November 24th, 2014

MERITAS ADVISORS
Comprehensive Wealth Management

MONTHLY INVESTMENT OUTLOOK

IN THIS ISSUE

- Market & Economic Update
- Signs of Overheating
- What Deleveraging?
- Consumer Spending
- Your Money
- Market Recap

UPCOMING EVENTS

- 12/09: **Vital tax Changes and Your Checklist** with Coree Cameron of Cameron Coffey & Kaye
- 01/28: **New Tools for Maximizing the Value of your Privately Held Business** with David Ryan of Upton Financial

MORE FROM MERITAS

You can read more from our chief economist Lenore Elle Hawkins at TheStreet.com where she publishes weekly articles along with co-author Chris Versace, (not affiliated with Meritas Advisors). Lenore and Chris are also writing Cocktail Investing that is scheduled to be published 03/2015 and is available for pre-order from Amazon.

Meritas Advisors structures portfolios to meet our clients' personal goals and preferences within the scope of their risk tolerance. We strive to manage risk most effectively by utilizing a wider blend of asset classes, with the objective of achieving our client's goals with a reduced amount of overall portfolio volatility.

Northern California
4040 Civic Center Drive, Suite 200
San Rafael, CA 94903
415.690.8547

Southern California
11622 El Camino Real, Suite 100
San Diego, CA 92130
858.461.8547

Dear Clients and Friends:

Last month's edition was a tad on the long side so we'll try to keep this one a bit shorter, especially since we'll all want to get to that Thanksgiving dinner. We wish you and yours a holiday season full of entirely too many tasty treats, copious amounts of laughter with a liberal sprinkling of love.

--- *Lenore Elle Hawkins, Meritas Advisors Partner and economist, joyously awaiting pumpkin pie with plenty of whipped cream*

Market & Economic Update

Trampoline anyone? That's our internal image of the past few months with the S&P 500 falling 7.4% from September 18th to bottom-outOctober 15th and as of Friday's close up over 10%. Both the Nasdaq and the Russell 2000 are up over 11.5% from their mid-October lows. The S&P 500 has now been closing above even its 5-day-moving-average for the past 23 days consecutively, something that has happened just three times before in the last twenty years. When this has happened before the market rally reversed within four weeks. In addition, the downward trend was accompanied by increasing volumes whereas the uptrend has been on declining volumes. When prices are falling, it means that supply exceeds demand. When prices are rising, demand must exceed supply. When we see more transactions occurring during falling prices than during rising prices, we pay close attention

Warning Signs:

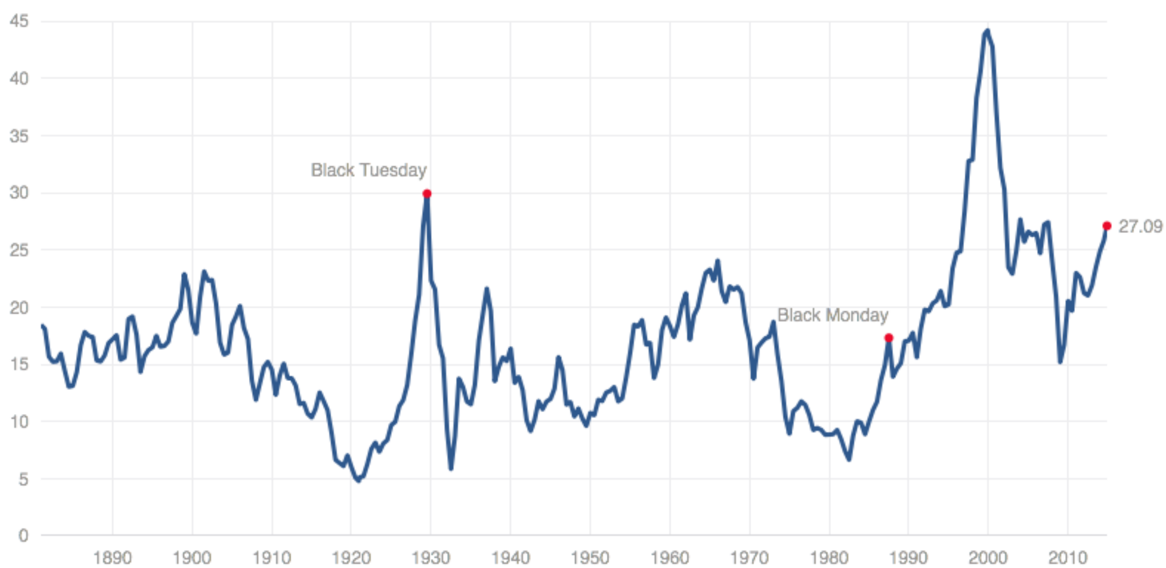
- The percentage of bears in all major market surveys is at multi-year bottoms, which is typically seen more near the top of a market.
- Fewer stocks are trading above their 200-day moving averages, compared to prior cycle highs, which is typically also a signal that we are near cycle highs.
- The ratios for put-calls and volume are also flashing warning signs.

Positive signs:

- Winter months are typically delivery strong equity markets.
- US economic data, while not exactly robust, is improving and does continue to look better than the rest of the world. With a strong economy, international investors are more likely to look to the US for investment, which would increase demand for US securities.
- Equities have shrugged off the elimination of the Fed's Quantitative Easing program, and the earnings picture has provided cause for some optimism.
- The recent actions by the People's Bank of China (PBOC), European Central Bank (ECB), and the Bank of Japan (BOJ) are viewed by the markets as positive for equities.

Signs of Overheating

If we look at valuations, the Shiller PE ratio at 26.8 has the S&P 500 at some very heady heights, well above the historical norms with a mean of 16.56 and a median of 15.93. The chart below shows the Shiller 10 PE since the late 1800s.



US total market capitalization as a percent of GDP is also in a range not seen since the heady days of the Great Dotcom Bubble/Bust. If we look at GDP growth rates across the world in Q4 1999 and compare them to day, this number is even more concerning. Back when the market cap to GDP ratio was in the region, economies around the world, with the exception of beleaguered Japan, were growing at a decent pace.

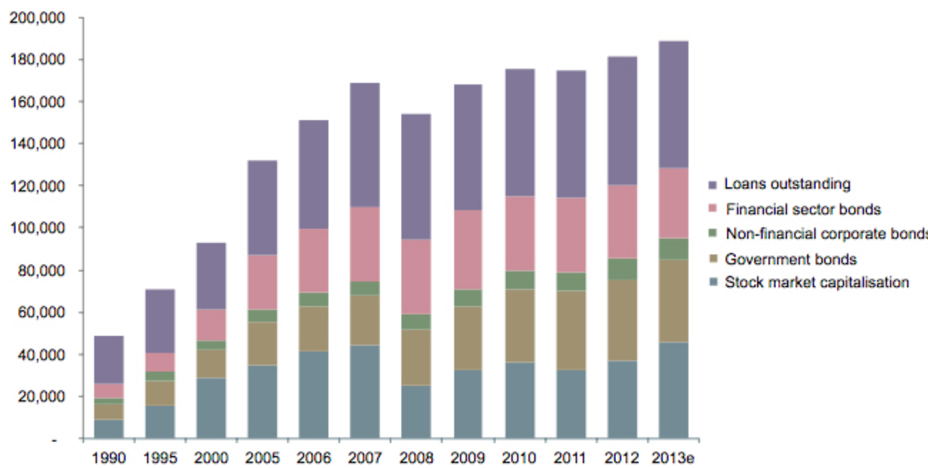
Country	GDP Growth (1999)	GDP Growth Q3 2014
US	7.10% (Real Q4 1999)	3.9%
Japan	-0.40% (Real Q4 1999)	-1.6%
UK	3.7% (Real Q4 1999)	0.7%
Germany	1.87% (1999)	0.1%
France	3.29% (1999)	0.3%
Italy	1.45% (1999)	-0.1%

Today the US, while stronger than much of the rest of the developed world, is growing at a much slower pace. Japan is the proverbial bug in search of a windshield and those oncoming headlights are getting awfully bright. The Eurozone is struggling to have any economic growth at all. Germany's economy has been benefiting significantly from exports, enjoying an artificially suppressed exchange rate courtesy of the impact of other nations within the Eurozone, but exports in the nation fell 58% from July to August and industrial production shrank by 4%.

What Deleveraging?

China, the nation that helped bull the global economy out of the last financial crisis, is slowing markedly. China is also facing a debt problem. From 2002 to 2008, China's total debt/GDP ratio was fairly stable and remained below 150%, but is now about 250%. It is possible that China's debt issues may be contained within the real estate sector, which is the most troublesome part of the Chinese economy. It remains to be seen whether that distress bleeds into the broader economy. For now, corporate credit conditions in China still remain stable.

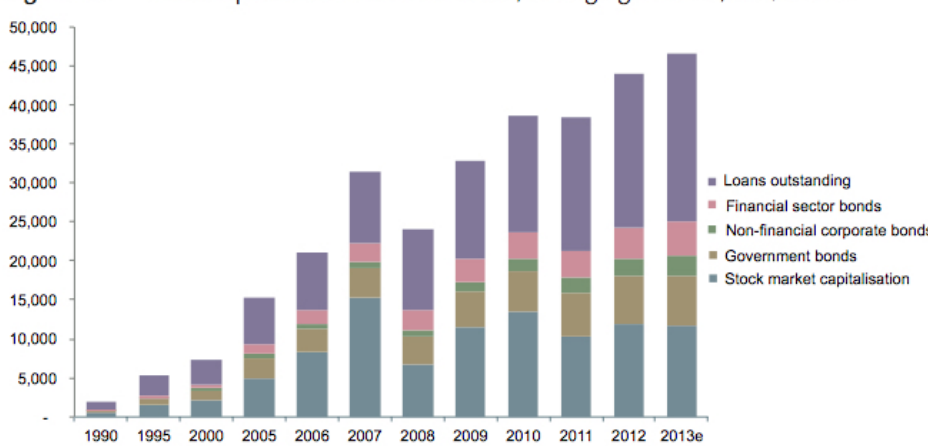
Figure 1.2 The composition of financial assets, developed markets, US$ billion



Source: McKinsey Global Institute.

For that matter, debt across the world in both developed and emerging economies has once again reached new highs, making for a highly leveraged global economy, which as we've seen before makes for heightened volatility. The chart at right illustrates the magnitude of the debt.

Figure 1.3 The composition of financial assets, emerging markets, US$ billion

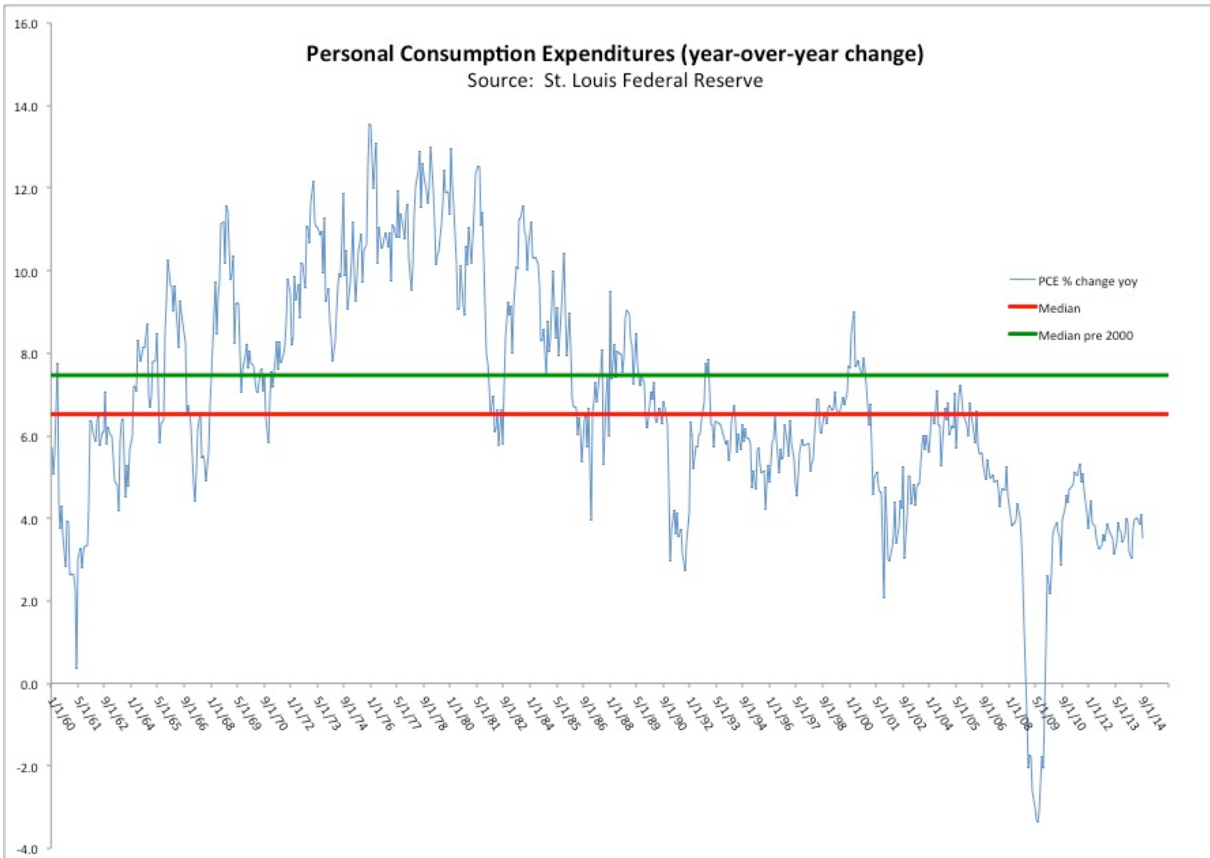


Source: McKinsey Global Institute.

As we've mentioned before in these pages, corporations have been pushing everything they can to get earnings from cutting costs as much as possible to avoiding internal investments so much so that by now, according to the Commerce Department, the average age of fixed assets, such as plants and factories, is about 22 years-old, the oldest average going back to 1956. That doesn't sound to us like a set of solid fundamentals for a high-flying market.

Consumer Spending

Companies in the S&P 500 aren't the only ones making due with what they've got. Consumer spending is still well below its historical norms as the chart below illustrates. Growth in personal consumption expenditures is still far below historical norms, having peaked in the late 1990s, which is intuitive given that according to the Census Bureau's September 2014 release of its annual report on "Income and Poverty in the United States," median household income in 2013 was just $51,939, still 8% below the 2007 levels, and 8.7% below the peak level in 1999 at $56,895.



Your Money and Your Life (with Greg Tull, Michael Mink & Lenore Hawkins)

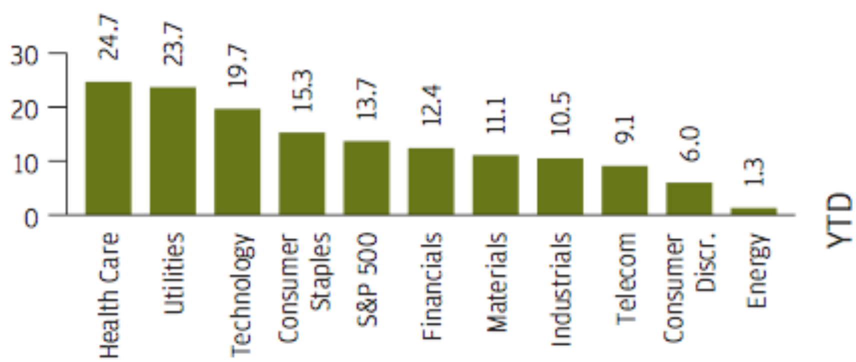
We want to wish you and your loved ones a very Happy Thanksgiving. We hope all of the memories made this Thanksgiving holiday serve as a reminder that the most cherished things in your life aren't things at all.

Market Recap

(as of November 21^{st}, 2014)

		Index Returns (%)				
Equities	**Level**	**1 week**	**QTD**	**YTD**	**1 year**	**3-yr. Cum.**
S&P 500	2064	1.21	4.95	13.71	17.29	84.56
Dow Jones 30	17810	1.04	4.86	9.70	13.83	66.14
Russell 2000	2914	-0.10	6.58	1.88	6.08	74.10
Russell 1000 Growth	638.14	1.06	5.02	13.30	17.88	81.48
Russell 1000 Value	634.90	1.33	4.73	13.18	16.10	88.37
MSCI EAFE	1831	1.03	-0.57	-1.55	1.16	48.72
MSCI EM	1004	1.38	0.07	2.81	2.77	20.20
NASDAQ	4713	0.58	5.09	14.08	20.15	94.02
Fixed Income	**Yield**	**1 week**	**QTD**	**YTD**	**1 year**	**3-yr. Cum.**
U.S. Aggregate	2.25	0.09	1.14	5.29	4.87	8.35
U.S. Corporates	3.10	-0.03	0.85	6.50	6.92	16.54
Municipals (10yr)	2.13	0.16	0.50	7.78	7.67	14.44
High Yield	6.52	-0.37	0.40	3.90	4.97	32.74

	Levels (%)					
Key Rates	**11/21/14**	**11/14/14**	**9/30/14**	**12/31/13**	**11/21/13**	**11/21/11**
2-yr U.S. Treasuries	0.53	0.54	0.58	0.38	0.29	0.27
10-yr U.S. Treasuries	2.31	2.32	2.52	3.04	2.79	1.97
30-yr U.S. Treasuries	3.02	3.04	3.21	3.96	3.89	2.96
10-yr German Bund	0.73	0.74	0.90	1.94	1.74	1.91
3-mo. LIBOR	0.23	0.23	0.24	0.25	0.24	0.50
3-mo. EURIBOR	N/A	0.08	0.08	0.29	0.22	1.49
6-mo. CD rate	N/A	N/A	N/A	0.27	0.27	0.60
30-yr fixed mortgage	4.18	4.18	4.33	4.72	4.46	4.23
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25



4040 Civic Center Drive, Suite 200 11622 El Camino Real, Suite 100 info@MeritasAdvisors.com
San Rafael, CA 94903 San Diego, CA 92130 www.MeritasAdvisors.com