Monday, January 12, 2015
4:39 PM

Thomas Cymer, CFP(r), CRPC(r)
President and Financial Professional
Opulen Financial Group, LLC

Opulen Financial Group, LLC.

Thomas Cymer CFP®CRPC® Presents:

WEEKLY ECONOMIC UPDATE

January 12, 2015

WEEKLY QUOTE

"I would not waste my life in friction when it could be turned into momentum."
- Frances Willard

WEEKLY TIP

If your business is a corporation, how is it structured? Using multiple entities might lead to big tax savings.

WEEKLY RIDDLE

What comes at the end of a rainbow?

Last week's riddle:
As I age my height changes, but not my importance. Your hand guides me and I help articulate what you want to say. When we part, I am not important or useful to you. What am I?
Last week's answer:
A pencil.

ANOTHER GOOD JOBS REPORT
America's best year for hiring since 2000 wrapped up with 252,000 more people finding work in December. Labor Department data showed the jobless rate declining to 5.6% last month (the U-6 rate tracking the unemployed and underemployed decreased to 11.2%). The economy added 2.53 million non-farm payroll jobs in 2014, representing 1.9% net employment growth. October and November hiring totals were respectively revised up to 261,000 and 353,000. December did see wages slip 0.2%; private sector average hourly earnings increased just 1.7% during 2014.[1]

DECEMBER SEES ISM SERVICES PMI RETREAT
The latest Institute for Supply Management's non-manufacturing purchasing manager index came in at 56.2 - still strong, but well under the November reading of 59.3. Tempering that disappointment is the fact that ISM's services index has shown sector growth for 59 consecutive months.[2]

OIL DIPS BENEATH $50
The price of West Texas Intermediate crude fell 8.2% last week on the NYMEX. A barrel was valued at just $48.36 at Friday's close. With OPEC doing nothing to reduce output, investors are left wondering when the steep losses will end. Gold did very well last week, rising 2.5% on the COMEX to settle Friday at $1,216.10.[3]

A WILD WEEK, A DOWN WEEK
Crude's continuing slump, excellent December hiring, assumptions of central bank action, fears following the terrorist attack in Paris - they all contributed to pronounced volatility. Selling exceeded buying: the S&P 500 lost 0.63% in five days to settle at 2,044.81 Friday. The Dow pulled back 0.50% for the week to 17,737.37, the Nasdaq 0.49% to 4,704.07.[4,5]

THIS WEEK: Here comes earnings season: Alcoa reports Q4 results Monday, with KB Home following suit Tuesday. Wednesday offers data on December retail sales and November business inventories, the latest eurozone factory output report, a new Beige Book from the Federal Reserve and earnings from Charles Schwab, Kinder Morgan, Wells Fargo and JPMorgan Chase. Thursday's spate of earnings announcements includes releases from Bank of America, Citigroup, Intel, Lennar, Schlumberger and BlackRock. On Friday, the December Consumer Price Index and the Federal Reserve's report on December industrial output arrive along with the latest eurozone inflation reading and the preliminary January consumer sentiment index from the University of Michigan.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.48	+7.86	+13.41	+6.70
NASDAQ	-0.68	+13.18	+20.60	+12.43

S&P 500	-0.68	+11.24	+15.72	+7.18
REAL YIELD	1/9 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.36%	0.66%	1.41%	1.77%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 1/9/15[5,6,7,8]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our distribution list, please reply with their address.
We will contact them first and request their permission to add them to our list.

What's Fueling the Drop in Oil Prices?

How long will it last? Who wins & loses from it?

Provided by Thomas Cymer CFP®CRPC®

On the New York Mercantile Exchange, a barrel of light sweet crude is currently worth well under $60. Prices have dropped more than 25% in a month and almost 45% year-over-year. What is behind this freefall? How long will prices keep dropping, and who does this development hurt and benefit?[1]

Oil prices haven't cratered simply because of lessening demand. Make no mistake, waning demand is a major factor - and in its latest 2015 forecast, the International Energy Agency projected global demand for crude weakening further. But this is just part of the story.[2]

Saudi Arabia has made a punitive political move. It is the big player among OPEC nations, and it sees no point in thinning the crude supply glut. The longer it lasts, the more pressure it can put on two of its biggest competitors - Iran and Russia.[3]

Saudi Arabia has long feared Iran's potential to develop nuclear weaponry, and if there's too much oil on the market, the economy of Iran - which is *extremely* dependent on oil - could very well tank. Iran's currency reserves are diminishing to the point where it needs oil prices up at the $130-140 level to balance its budget. Saudi Arabia has about 10 times Iran's currency reserves, so it is much more equipped to ride out this oil bear market. Given enough economic pressure, Iran could finally make a deal with the world's superpowers to wind down its nuclear program and signal to the Saudis that "enough is enough." Russian president Vladimir Putin just told reporters that such a deal was "very close."[3,4]

Speaking of Vladimir Putin, Russia has long supported the governments of both Iran and Syria - to much bad publicity, and now to its economic peril. Like Iran, Russia is a major oil supplier. It needs oil prices above $100 for any kind of economic stability, which it certainly lacks at present. No one has faith in the ruble, which has sunk against other currencies - and in response, Russia's central bank just hiked its key interest rate by 6.5% to try and rescue it.[5,6]

Iraq and ISIS - the first making money from oil legitimately, the second illegitimately - are also punished by OPEC's decision to sustain supply.

How will other emerging-market economies handle this tactic? Some might fare better than others. It might exacerbate the appalling economic conditions in Venezuela; it might foster additional unrest in Nigeria, where oil contributes to a third of GDP. Brazil and Mexico aren't as reliant on oil as they once were; their economies might be able to weather the price drop in the short term, but not if the downturn in prices becomes a "new normal."[6]

An oil glut could even give the economies of China and India an indirect lift. How? China imports massive amounts of oil and has very little oil and gas reserves - so inexpensive crude is a real gift. China spends about $500 billion a year on oil and gas imports, and it could actually end up halving that cost thanks to the plentiful global oil inventory. That could give its powerful economic engine a tune-up. India, too, is a major oil importer. About 75% of the oil it uses comes from overseas. Sustained cheap oil might soon improve its growth as well.[6]

What would this do for America? Well, cheap oil can translate to cheaper consumer and producer prices, i.e., lower inflation and more money in household wallets. While energy shares took severe hits this month, in the big picture this may bode well for consumer spending, manufacturing and the service industry.[1]

Could we actually see $60 oil for a year or more? Maybe. In fact, some oil industry analysts think West Texas Intermediate crude prices will head below $50 by February or March. World oil supply is still increasing, and inventory should continue to swell with no sudden pickup in demand being forecast.[7]

While $55 oil sounds cheap, you could argue that it really isn't. In inflation-adjusted terms, the average price of WTI crude since 1985 works out to slightly above $40 per barrel. Still, inventory will decrease at some point. Analysts at the energy-focused investment bank Tudor, Pickering & Holt recently predicted that "the current oil price is going to crunch supply by late 2015/2016" and OPEC may change its stance if Saudi Arabia gets what it wants in the next few months.[8]

Thomas Cymer CFP®CRPC® may be reached at 571-299-2053 or tcymer@opulenfg.com .
www.opulenfg.com 1001 19th St. N Suite 1200 Arlington VA 22209

Citations.

1 - markets.on.nytimes.com/research/markets/commodities/commodities.asp [12/18/14]
2 - proactiveinvestors.com/companies/news/58785/dow-drops-over-300-pts-to-end-worst-week-in-3-years-58785.html [12/12/14]
3 - business.financialpost.com/2014/11/13/lawrence-solomon-saudi-arabias-war-of-attrition/ [11/13/14]
4 - reuters.com/article/2014/12/18/us-iran-nuclear-putin-idUSKBN0JW1BM20141218 [12/18/14]
5 - bloomberg.com/news/print/2014-12-15/russia-increases-key-interest-rate-to-17-to-stem-ruble-decline.html [12/15/14]
6 - nypost.com/2014/12/14/saudi-arabias-oil-war-against-iran-and-russia-2/ [12/14/14]
7 - tinyurl.com/qxjlt25 [12/17/14]
8 - forbes.com/sites/christopherhelman/2014/12/01/after-a-bloodbath-in-oil-what-next/ [12/1/14]

Citations.

1 - haver.com [1/9/15]
2 - ism.ws/ismreport/nonmfgrob.cfm [1/6/15]
3 - proactiveinvestors.com/companies/news/59186/gold-rebounds-after-2-straight-losses-us-crude-settles-down-09--59186.html [1/9/15]
4 - google.com/finance?q=INDEXDJX%3A.DJI&ei=z02wVKKhKe7FiwLW2IB0 [1/9/15]
5 - markets.wsj.com/us [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F9%2F14&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F9%2F14&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F9%2F14&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F8%2F10&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F8%2F10&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F8%2F10&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=1%2F10%2F05&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=1%2F10%2F05&x=0&y=0 [1/9/15]
6 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=1%2F10%2F05&x=0&y=0 [1/9/15]
7 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield [1/9/15]
8 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [1/9/15]

Week of Se ptember 30th, 2013

Opulen Financial Group, LLC | 1818 Library St. Suite 500 | Reston | VA | 20190