# China

Many professional investors remain skeptical of Chinese economic data. Many private industry measures are coming in below “official” readings, pointing to an economy running at a 3-4% growth rate vs. the government’s 7% rate.



# China

Is it 7% as official statistics indicate, or closer to 3% as many private market forecasts imply? Regardless, local Chinese stock markets have skyrocketed higher thus far in 2015.



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All data sources: St. Louis FRED database, Bloomberg, Nottingham Advisors, unless otherwise noted.