**Market Commentary**
- What Happened in 2014?

**Investment Perspectives**
- 2015 Outlook: Global Crossroads

**Lifestyle Reflections**
- 5 Things We Learned Last Year (And Still Can in 2015)
- A New Year Brings a New Way to Budget: Calibrate Your Spending for Retirement!

### 4TH QUARTER RETURNS

<table>
<thead>
<tr>
<th>Category</th>
<th>Return</th>
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<tbody>
<tr>
<td>Bonds</td>
<td>+1.8%</td>
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<tr>
<td>Barclays U.S. Agg. Bond Index</td>
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<tr>
<td>U.S. Large Stocks</td>
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<tr>
<td>S&amp;P 500 Index</td>
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<tr>
<td>U.S. Small Stocks</td>
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<td>Russell 2000 Index</td>
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<tr>
<td>International Stocks</td>
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<tr>
<td>MSCI EAFE Index</td>
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<tr>
<td>Emerging Market Stocks</td>
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<td>MSCI Emerging Markets Index</td>
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<tr>
<td>Real Estate</td>
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<tr>
<td>S&amp;P Global REIT Index</td>
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<tr>
<td>Commodities</td>
<td>-12.1%</td>
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<td>Bloomberg Commodity Index</td>
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</table>
**Low Inflation**
- The latest report: CPI = 1.3%

**Fed Ends An Era**
- Quantitative easing came to an end
- Interest rates remained stable

**Improving Jobs Picture**
- U.S. unemployment drops to 5.8%
- Finally below the long-term average of 6.1%

**Eurozone Unsteady**
- Shaky 2014
- Favorable valuations (Forward P/E 13.8 MSCI Europe)

**GDP Growth**
- 3rd Quarter GDP increased by 5% annualized
- Best six-month pace since 2nd half of 2003

**U.S. Fiscal Policy**
- Congress passed the Cromnibus bill to fund the federal government through September 2015

**Housing Recovery**
- Starts still recovering
- Existing home sales above year-over-year levels

**Oil Plummeting**
- Below $50 a barrel
- U.S. #1 in oil production
- Gas prices down to $2.18 (AAA)

**U.S. Corps. Growing**
- Sales, earnings, and margins growth accelerating
- ISM indexes indicate economic growth

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**WHAT HAPPENED IN 2014?**

**JANUARY**
- Latvia adopted the Euro, became 18th Eurozone member
- Chemical spill causes water ban in West Virginia

**FEBRUARY**
- Yellen sworn in as Fed Chairperson
- 2014 Winter Olympics XXII in Sochi

**MARCH**
- Russia formally annexed Crimea
- W.H.O. released 1st report on Ebola in West Africa

**APRIL**
- U.S. sanctions against Russia went into effect
- Boko Haram abducted over 200 schoolgirls in Nigeria

**MAY**
- DJIA and S&P 500 hit record highs of 16,695 and 1,896 respectively
- California Chrome won the Kentucky Derby

**JUNE**
- ISIS/ISIL offensive in northern Iraq
- 2014 FIFA World Cup soccer tournament began

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**Stocks tend to climb a “Wall of Worry,” and there continued to be many things to worry about in 2014:**

- ISIS in Iraq and Syria
- Ebola
- Shaky European economy
- QE ending
- Possibility of rising U.S. interest rates
- Mid-term elections
- Slowdown in China
- Uncertainty in the U.S. economy

And yet, the S&P 500 climbed over 210 points higher in the past year.
A brief look back at some of the economic, natural, political, and societal events that shaped 2014.

JULY
- Malaysia Airlines Flight 17 shot down over Ukraine
- Argentina defaulted on part of their debt

AUGUST
- U.S. began air campaign in Iraq vs. ISIS
- Unrest in Ferguson, MO after police officer Darren Wilson shot and killed Michael Brown

SEPTEMBER
- Scotland votes “no” on independence referendum
- Alibaba IPO lists on NYSE
- Bill Gross left PIMCO

OCTOBER
- Pope Paul VI beatified by the Roman Catholic Church
- Virgin Galactic Spaceship Two crashed in the Mojave Desert
- First U.S. Ebola patient died

NOVEMBER
- Rosetta spacecraft Philae lander reached comet
- China and U.S. reached landmark agreement on climate change

DECEMBER
- Cromnibus (continuing resolution) passed Congress
- Protests erupted after Eric Garner case decision

Diversification Frustration

Q: International markets tumbled for most of the year. So, why continue to invest globally?
A: Because no market always wins.

85%

Active Management Didn’t Work

Active Costs More Too
- 0.89% = Cost of actively managed equity funds
- 0.65% = Cost of actively managed bond funds
- 0.25% = Average cost of funds used in Savant model portfolios

Performance Heat Map

Since 1990, the non-US Stock Market beat the U.S. more than half the time.

-6.0% U.S. Bonds
+4.5% U.S. TIPS
+4.9% U.S. Small Stocks
-2.2% E.M. Stocks
-3.1% Int’l Small Stocks
-17.0% Commodities
-4.9% Int’l Large Stocks

+9.9% Int’l Bonds
+22.8% Global REITs
+13.7% U.S. Large Stocks

Sources: alliancebernstein.com, bea.gov, fa-mag.com, fidelity.com, lci.org, Lipper, Morningstar Direct, realtor.org, time.com, usinflationcalculator.com, vanguard.com, wikipedia.org
Our world is increasingly interconnected, yet as we look forward to 2015, many of the countries driving global growth are currently on very different economic paths. Most face some type of crossroads in the near term. In the U.S., corporate profits and economic growth are moving forward, but we are likely at a turning point with monetary policy and interest rates. Europe and Japan have experienced very low growth, and their central banks are weighing various tools to stimulate their economies. In China, the economy is slowing from double-digit growth rates to a more sustainable level as the Chinese government attempts to steer from an export-focused economy to a consumer-driven economy. With so many different stories playing out across the world, it is more important than ever to remain diversified!

2015 Outlook

**ECONOMY**

**Global Economic Recovery Continues**
- U.S. likely leads developed countries in economic expansion supported by solid corporate profits and strong consumer balance sheets.
- China continues slowdown to a more sustainable level.
- Europe and Japan remain fragile with slow growth.

**STOCKS**

**Fundamentals Diverge**
- U.S. markets are no longer cheap but may still reach new highs given the low interest rates and strong corporate balance sheets.
- Developed international and emerging markets will likely be volatile as they work through economic issues. If the U.S. dollar continues strengthening, it will detract from international returns for U.S. investors.

**BONDS**

**Central Banks Take Action**
- The U.S. Federal Reserve ended quantitative easing* and will be patient before starting to increase short-term interest rates. Short-term rates might get a small hike in 2015, but rates will still be very low.
- Central banks in Europe and Japan will become even more accommodative with potentially lower rates and use of quantitative easing programs.

**LONG-TERM**

**Higher Global Growth**
- U.S. economy has significant drivers of future growth, such as energy, a solid labor market, and a resurgence of manufacturing.
- China’s economy gradually becomes less export-driven and more consumer-driven which is better for long-term growth.
- Non-U.S. developed countries get back on track with healthier economies.

**Valuations Support Average to Above-average Returns**
- U.S. stock valuations combined with low expected inflation are likely to produce average to slightly below average returns in the 9-10% range.
- International stock valuations are 10-20% below long-term averages suggesting returns could be above average in the 10-12% range for the long term (developed markets at lower end, emerging markets at higher end).

**Low Yields Support Future Growth**
- U.S. interest rates will gradually increase but should be contained and nowhere near the levels of the 70s and 80s.
- Interest rates in non-U.S. countries should remain low in order to support global growth.
- With such low rates globally, bond returns will likely be in the 3-5% range – lower than historical returns.

* see How QE Works on page 5 for more details
Stay Global, My Friends!

One thing we know for certain is that successful investing requires discipline. At Savant, one of our core investment philosophies is that global diversification over time can reduce volatility and increase portfolio returns – the best of both worlds in investing. The key to that philosophy is that it works “over time” and requires patience and discipline in order to receive the benefits. 2014 was one of those years when that discipline proved to be challenging or even frustrating since U.S. stocks were on an amazing winning streak compared to the rest of the world. In fact, U.S. stocks outperformed international stocks for 18 of the past 24 months.

Instead of trying to time which market will do best, we remain diversified in as many countries as possible; there is exposure to over 50 countries and 19,000 stocks in the stock portfolios we manage. History has proven that winning streaks can quickly end, and another market can take the lead. Thus, a consistent diversified approach has worked best over time. Take a look at the hypothetical outcome of 45 years of investing in a globally diversified portfolio with about 2/3rds in U.S. stocks and 1/3rd in international (developed and emerging markets) stocks. (Figure 1) The combined portfolio (#3) had lower risk and a higher ending portfolio value than investing in just U.S. stocks.

Throughout that period, U.S. stocks performed better some years while international stocks performed better in others, and sometimes one market led for multi-year periods. (Figure 2) These trends can happen and will happen in the future, but in the end a diversified portfolio outperformed both.

QE Made Easy

As the U.S. Federal Reserve officially ended its stimulus program and the European Central Bank considers launching a program of its own, quantitative easing, or QE, has been a buzzword lately. Simply put, QE is a tool central banks use to inject cash into banks in order to help stimulate the economy.

Why would a central bank implement QE? In the U.S., the Fed has several monetary policy tools such as the federal funds rate and bank reserves. These tools are used to help avoid deflation and also to spur a sputtering economy. Recently, however, central banks have turned to quantitative easing when they felt they have exhausted the use of their other tools.

How does QE work? (Figure 3) It is not exactly printing money, as it is so often called. The central bank creates electronic cash which it then uses to purchase securities (usually government bonds) from its member banks. These banks now have larger amounts of cash in their reserves. Rather than just holding this cash, which essentially earns nothing, the banks can then theoretically offer more loans at lower interest rates. These lower interest rates will in turn, influence consumers and businesses to borrow and spend money. From there, the increased spending should help to create more jobs. This money could also move into the financial markets where it can affect the price of stocks and bonds since more investors have assets they are looking to invest. The idea is that as all of these dominoes fall, the economy should regain its strength.

Source: Morningstar Direct. Figure 1 is the annualized total returns for an index portfolio of 67% U.S. Stocks (S&P 500 Index) and 33% International Stocks (72.5% MSCI EAFE Index and 27.5% MSCI Emerging Markets Index; prior to 1/1988 the MSCI EAFE Index is used). Figure 2 is the calendar returns for the same indices. Volatility measure shown is standard deviation. Portfolio is rebalanced monthly. Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.
Throughout the year we publish blogs and articles to address current events and answer questions to some of the most important tax, investment, and planning questions people may have. That being said, don’t miss out on some of the valuable content we shared in 2014. Read some excerpts from our top viewed articles over the past year:

   *December 3, 2014 by Michael Cyrs*
   
   As of January 1, 2015, Illinois significantly changed the law concerning a Power of Attorney for Health Care. Being the most important document that names a person to make sole decisions on our medical treatment and hospitalization, it’s a wise idea to revisit and potentially revise it. But first, educate yourself on this new law.

2. **Selling Your Home? Consider Its Value and How to Increase It**  
   *November 14, 2014 by Hannah Collman*
   
   Most homeowners have some idea of their home’s value, but what about the cost basis? If you are looking to put your home on the market in 2015, brush up on your knowledge of real estate and potential tax consequences of the sale. It could save you time and energy if, and when, you decide to sell!

3. **F.A.T.T. Pressures**  
   *August 5, 2014 by Cal Brown*
   
   No, this is not about weight issues or the battle of the bulge. It is about overspending problems and the battle of the budget for young adults. In previous generations, we have dealt with the same “keeping up with the Joneses” spending pressures, but there are four specific pressures today that take over young adults’ bank accounts: Food, Alcohol, Technology, and Travel. Find out ways to control and balance F.A.T.T. spending habits.

4. **IRS Clarifies “Once per Year” IRA Rollover Rule**  
   *April 21, 2014 by Ryan Monette*
   
   Starting January 1, 2015, individual retirement account (IRA) owners will only be allowed to make an IRA-to-IRA rollover one time in any 365-day period. An IRA-to-IRA rollover is simply a distribution from one IRA that gets sent to another IRA. Read up on what this new law includes and why the IRS made this change.

5. **“Hello, This Is the IRS”...or Is It?**  
   *March 04, 2014 by Ryan Monette*
   
   Fake IRS callers are on the loose! Tax scams that contact you through email or phone calls and appear to come from the IRS are common at this time of the year. Don’t be lured into giving your information and learn five ways to protect yourself from identity theft.

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*Read the full stories at [www.savantcapital.com/blog](http://www.savantcapital.com/blog)*
Budgeting: something most people know is a smart idea to practice but don’t always know where to start. As we began the new year, many people have set that goal for themselves in 2015. One of the best habits to get into, budgeting can truly help you pave the way for your future, especially when it comes to a retirement fund. When saving for retirement, it’s important to review how your spending now will affect your budget in retirement. Some advisors recommend an exercise for their clients is to attempt to live their life like they were already retired to get a better idea of exactly what that lifestyle would look and feel like. Ultimately, you will be able to decide if you are financially stable enough to retire or if you need to wait a couple more years to be as comfortable as you desire.

If the advisor helps implement a budget process for clients, it could help them envision their retirement, based on the amount of spending they would like to have and the amount of investable assets and other sources of income that could help meet that lifestyle.

Budgeting is quite simple, and there are a lot of tools available that allow us to do so effectively. By listing the sources and uses of income, an individual can develop a budget that lists their monthly spending towards house payments, real estate taxes, utilities, eating out, and all the other expenses one has.

Quite frankly, the hardest part about budgeting is taking the time to do it and finding the right time to start.

If today is the right time for you to start or six months down the road, here are a few things you may need to start planning and implementing your personal budgeting process in 2015.

- Excel spreadsheet (or use Mint.com) to track your income and expenses
- Checkbook, credit card statements, and online bank access to verify income and expenses
- Diligence

Once you start tracking your expenses, you will find that you can anticipate your regular monthly spending habits. You can learn to decipher the expenses that are not necessities, which can free up room in your budget for meeting saving goals, such as a new car or a special vacation.

If your retirement is approaching, starting the budgeting process will help you decide if you can maintain your lifestyle based on the sources and amount of income you expect to receive in retirement. Preparing for retirement through budgeting is an excellent process that will help answer the question, “How much of my wages do I need to replace in retirement?”

Connecting with a fee-only financial advisor can provide guidance and help answer whether you are prepared for retirement or not. Starting with a list of what your current and future expenses look like can pave the way.
Savant Announces Addition of Accounting, Tax, and Payroll Firm

On January 1, Green, Plagge & Shaw (GPS), a St. Charles, IL, based accounting, tax and payroll firm, became Savant’s newest acquisition and partnership. In our efforts to enhance the tax capabilities already in place, our newly formed support system and alliance will allow us both to better serve our clients in building ideal futures.

Savant welcomes Green, Plagge & Shaw’s team members and clients to our family!