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QUARTERLY COMMENTARY
Fourth Quarter 2014

The theme for investors in 2014, at least in the United States, was "Don't worry; be happy." Anyone who let worries about slowing global growth, unprecedented debt levels, Ebola, terrorism or Russia's theft of Crimea from Ukraine keep them from fully invested positions sacrificed performance.

While worries about deflation put downward pressure on bond yields, aggressive central bank buying was an even bigger factor in pushing prices up and yields down. In our country, the Fed kept short-term rates essentially at zero, penalizing retirees and all others desirous of low-risk returns. In Europe, fears of potential sovereign defaults or of a Eurozone breakup have pushed safe haven fixed income yields to 300 to 500 year lows. Some giant investors, more concerned about the return *of* their money than the return *on* their money, have been willing to pay for the privilege of loaning money to governments considered "safe". In a half dozen northern European countries, investors are willing to settle for negative returns for periods ranging from a few months to a few years. In Germany, the perceived safest of the safe havens, interest rates are negative out to five years.

The willingness to settle for a small negative return is more understandable in Europe than here in the United States. The major stock markets in Europe and around most of the world were down in 2014. Similarly, the US markets were down for the year when the markets tumbled in September and October. The coordinated verbal rescue efforts, however, by the Fed, European Central Bank, Bank of England, Bank of Japan and People's Bank of China stopped the decline and turned prices back up. While US prices moved from negative into the plus column, they stayed negative for the year throughout most of the rest of the world. Clearly, investors are still responding enthusiastically to central bank promises of further stimulus and support.

It is tremendously frustrating to investors--like Mission--that prices respond more directly to promises by central bankers than to fundamental economic and corporate data. While market prices throughout history have always eventually reverted to valuation and other fundamental means, such factors are far from accurate timing criteria. There is, in fact, a venerable old saying that markets can remain irrational longer than you can stay solvent.

Our primary concern, as we have communicated repeatedly, is the exploding level of debt, both domestically and internationally. Virtually all major stock market declines have followed outsized debt expansions. Debt extremes throughout history have invariably led to lengthy periods of below par business conditions, and some of history's most severe stock market declines. Central bank rescue efforts

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have raised debt totals to levels that would have been inconceivable just six years ago. In response to prodigious increases in money supply and debt in countries worldwide, currency wars loom as a significant risk in 2015.

When the Fed commenced its experimental monetary policy a few years ago, virtually all analysts said something to the effect of: "This will undoubtedly end badly, but it will help in the meanwhile." Since no horror has yet unfolded, and Fed intervention has been greeted with ever-higher stock prices, we no longer hear about such intervention ending badly. Additional Fed support is seen as all good. Even though history argues convincingly that excessive debt build-ups will ultimately be punished, investors have adopted the Scarlett O'Hara approach. They'll worry about that tomorrow. For clients who, for the most part, are not able to replace substantial lost capital, we are not inclined to assume high levels of risk in a historically dangerous debt environment. For a fuller analysis of the debt situation, refer to our Quarterly Commentary for the third quarter of 2014. You can find this on the blog page of the Mission website, under October 2014. The link is as follows:
http://www.missiontrust.com/blog/2014/10/quarterly-commentary-third-quarter-2014/

In the shorter term, what horror could Fed Governor Charles Evans have been anticipating in his comment last week that it would be a "catastrophe" if the Fed raised short-term interest rates above zero any time soon? If the domestic economy would find it catastrophic if short rates were above zero in the sixth year of recovery from recession, conditions are far from sound.

Investors and investment managers alike are faced with a critical dilemma. Do you maintain your assets in concert with fundamental conditions and historical probabilities, or do you simply go with the flow, throw caution to the wind and cast your lot with central bankers? The latter approach has been winning recently, but the former wins eventually unless excessive debt becomes irrelevant.

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