September 2014

KFG: Stay the Course

It has been an incredible year for the stock market. Our economy continues to improve. And, as we close out the third quarter of this year, we would like to take a moment to give you our thoughts about where we are on the financial front and where we're likely to go.

Consider what's happening in a number of critical areas:

The economy continues to grow and recuperate – albeit not as quickly as we would like to see in all categories.

But it is clear the economy is bouncing back. The nation's economy grew at 4% during the second quarter of this year – much better than expected.

Auto sales are up, corporate profits continue to climb, and consumer confidence is at a 7-year high.

In many parts of the country, real estate sales are bouncing back with home prices stabilizing in many areas. This is a welcome trend for potential buyers, but a troubling one for homeowners who are still looking for relief from "under-water" mortgages.

Banks are getting back into the lending business, with profits at banks near record levels. U.S banks posted the second highest quarterly profit total in 23 years. The reason: consumers are beginning to borrow again – for student loans, auto loans, and credit card loans.

There is one critical area of the economy that continues to disappoint. That's the job market. The long-term unemployment rate is still stubbornly high.

The overall improving economic picture is creating somewhat a dilemma for the Federal Reserve. The Fed bond-buying program ends in October – which means the U.S. Treasury Department will no longer be printing money to add to the debt on the Fed's balance sheet. While this is a positive step, the economic growth this year has the Fed debating when to raise interest rates. The latest hint on this topic comes from Fed Chair, Janet Yellen, who suggests that interest rates won't begin to rise until third quarter of 2015.

On the international front, global concerns represent a very real threat to our recovering economy. The actions of the ISIS terrorist group are a real and present danger. Debt fears in Argentina could send shock waves through the world's bond markets. In Europe, unemployment remains a chronic problem. And, there's a growing list of issues facing Europe – including the ongoing Russia/Ukraine conflict as well as deflation – which are creating significant economic challenges.

While stock prices continue to climb even in light of troubling world events, we believe our stock market is well overdue for a correction – a decline somewhere in the neighborhood of 8% to 10%.

It's our view that the economy will continue to improve through the remainder of this year and into 2015 – with little risk of recession. That translates into expected additional gains in the stock market – even if there are some bumps and dips along the way, with stock prices likely to climb to new highs.

At Kapusta Financial Group, you are our top priority. Please let us know if you have any questions or concerns.