Investment Choices or Investor Choices?

By: David Jeter, CFP® — *1st Quarter - 2015*

There are two primary economic stories that are catching our attention as we begin 2015. One is the rise in the value of the U.S. dollar vs. other currencies, and the second issue is the plummeting price of oil. As we think about how last year finished and look forward to 2015, I thought I would provide some thoughts on these two issues.

The U.S. dollar has increased in value by 15% against six other major currencies since June 2014. The causes are primarily two-fold; our economy is doing far better than others around the world, and the Federal Reserve is planning to hike interest rates while Japan and Europe are planning for monetary easing.

Why is a stronger dollar good?

A strengthening dollar can be good news for the U.S. because it often is reflected in low inflation, more attractive interest rates at home versus global alternatives, investment money flowing into the U.S. and an economic strengthening. Also, commodities prices typically fall. All of these items can be beneficial to U.S. consumers because prices are lower, borrowing is easier, and gas costs less, so money can be spent on other things.

What can be the problem?

A problem with such a severe change against other currencies is that it can create some serious instability globally. First, investment monies will rush out of emerging markets, making their economies shaky or recessionary. Second, energy and commodity -related companies will take a hit on their stocks and bonds.

So, a strong dollar is good...getting stronger too fast, is possible trouble.

What about falling oil prices?

Brent Crude, the international benchmark for oil prices dropped below $50 in the first week of January for the first time since 2009. In 2014, prices dropped 48%. Another measure, West Texas Intermediate, the U.S. Benchmark, has fallen 56%. This decline in prices can be attributed to a few things; the U.S. Shale energy boom and declining consumption in Asia and Europe with contracting economies most notably.

As consumers of energy, this is terrific news. Declining prices means less money spent at the pump and more money to be spent elsewhere (or saved!).

As investors it can be a bit confounding. First, as we are still a net importer of oil, and as prices decline, some companies will spend less on energy and more on other capital spending or distribute higher profits. However, energy companies will be making less. They will reduce their investments. They will also have reducing profits. And some state budgets are relying on minimum levels of oil pricing. On the other hand, companies in industries such as auto, airline, etc., have been planning with higher energy prices in mind, and they now may have freed up capital.

Conclusion

My message in regards to this particular 'confoundedness' and to all of my points above , is that I do not intend to try to outguess any market dimension.

Every year there is a level of uncertainty as to what's next. Though there may be a different list of things to be uncertain about, they are always present. Uncertain conditions do not call for bets; they call for balance and diversity.

People abhor uncertainty because it is hard to accept that we do not know the future. I would suggest that attempting to know the future 12 month direction of the stock market this year is somewhere between a waste of time and dangerous .

I would suggest that most times, portfolio damage has less to do with particular ***Investment Choices*** and more to do with ***Investor Choices***; the actions people take thinking they can forecast the near term future of stocks and bonds.

The single best investment advice I think I give to people is to not let inevitable investment setbacks become unrecoverable ones. I would ask people to heed this again in 2015.

In conclusion, my objective is to be aware of the impact of declining oil prices; the strengthening of the U.S. dollar; the impending Federal Reserve rate hikes; the price level of the stock market; and likely low inflation. But, I will serve my clients better by being MORE aware of their target portfolio allocation; their projected income for the year and tax exposure; their household expense level and debt service; and any considerations they are making to change their financial objectives.

If you would like to discuss the subject matter in this article or any question related to your financial planning, please contact David Jeter at djeter@alleghenyfinancial.com or 412.536.8012.