

Clarity and Confidence in Our Economy and Our Future

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CLA Wealth Advisors





Economic Update

Economic Update

- Anticipate economic drivers
- Evaluate our role in the wealth transfer of Baby Boomers



U.S. Economic Overview

Why we should have confidence in our future.

3-Step Process to De-leveraging Cycle

1. De-lever corporate balance sheets
2. De-lever consumer balance sheets
3. Lever and then de-lever government balance sheets

U.S. Corporations

Corporate Cash as a % of Current Assets

S&P 500 companies – cash and cash equivalents, quarterly

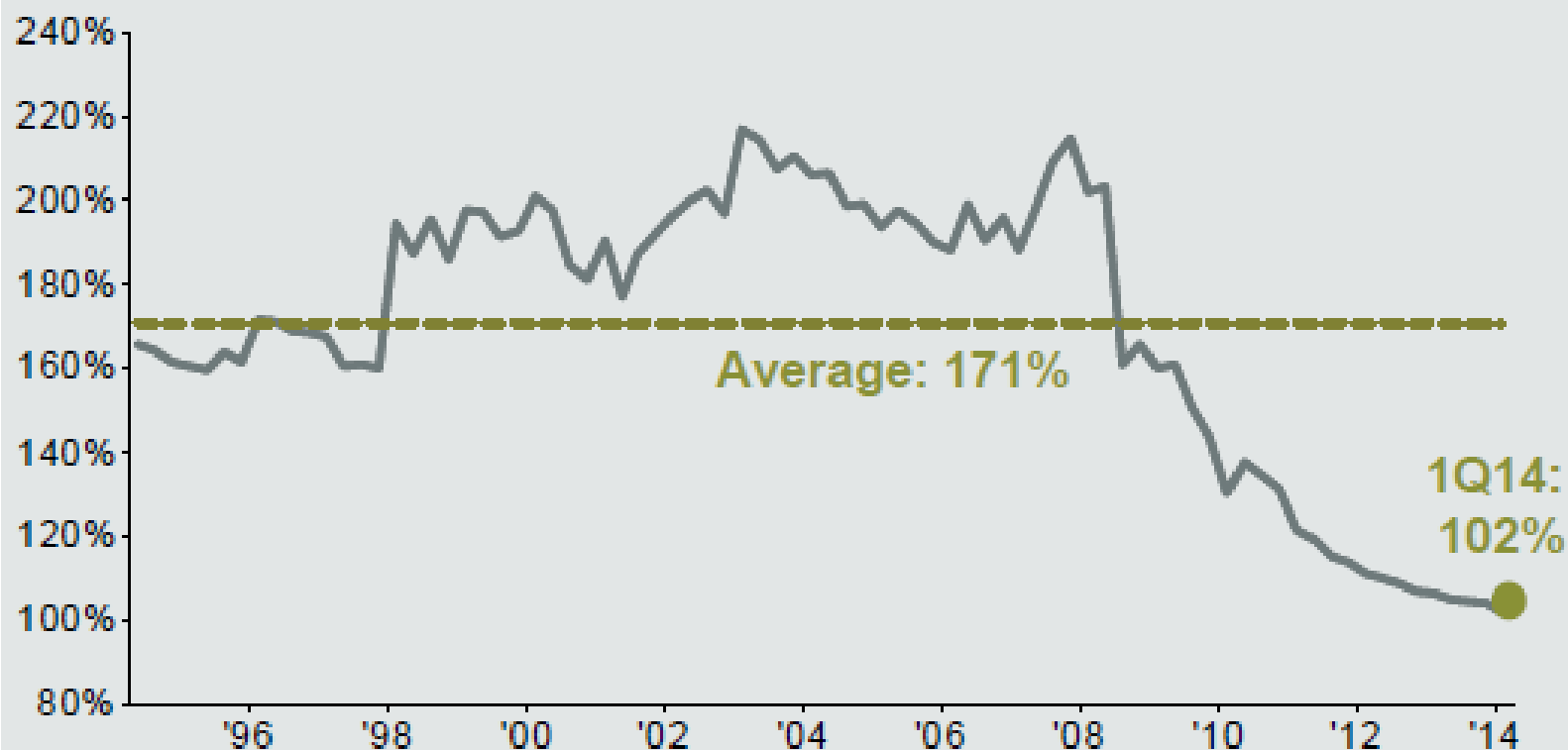


Source: Standard & Poor's, FRB, Bloomberg, FactSet, J.P. Morgan Securities, J.P. Morgan Asset Management. Standard & Poor's, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Corporations

Total Leverage

S&P 500, ratio of total debt to total equity, quarterly



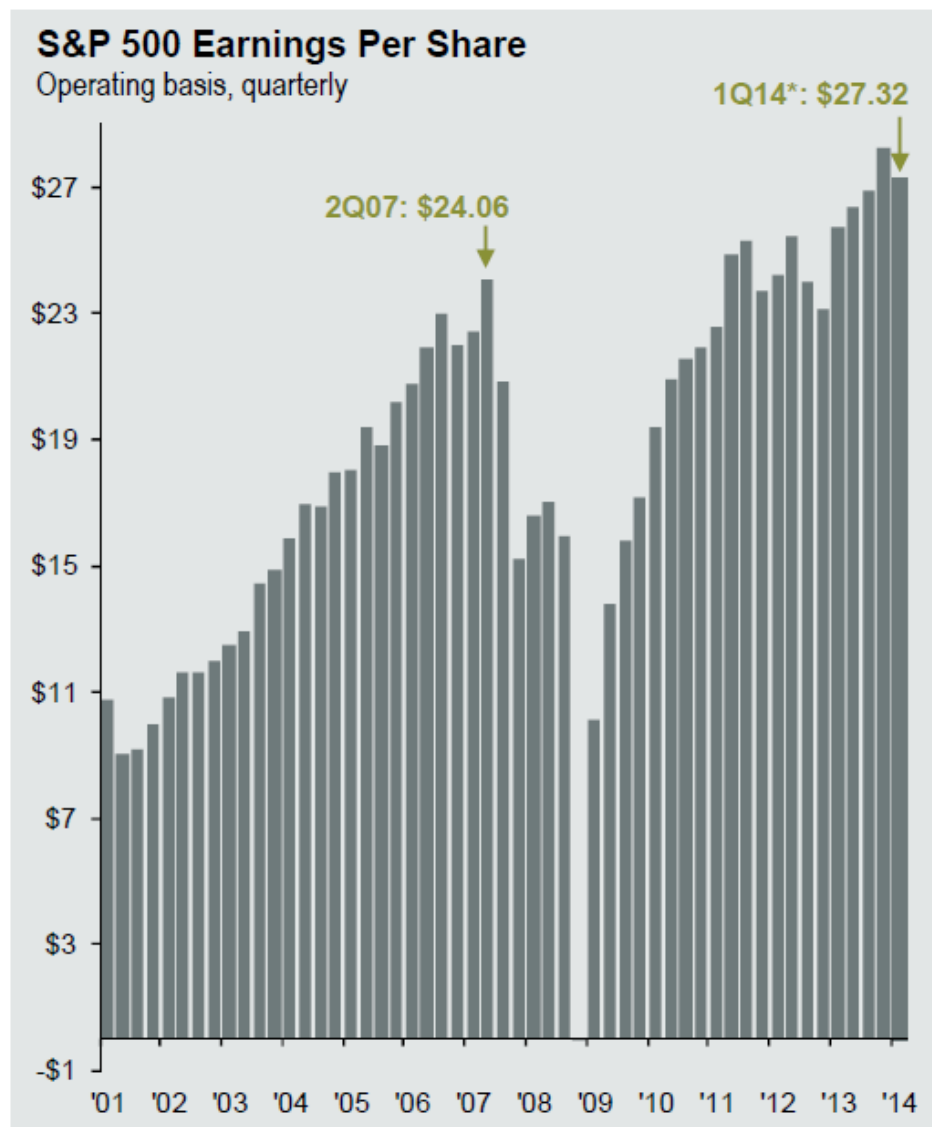
Source: BEA, Standard & Poor's, Compustat, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share.

*Most recently available data is 4Q13 as 1Q14 are Standard & Poor's preliminary estimates. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of 6/30/14.

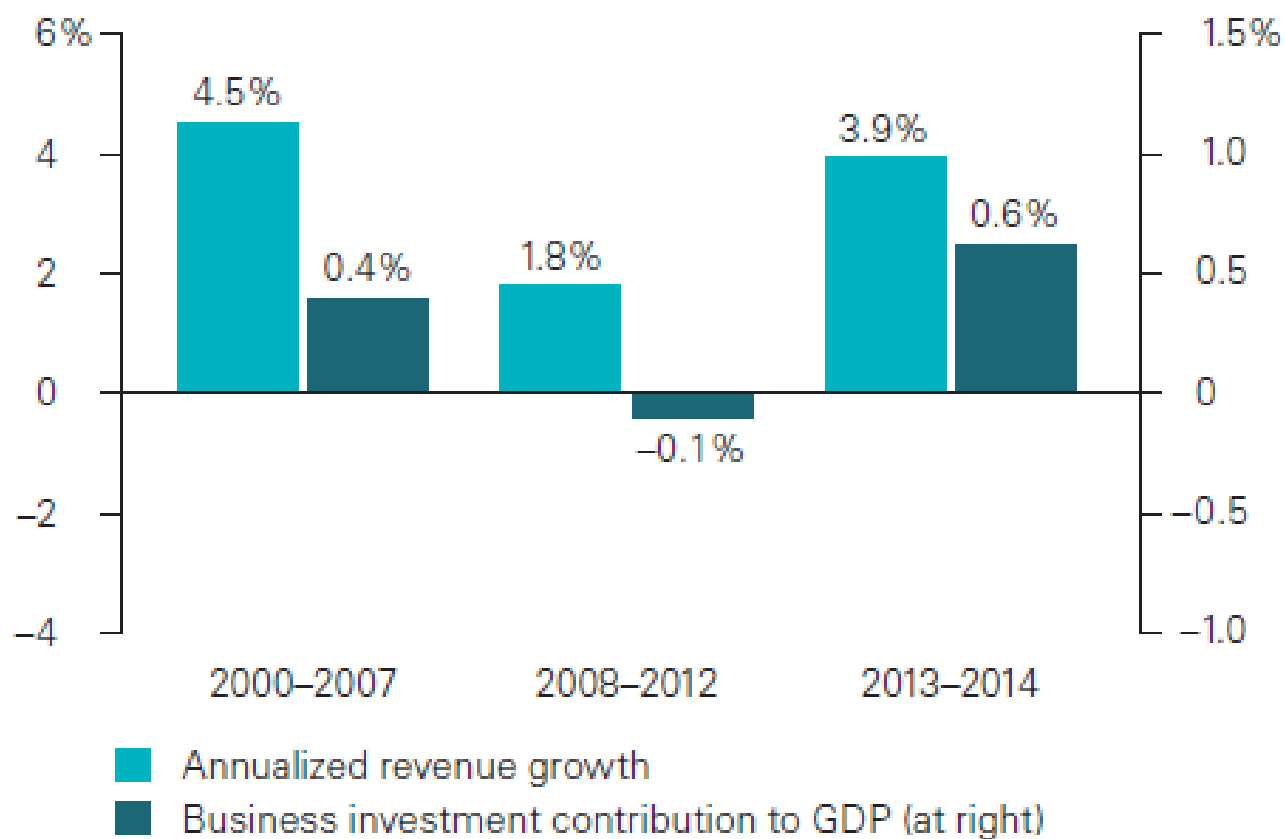
J.P.Morgan
Asset Management

U.S. Corporations



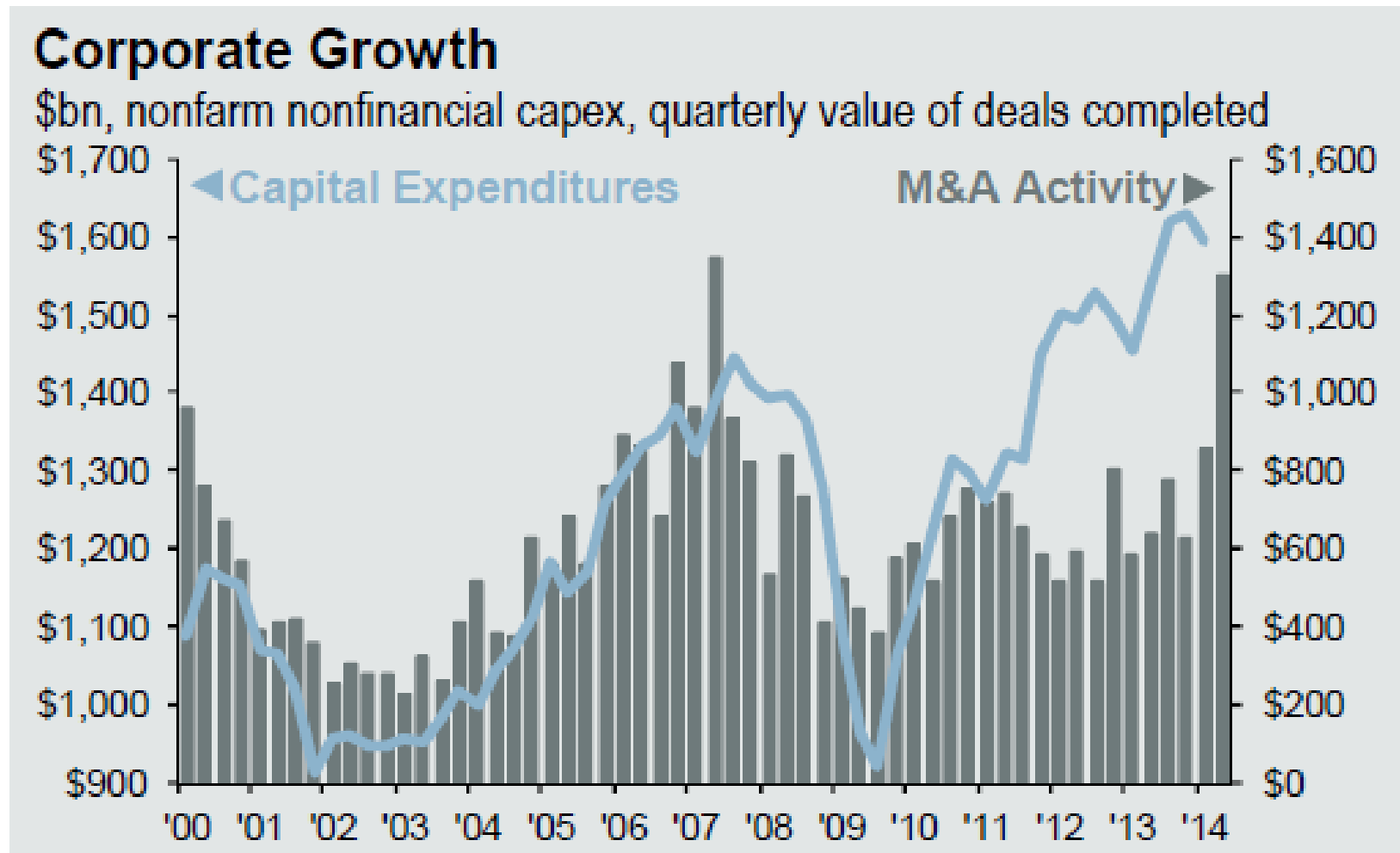
U.S. Corporations

U.S. businesses starting to expand as revenue growth takes hold



Sources: Vanguard calculations, based on data from Moody's Analytics Data Buffet, U.S. Census Bureau, and U.S. Bureau of Economic Analysis.

U.S. Corporations



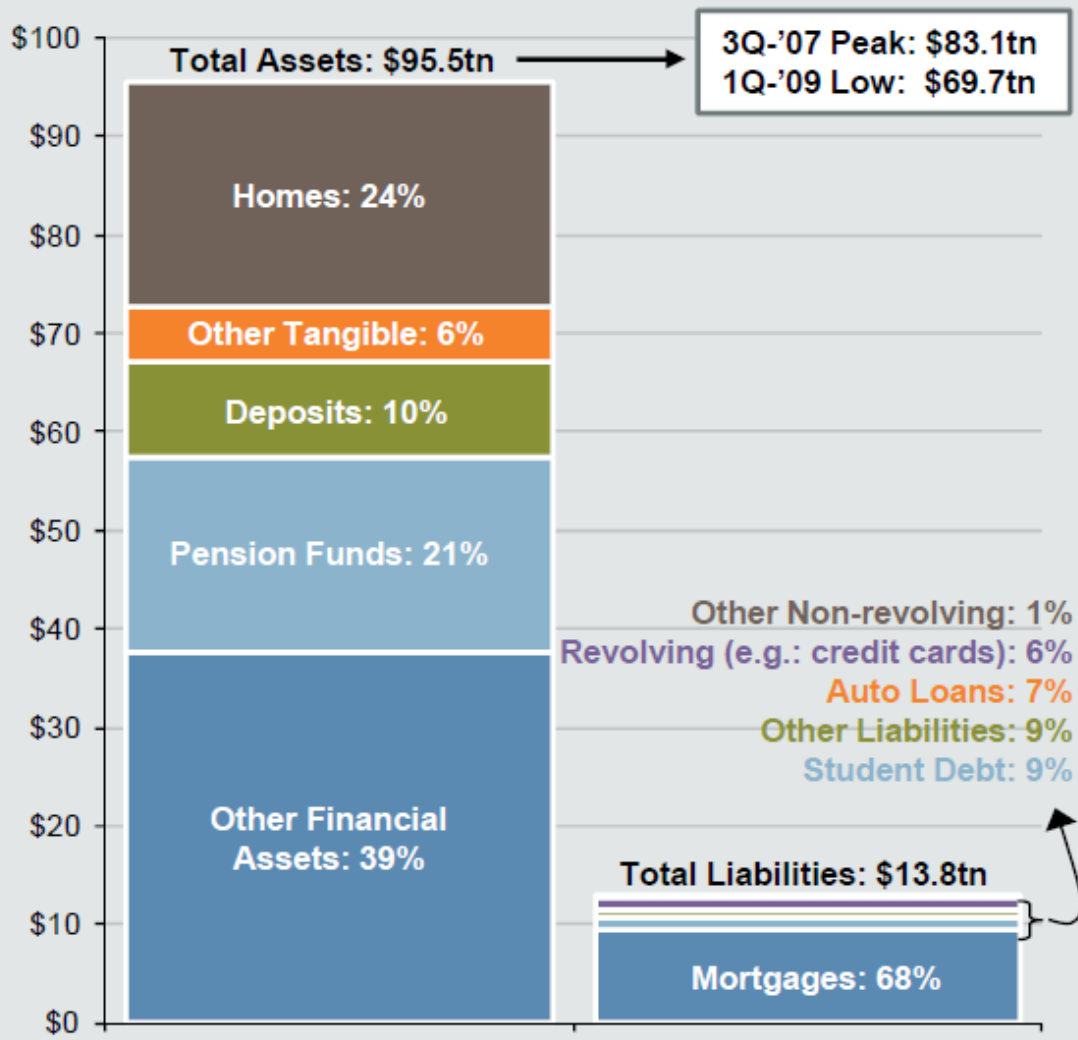
Source: Standard & Poor's, FRB, Bloomberg, FactSet, J.P. Morgan Securities, J.P. Morgan Asset Management. M&A activity is the quarterly value of deals completed and capital expenditures are for nonfarm nonfinancial corporate business. Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Consumer

J.P.Morgan
Asset Management

Consumer Balance Sheet

1Q14, Trillions of dollars outstanding, not seasonally adjusted



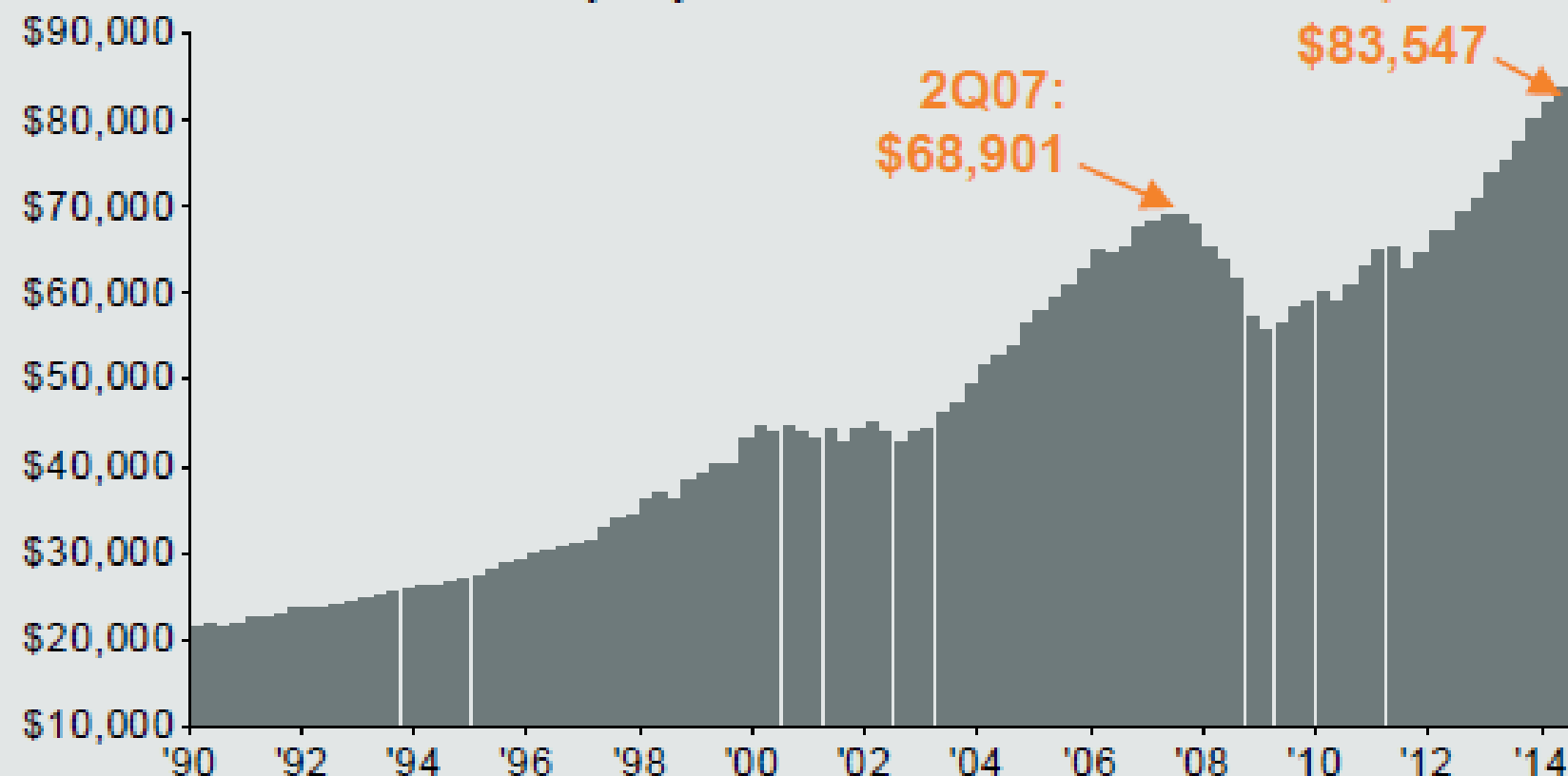
Source: FRB, J.P. Morgan Asset Management. Data includes households and nonprofit organizations.

Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Consumer

Household Net Worth

Billions USD, not seasonally adjusted



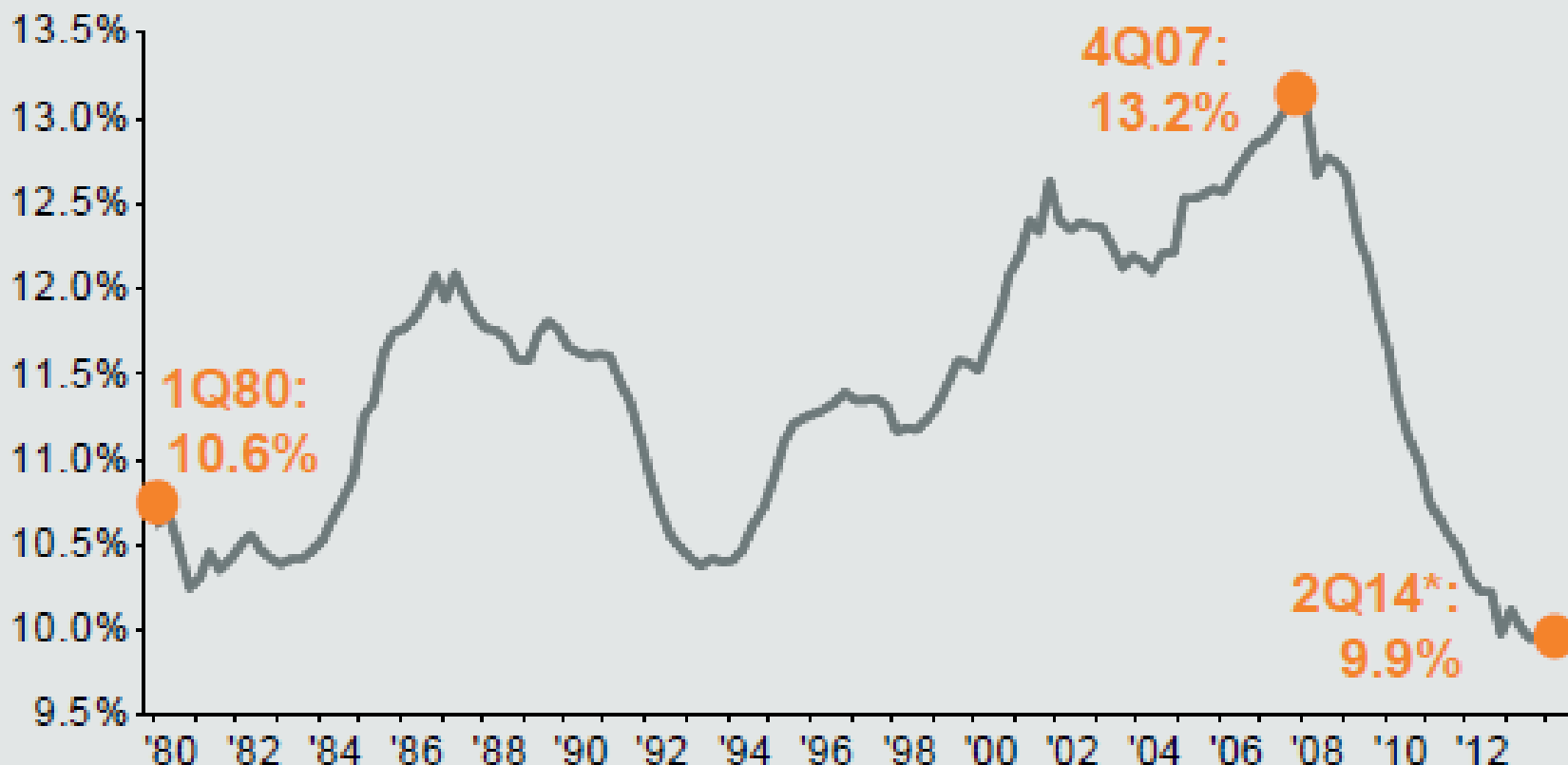
Source: BEA, FRB, J.P. Morgan Asset Management. *2Q14 household debt service ratio and household net worth are J.P. Morgan Asset Management estimates. Values may not sum to 100% due to rounding.

Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Consumer

Household Debt Service Ratio

Debt payments as % of disposable personal income, seasonally adjusted



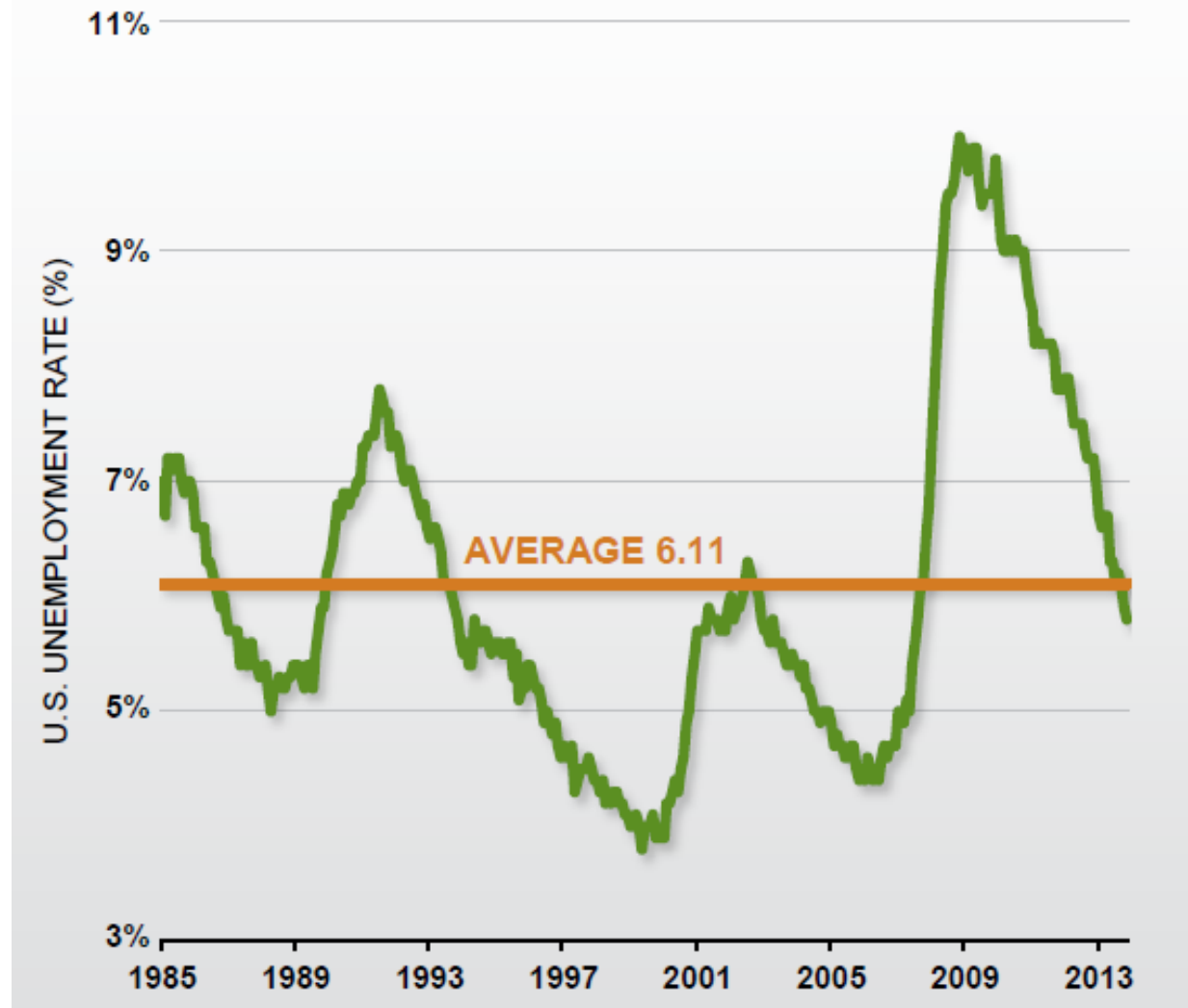
Source: BEA, FRB, J.P. Morgan Asset Management. *2Q14 household debt service ratio and household net worth are J.P. Morgan Asset Management estimates. Values may not sum to 100% due to rounding.

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U.S. Consumer

Unemployment rate is now below its historical average

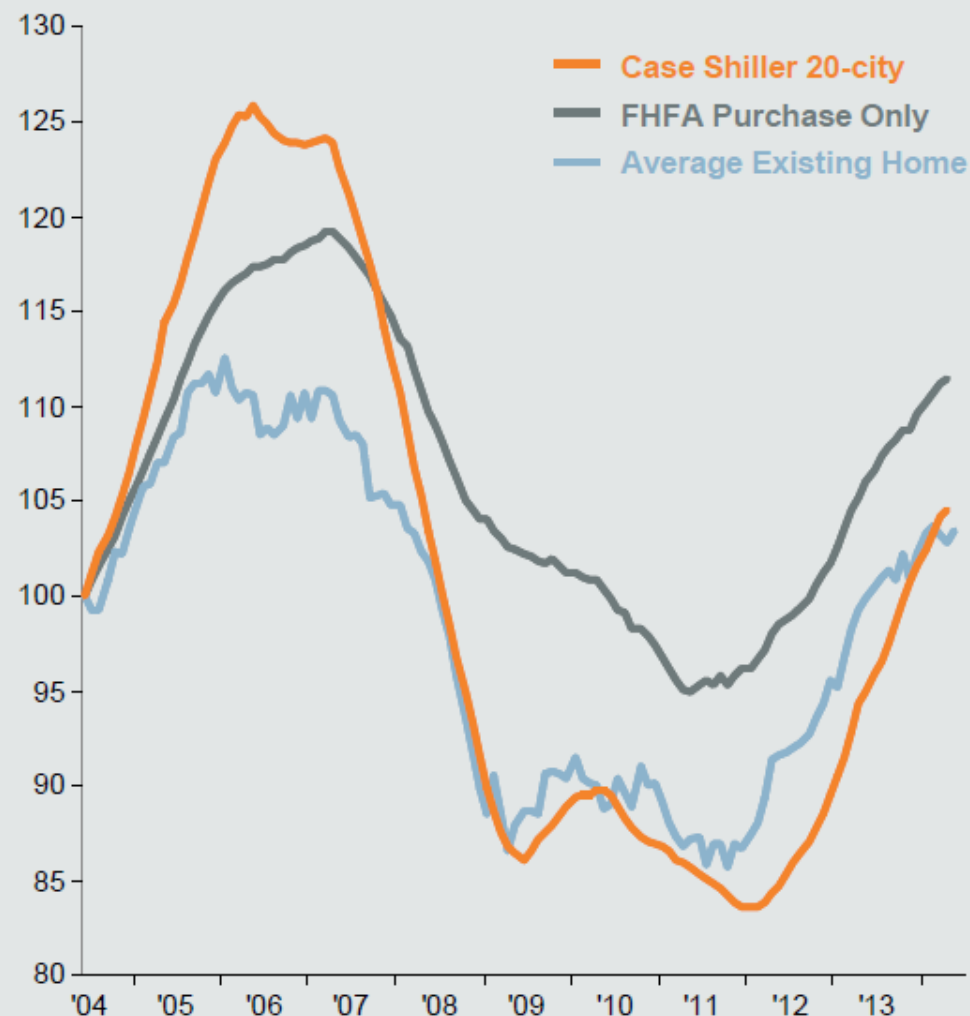


Source: FactSet, as of 10/31/14.

U.S. Consumer

Home Prices

Indexed to 100, seasonally adjusted

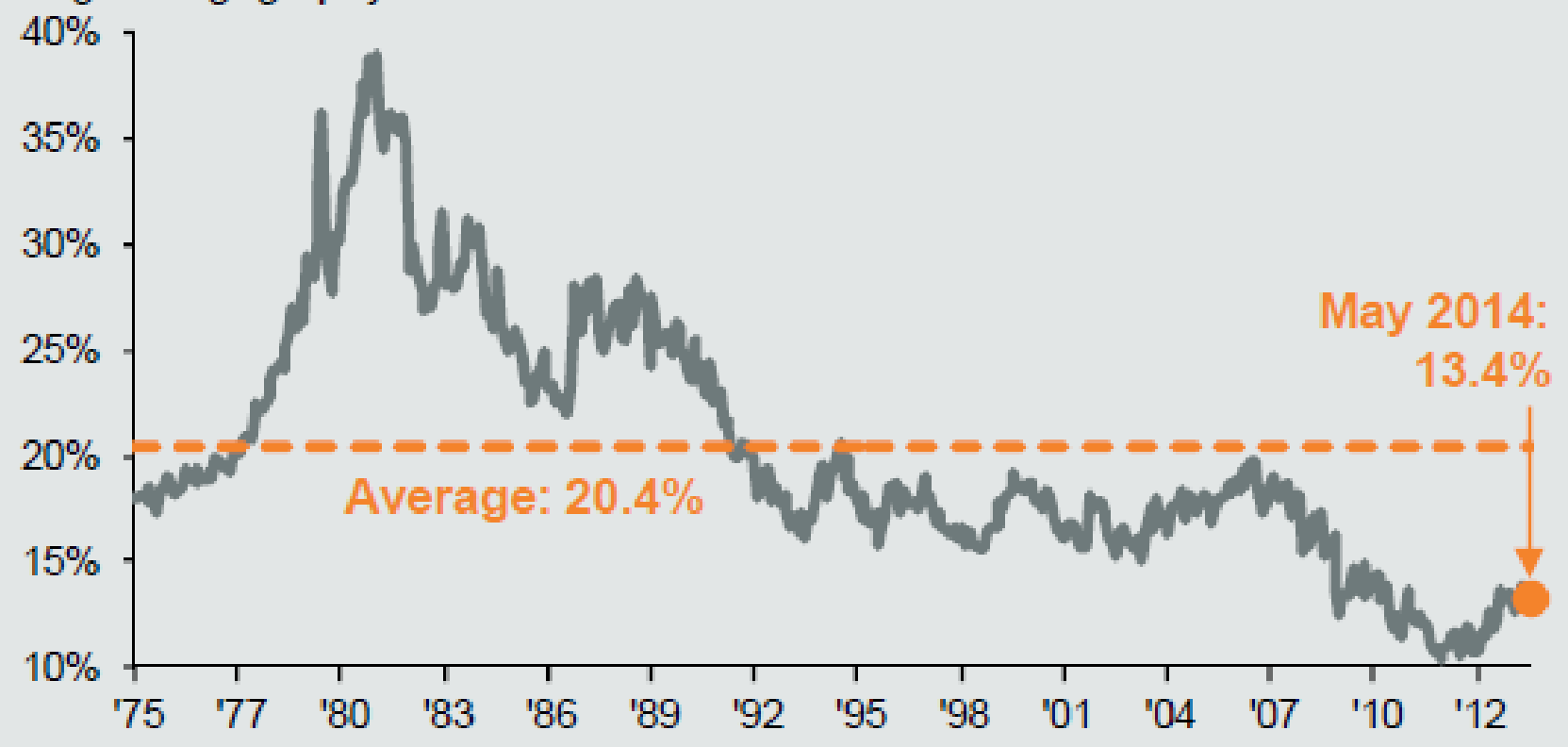


Sources: National Association of Realtors, Standard & Poor's, FHFA, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Consumer

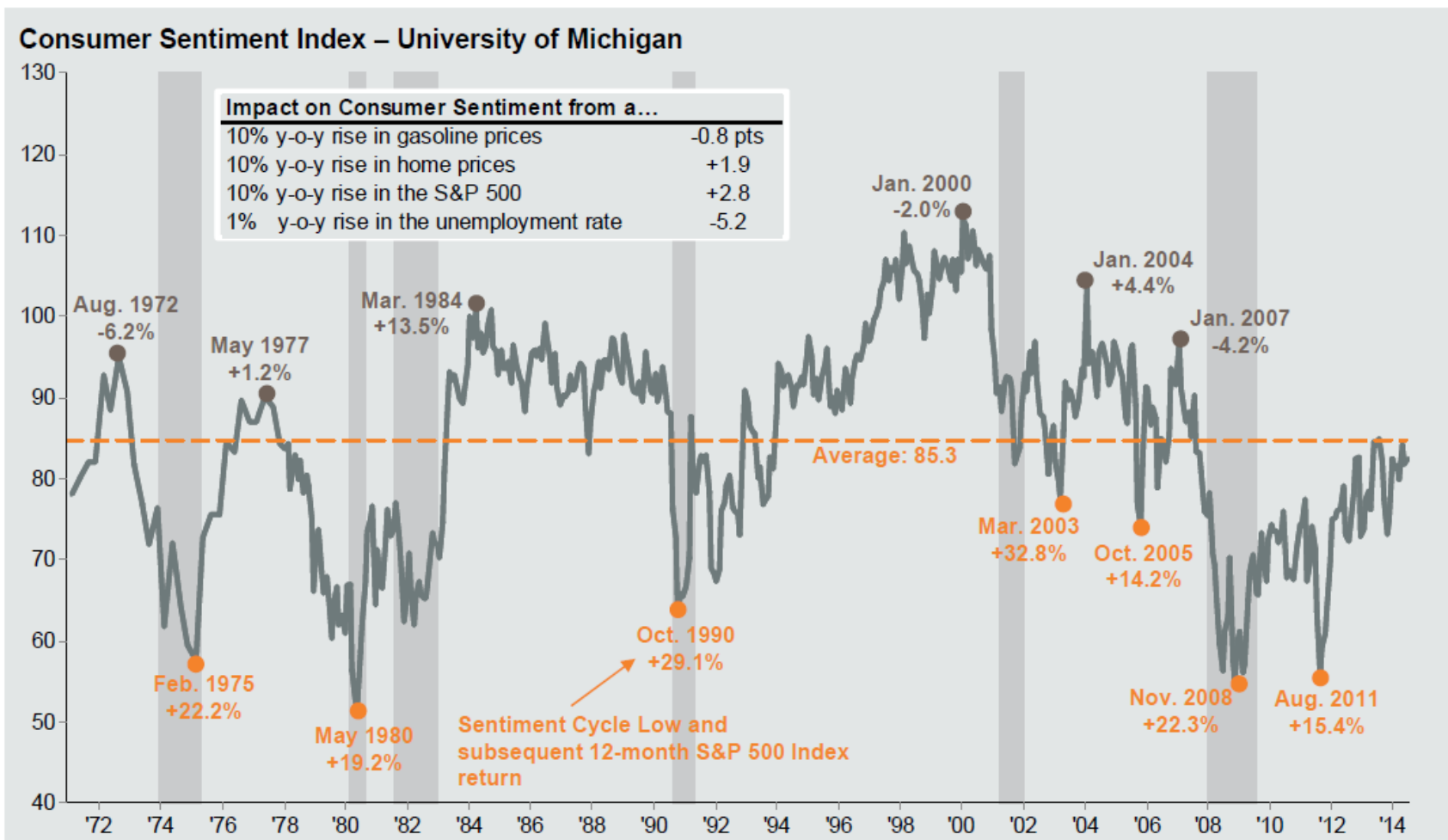
Housing Affordability Index

Avg. mortgage payment as a % of household income



Sources: Census Bureau, J.P. Morgan Asset Management. Monthly mortgage payment assumes the prevailing 30-year fixed-rate mortgage rates and average new home prices excluding a 20% downpayment. (Bottom right) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Consumer



Source: University of Michigan, FactSet, J.P. Morgan Asset Management.

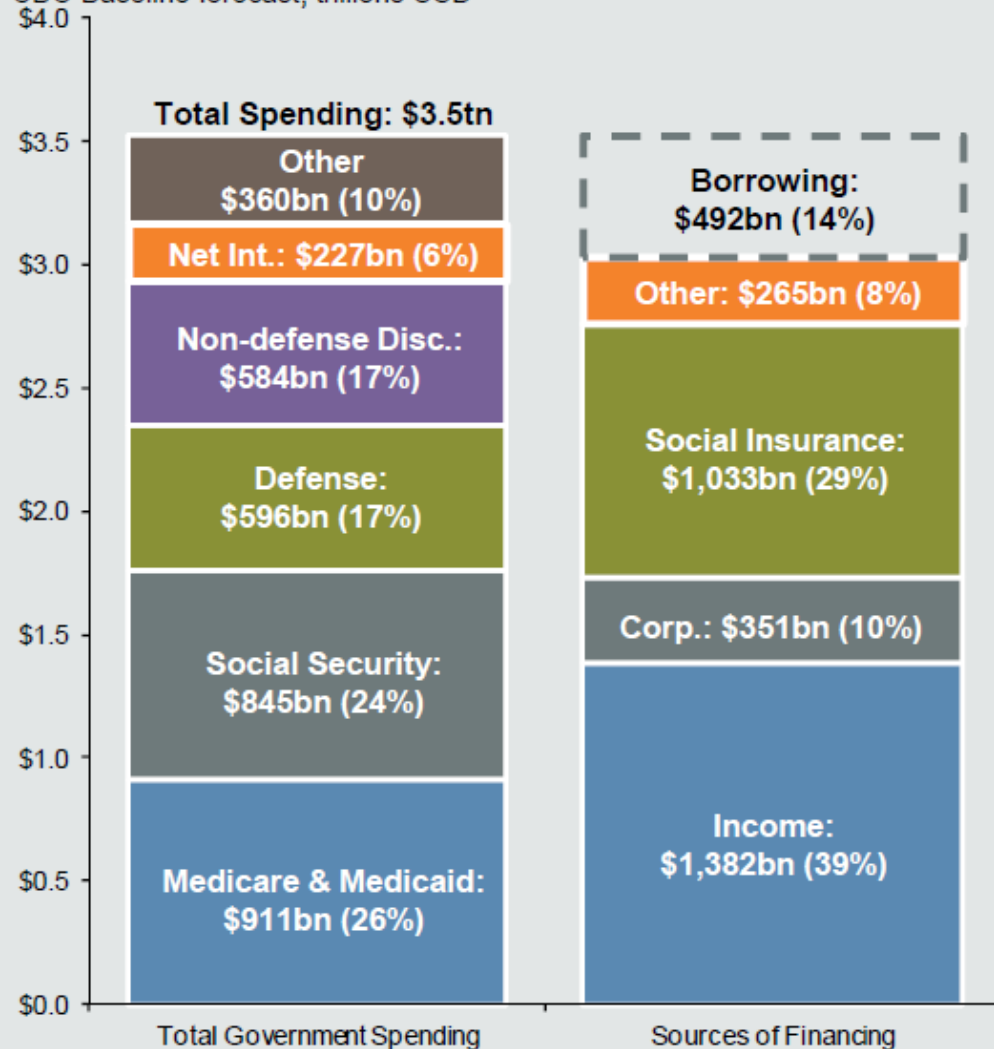
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Impact on consumer sentiment is based on a multivariate monthly regression between 1/31/2000 – 5/31/2014. Guide to the Markets – U.S.

Data are as of 6/30/14.

U.S. Government

The 2014 Federal Budget

CBO Baseline forecast, trillions USD



Source: U.S. Treasury, BEA, CBO, St. Louis Fed, J.P. Morgan Asset Management.

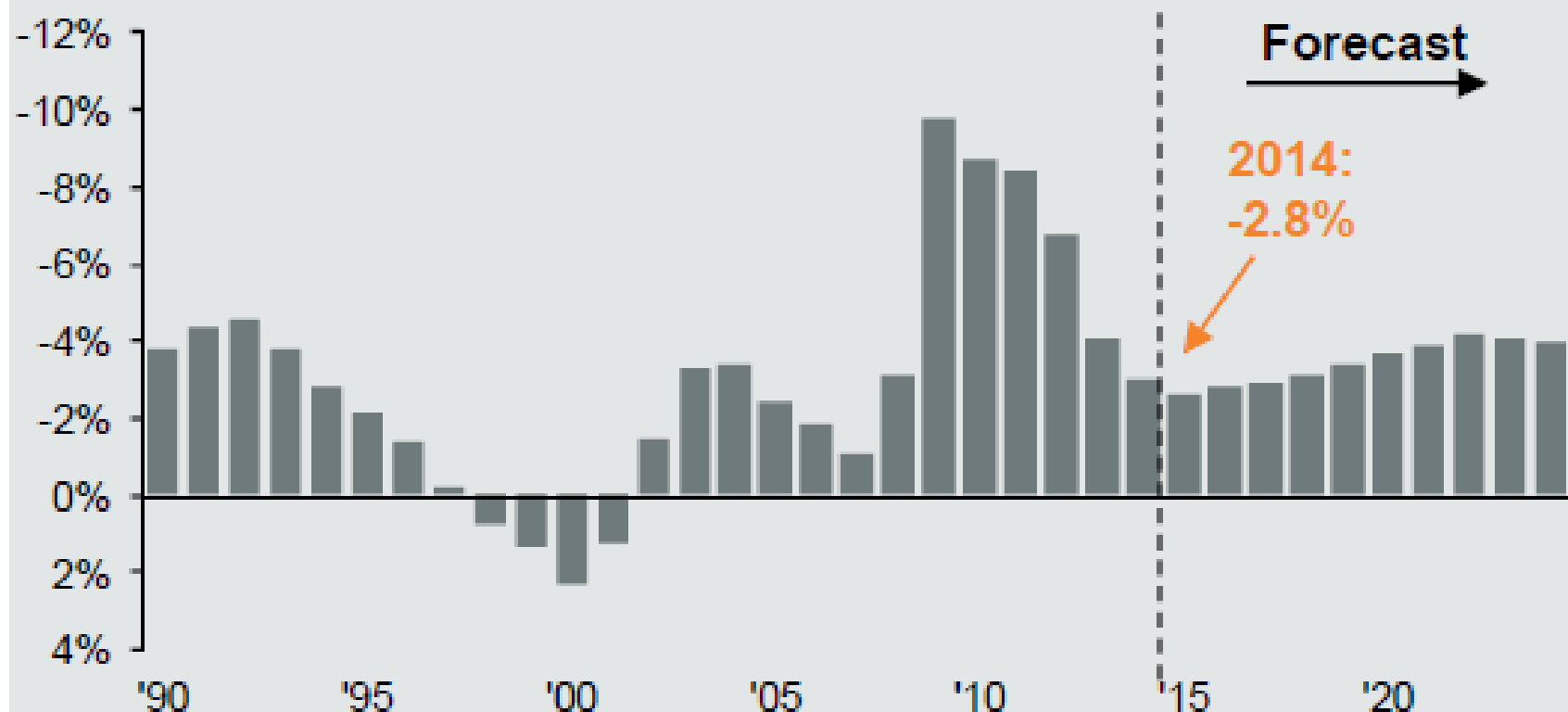
2014 Federal Budget is based on the CBO's April 2014 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). 2014 numbers are CBO estimates as of April 2014.

Guide to the Markets – U.S. Data are as of 6/30/14.

U.S. Government

Federal Budget Surplus/Deficit

% of GDP, 1990 – 2024, 2014 CBO Baseline



Source: U.S. Treasury, BEA, CBO, St. Louis Fed, J.P. Morgan Asset Management.

2014 Federal Budget is based on the CBO's April 2014 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). 2014 numbers are CBO estimates as of April 2014.

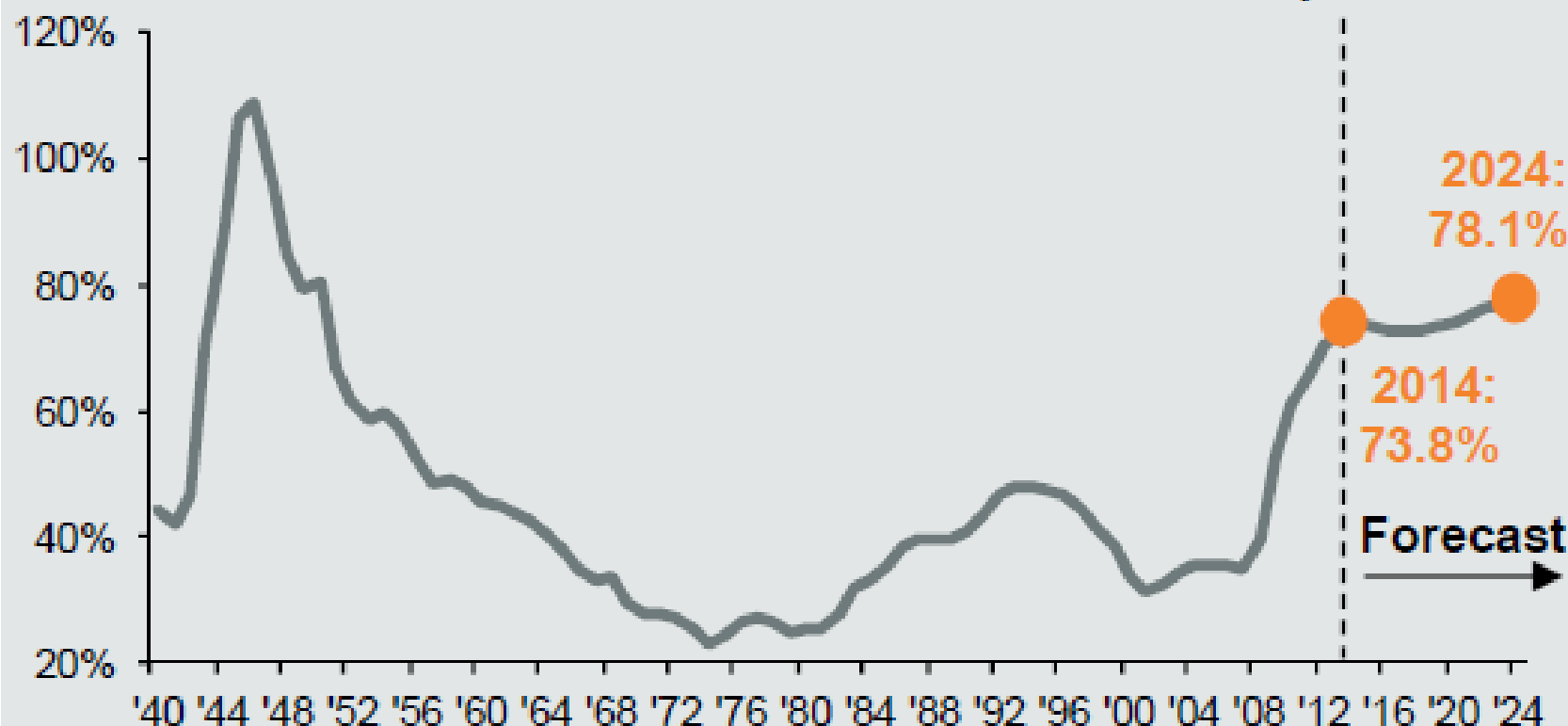
Guide to the Markets – U.S. Data are as of 6/30/14.

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U.S. Government

Federal Net Debt (Accumulated Deficits)

% of GDP, 1940 – 2024, 2014 CBO Baseline, end of fiscal year



Source: U.S. Treasury, BEA, CBO, St. Louis Fed, J.P. Morgan Asset Management.

2014 Federal Budget is based on the CBO's April 2014 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). 2014 numbers are CBO estimates as of April 2014.

Guide to the Markets – U.S. Data are as of 6/30/14.

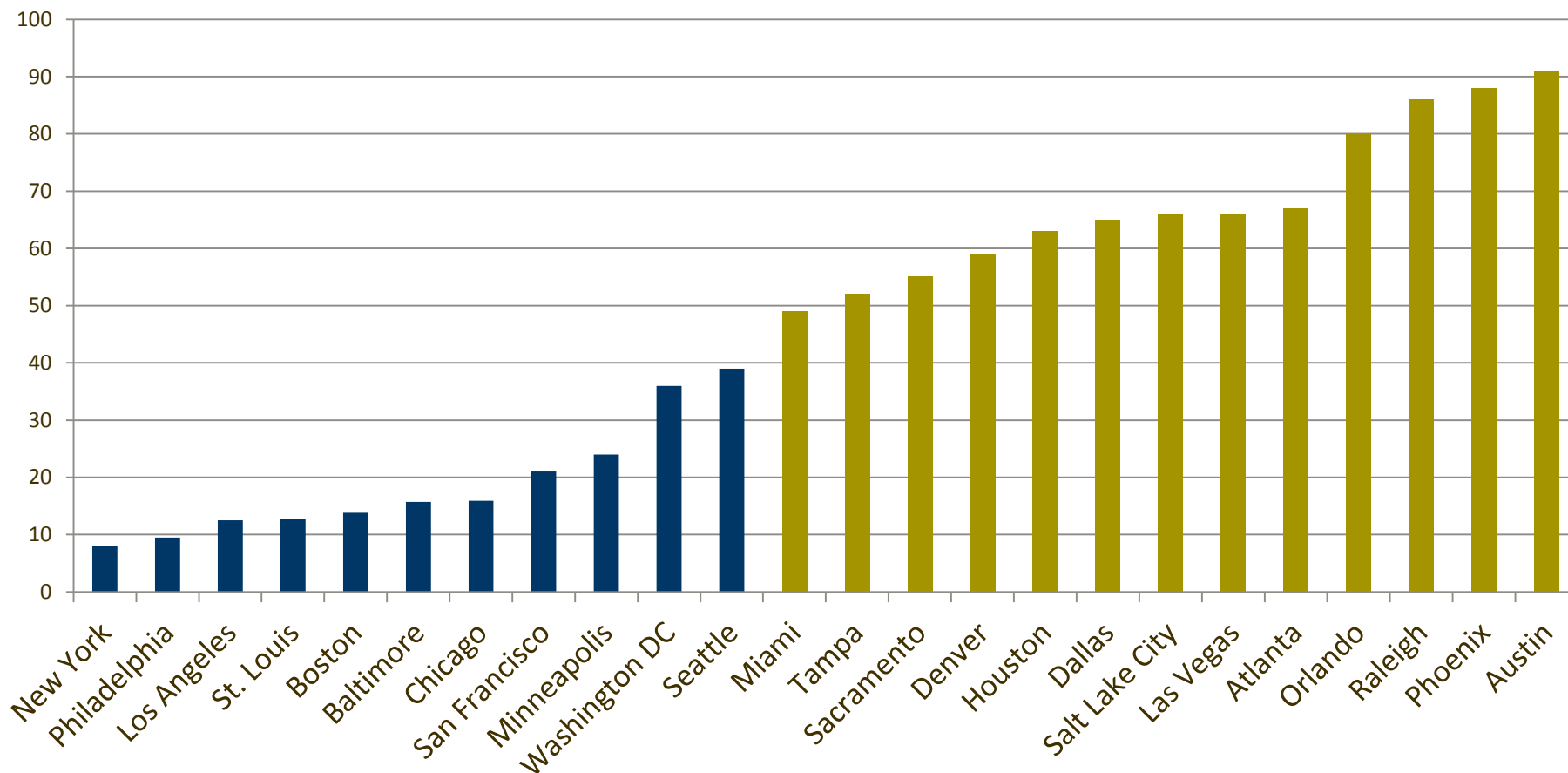
J.P.Morgan
Asset Management



U.S. Growth Trends

Regional Growth North and South

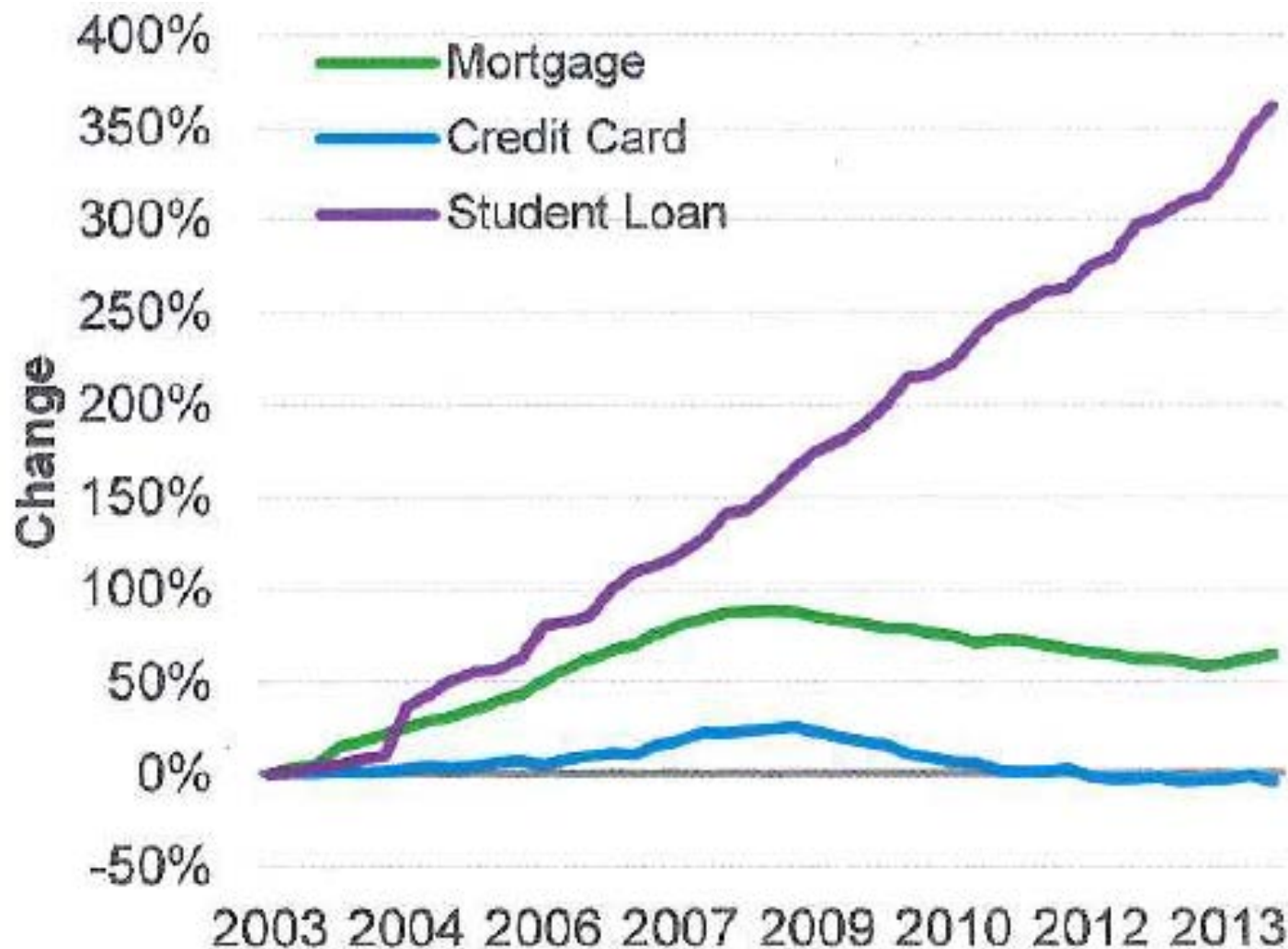
Major US Cities Growth by 2042



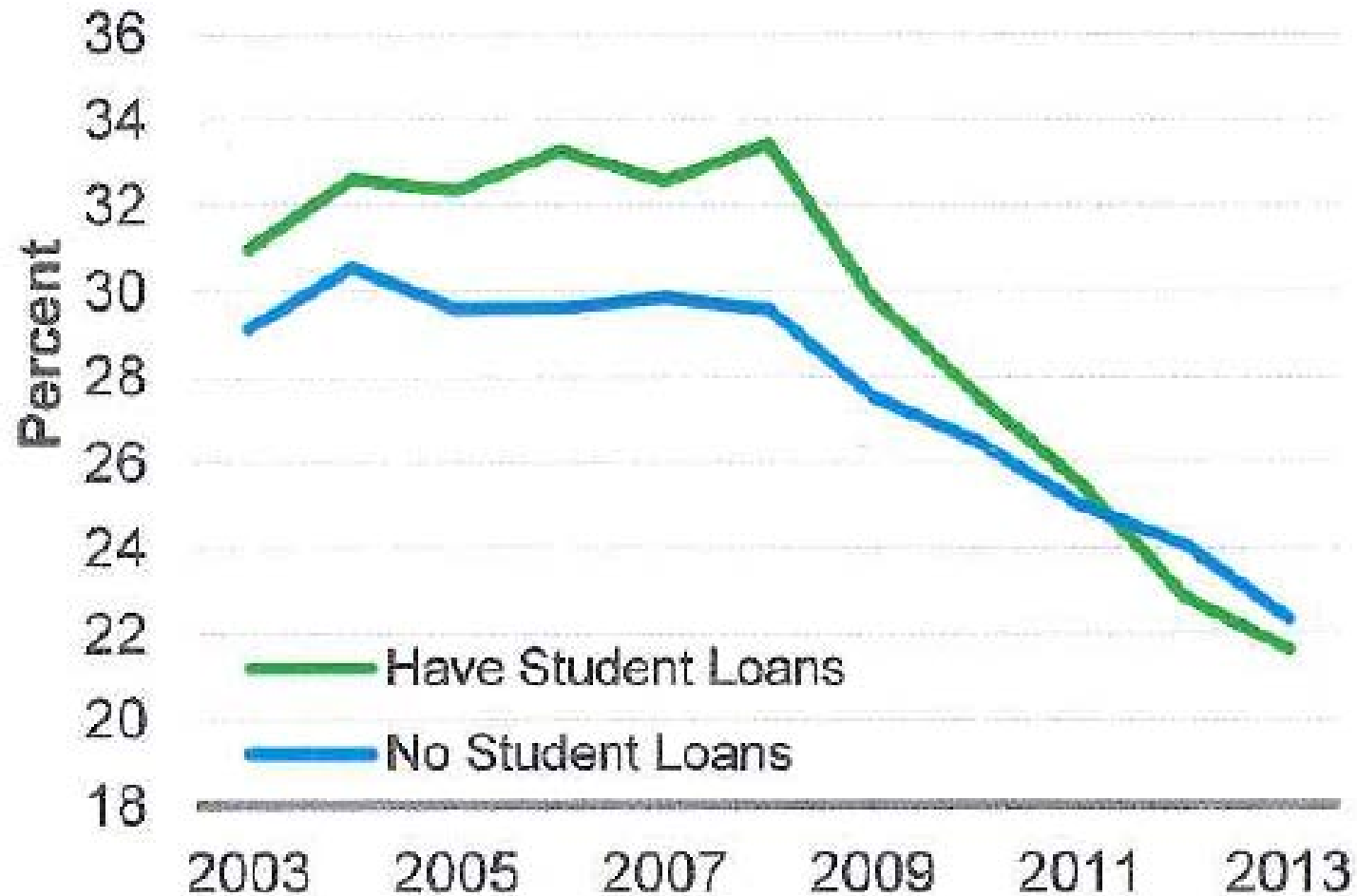
U.S. Population by Age



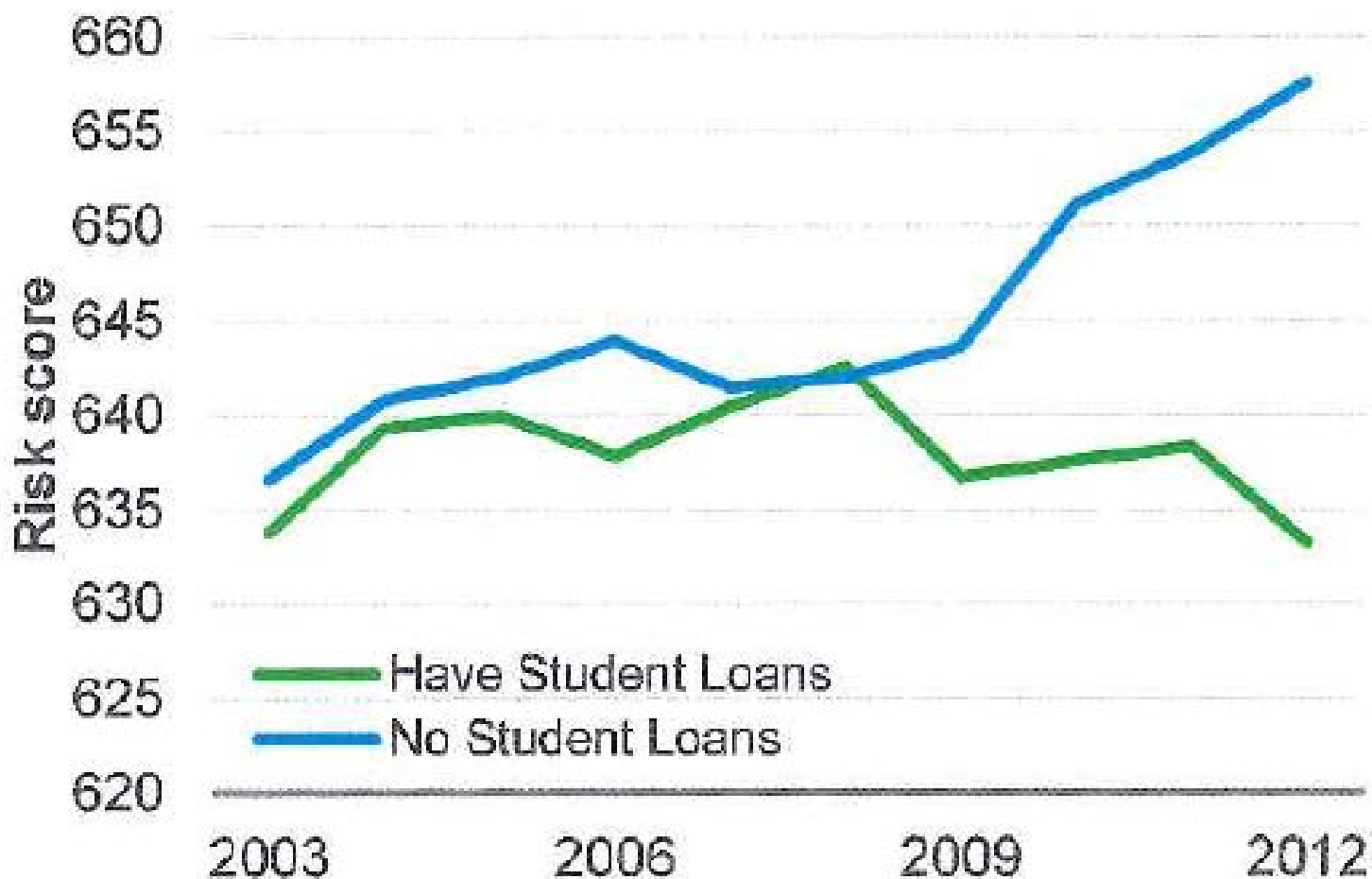
Change in Consumer Debt by Type Since 2003



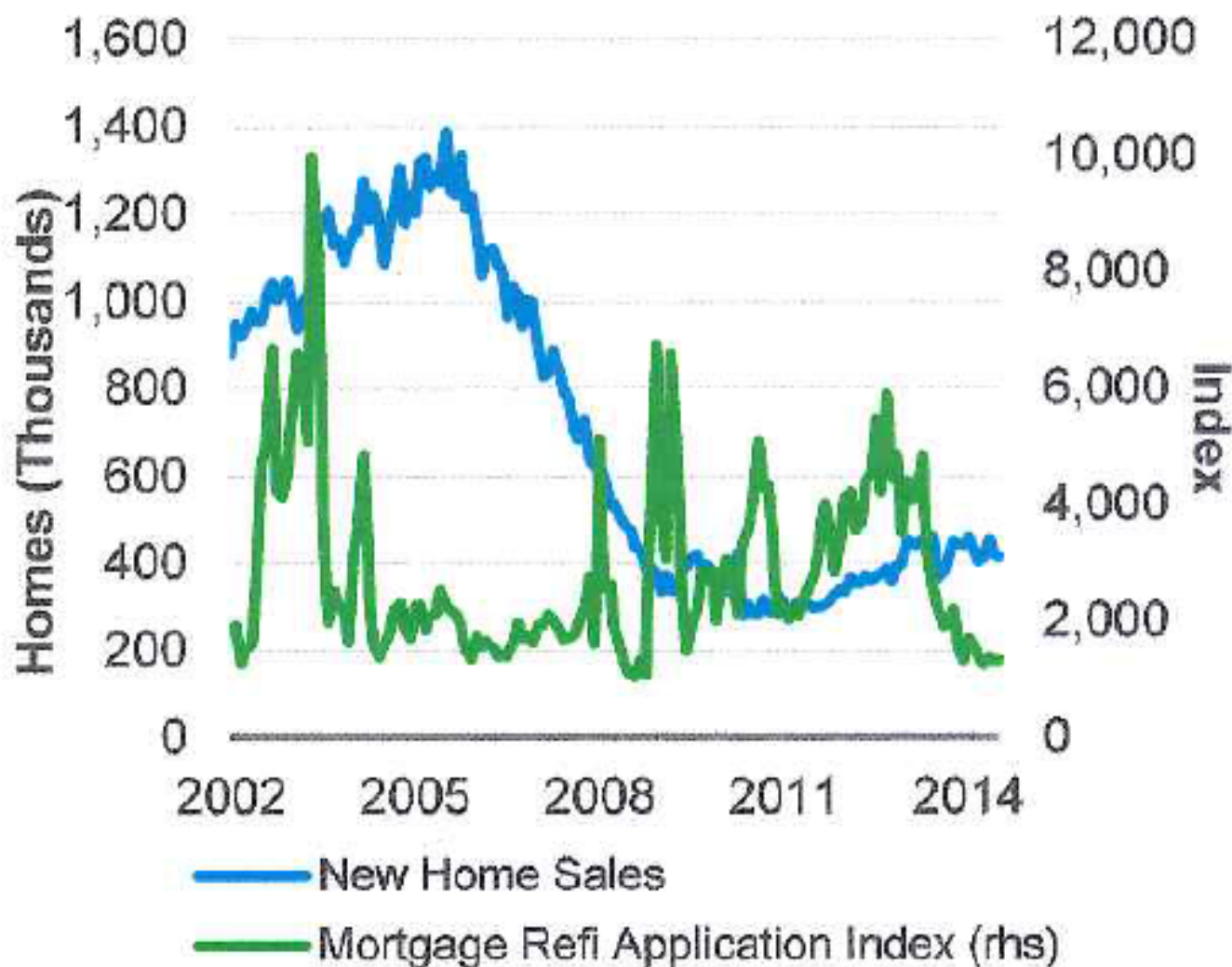
Borrowers With Mortgage Debt Ages 27-30



Borrower Risk Score (Equifax FICO-equivalent)



New Home Sales and Mortgage Refi Index



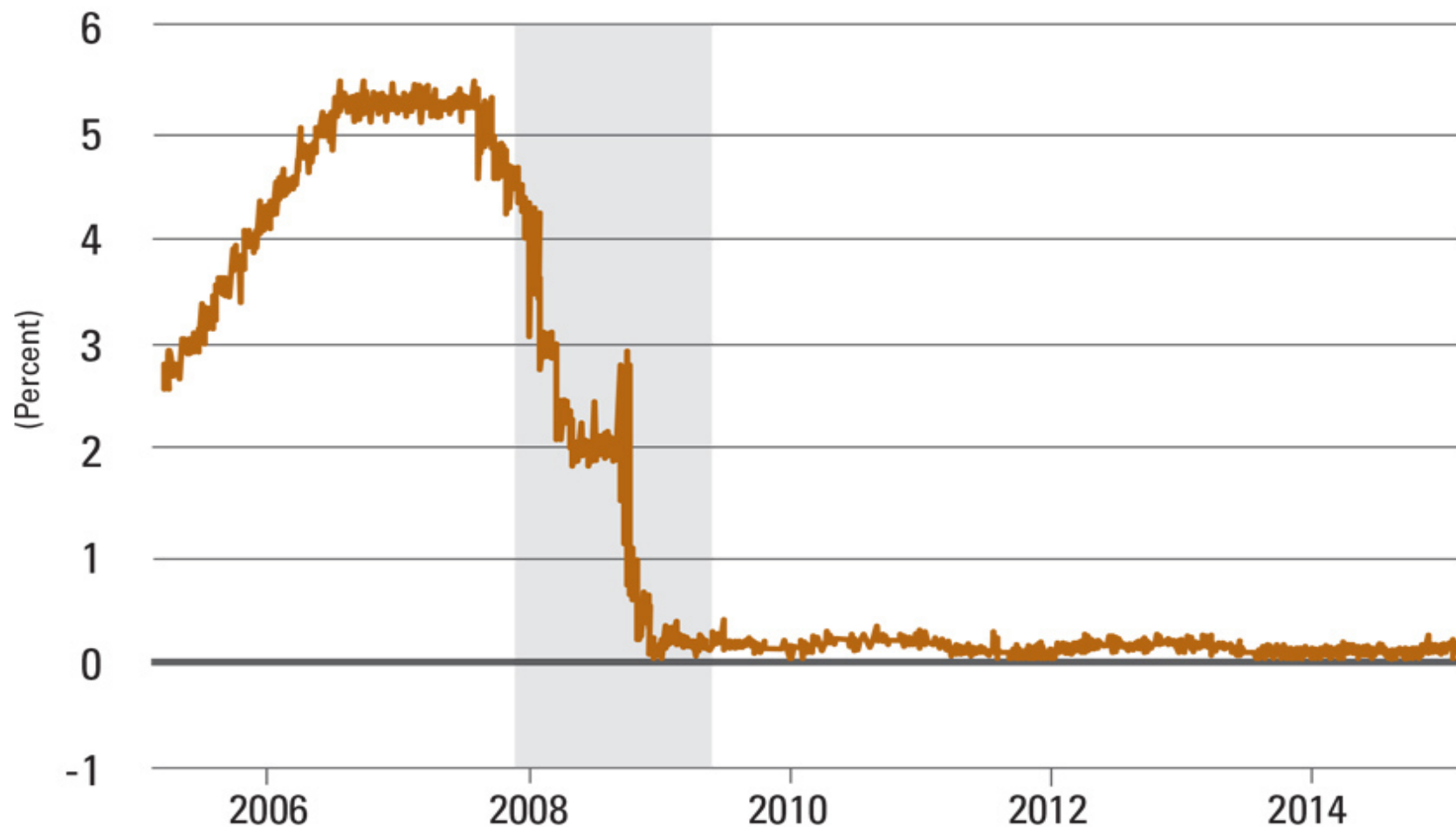


Current Economic Discussion

CliftonLarsonAllen Market Economic Outlook

Effective Federal Funds Rate

Shaded area indicates U.S. recession



Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of St. Louis



Employment — Total Private Payroll

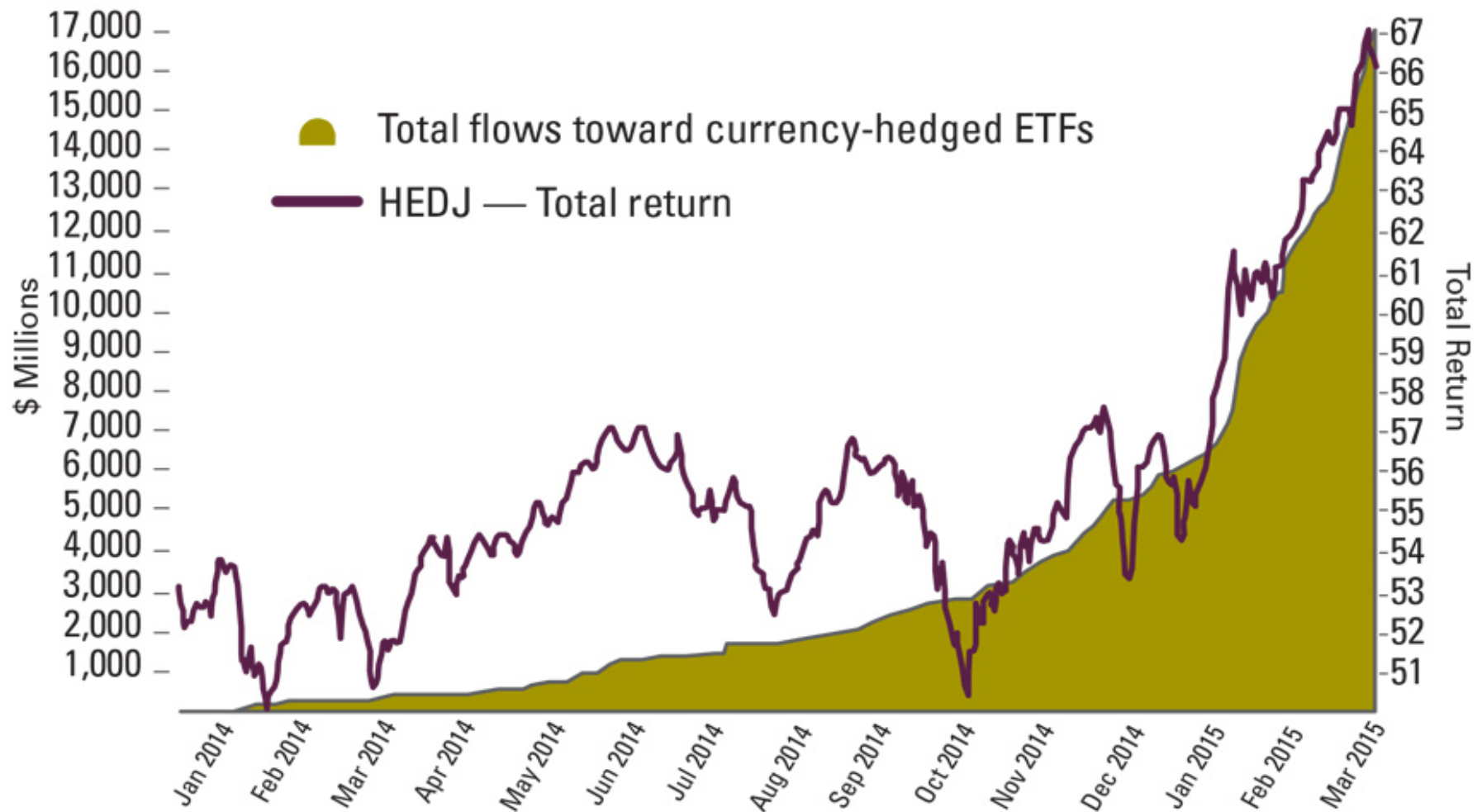
Total job gain/loss (thousands)



Source: J.P. Morgan Asset Management

Flows Toward Currency-Hedged Europe Equity ETFs

Daily Data 12/31/13 to 3/18/15



Source: Ned Davis Research

Issues Causing the Most Concern Over the Next Two Years



Source: *Manufacturing and Distribution Outlook: Planning for 2015*, CliftonLarsonAllen LLP



WEALTH ADVISORS

Manufacturing and Distribution Revenues and Profits

The past 12 months

Revenues



Increased 62%
Decreased 15%
Stayed the same 23%

Overall Profitability



Increased 55%
Decreased 22%
Stayed the same 23%
Not sure <1%

The next 12 months

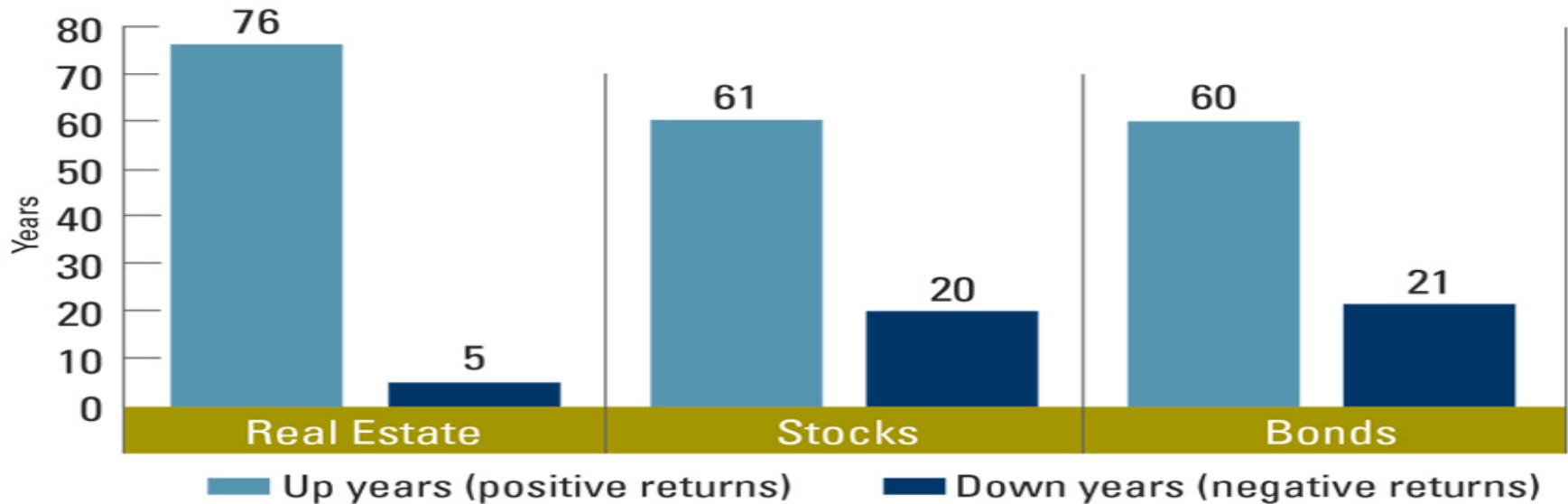
Revenues



Increase 79%
Decrease 4%
Stay the same 17%

Positive and Negative Return Comparison

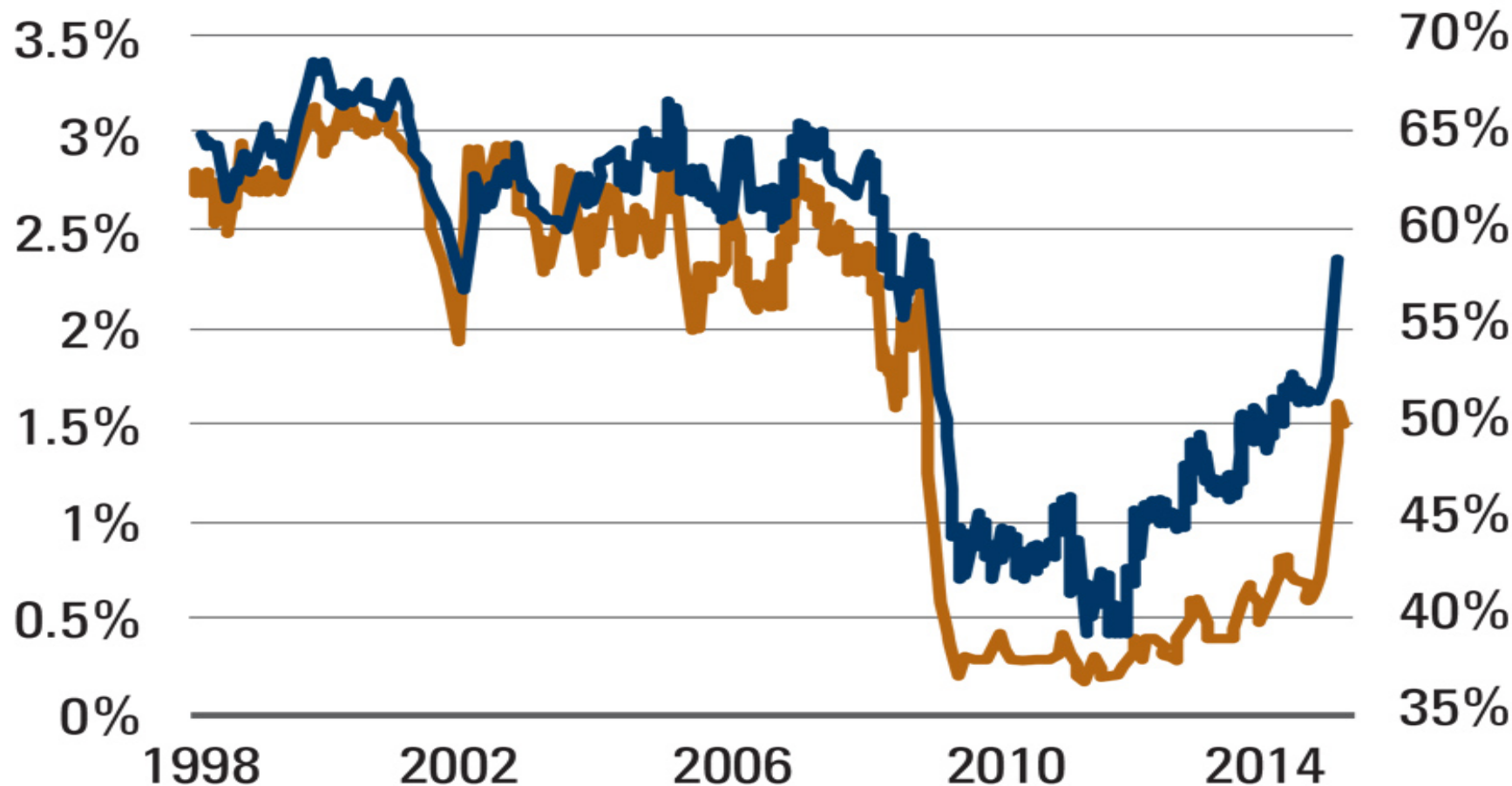
“Up” and “down” years for real estate, stocks, and bonds (1934 to 2014)



Sources: Dr. Glenn R. Mueller, Advisory Board/Executive Committee Member, The Arden Group, Inc.; National Council of Real Estate Investment Fiduciaries (NCREIF); and Bloomberg. **Past performance is not a guarantee of future results.** Real estate is represented by the NCREIF Property Index (NPI), an index of quarterly returns reported by institutional investors on investment grade commercial properties owned by those investors. The NPI is used as an industry benchmark to compare an investor's own returns against the industry average. NCREIF data is based on institutional investments and is presented without leverage or fees. Institutional investors often invest on substantially different terms and conditions than individual investors, which may include lower fees, expenses, or leverage. Stocks are represented by the S&P 500 Index, an unmanaged index of the 500 largest stocks (in terms of market value), weighted by market capitalization, and considered representative of the broad stock market. Bonds are represented by the Barclays Capital Aggregate Bond Index, an index of securities that are SEC-registered, taxable, and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The prices of securities represented by these indices may change in response to factors including: the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, and investor perceptions. All indices are unmanaged and do not include the impact of fees and expenses. An investment cannot be made directly in any index.

U.S. Consumers Begin to Feel the Recovery

- Median expected change in income in the next 12 months
- Share of respondents expecting higher income in the next 12 months



Source: BlackRock

Bureau of Labor Statistics-Arizona									
First Quarter 2015									
Includes:				Flagstaff, Lake Havasu City-Kingman, Phoenix-Mesa-Glendale, Prescott, Tucson, Yuma					
Labor Force Data									
In Millions				1/31/2015	2/28/2015	3/31/2015			
Civilian Labor Force				3146.5	3159.5	3161.8			
Employed				2938.6	2953.1	2965.7			
Unemployed				207.9	206.4	196.1			
Unemployment Rate				6.60%	6.50%	6.20%			
By Industry									
12-Month %Change(YOY)									
Construction				0.30%	0.20%	-0.20%			
Manufacturing				2.30%	0.50%	1.50%			
Information				-0.50%	1.40%	1.20%			
Financial Activities				1.30%	2.00%	2.40%			
Professional & Business Services				5.30%	5.40%	3.90%			
Education & Health Services				4.00%	3.70%	3.90%			
Leisure & Hospitality				4.60%	3.70%	3.40%			
Government				-1.00%	0.30%	0.50%			



Mega Trend

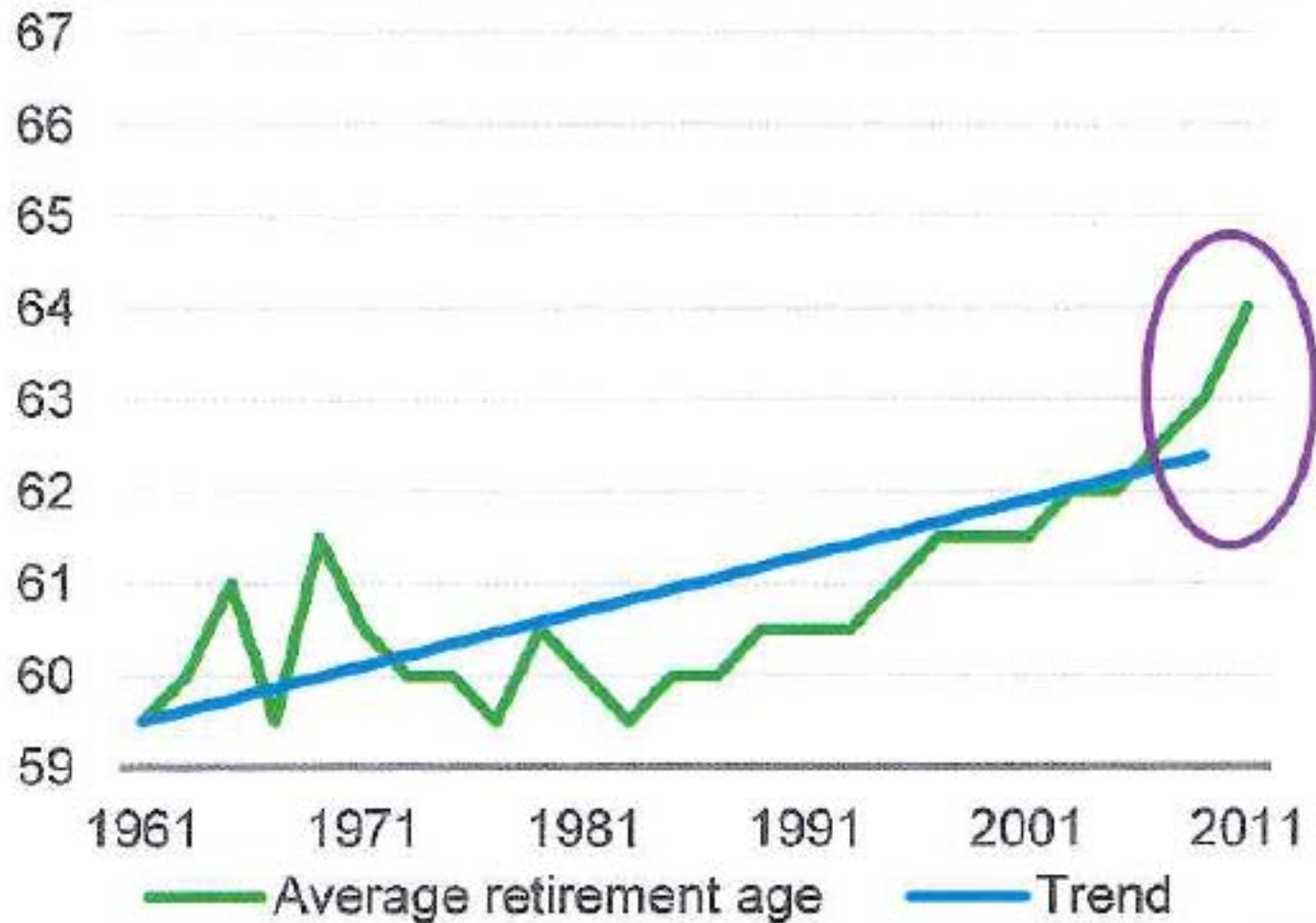
Baby Boomer Wealth Transfer

The Marketplace Is Shifting

We're on the cusp
of the largest transfer
of wealth in the history
of the world.

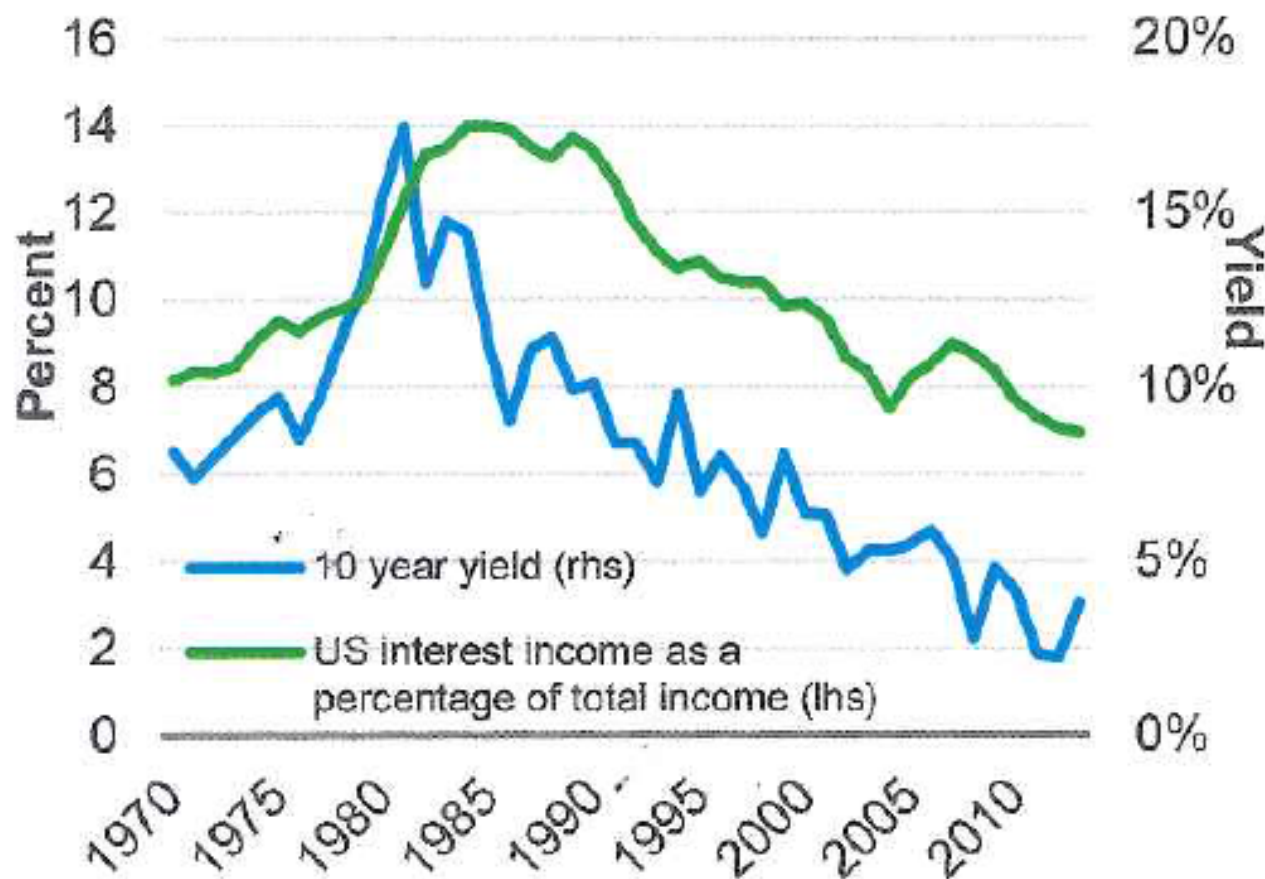


U.S. Retirement Age



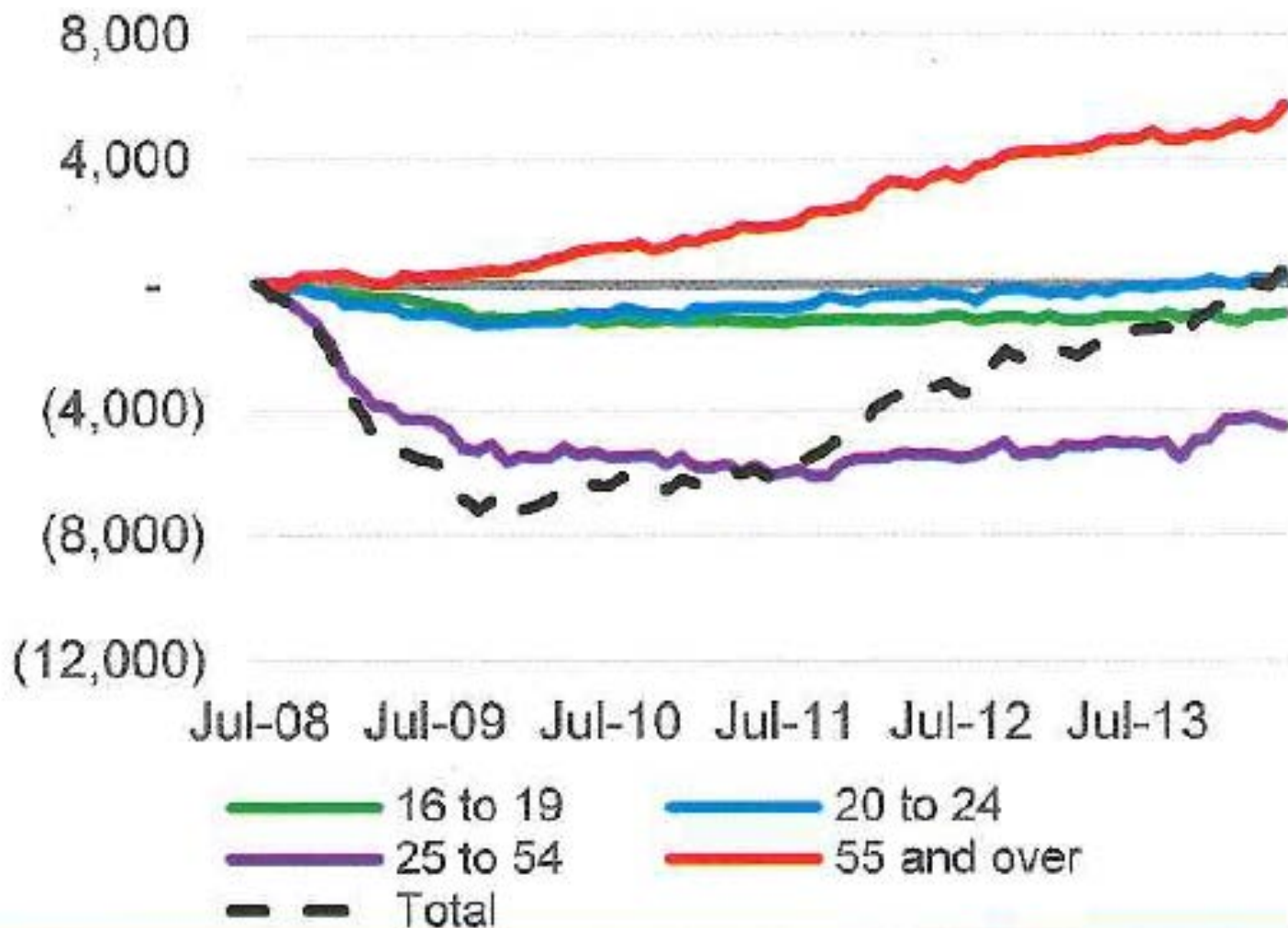
Source: CS, Population Division, DESA, United Nations: Demographic Changes, Financial Markets, and the Economy, Robert Arnott and Denis Chaves, Financial Analysts Journal, Volume 68 No. 1, 2012.

Personal Interest Income as a % of Personal Total Income



Source: CS, Population Division, DESA, United Nations: Demographic Changes, Financial Markets, and the Economy, Robert Arnott and Denis Chaves, Financial Analysts Journal, Volume 68 No. 1, 2012.

Change in Employment by Age Since July 2008



Source: CS, Population Division, DESA, United Nations: Demographic Changes, Financial Markets, and the Economy, Robert Arnott and Denis Chaves, Financial Analysts Journal, Volume 68 No. 1, 2012.

Shifts in the Marketplace

- The economy is growing at a slow pace
- Life spans are stretching
- Retirement is a moving target
- 10,000 Baby Boomers turn 65 each day (between 2011 and 2030).¹

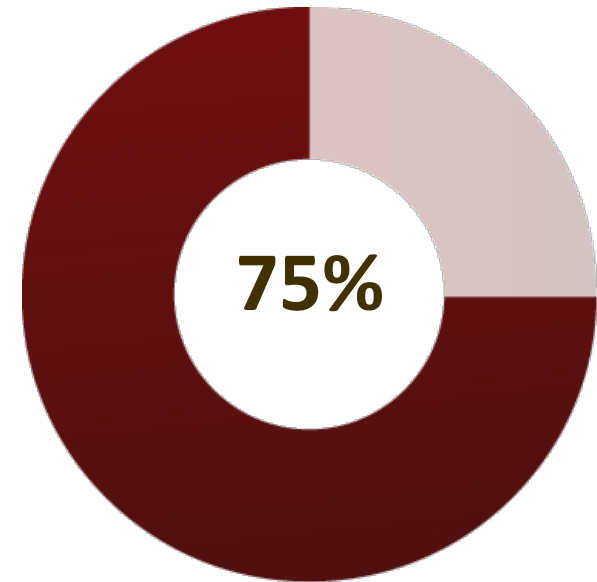
One business owner
turns 65
every 57 seconds.

Some Expert Estimations About Baby Boomers

Around \$11 trillion will be transferred from one generation to the next.³

9 million of America's 15 million business owners were born in or before 1964.⁴

Most business owners will wait until the 11th hour to do a succession plan or determine the value of their business.



75 percent of business owners don't have exit plans.⁵

MARKET INSIGHTS

Economic Update

May 18, 2015

Dr. David Kelly, CFA | Chief Global Strategist for J.P. Morgan Funds

This weekly update provides a snapshot of changes in the economy and markets and their implications for investors.

**Growth**

Lower than expected numbers on international trade, manufacturing and wholesale inventories, and retail sales likely will push the second estimate of 1Q 2015 real GDP into negative territory, from a first estimate of 0.2% q/q saar. Alternative measures of economic growth estimate that the economy is still expanding above 2.0%, especially after tax collection data reflected the major increase in employment over the past year, with income taxes being up 6.0% y/y. Despite some measured weakness this quarter, we see the expansion continuing at its moderate pace.

**Jobs**

The April employment report met expectations for job growth, while further data about the March employment situation confirmed a still tightening labor market. April nonfarm payrolls rose by 223,000, and the unemployment rate moved slightly lower to 5.4%. Wage growth was again mild, but the March quits rate rose to 2.0%, suggesting workers are feeling confident enough to leave in search of another job, potentially signaling a coming increase in worker bargaining power. Overall, the labor market appears healthy, despite some indications of a growing skills gap in the labor force.

**Profits**

S&P 500 1Q 2015 earnings season is coming to a close, with about 92% of the S&P 500 market capitalization reporting through last week. Estimates were reduced over the quarter due to continued U.S. dollar strength and low oil prices, leaving room for companies to surprise to the upside. While we are estimating S&P 500 earnings growth to be -5.0%, S&P 500 earnings excluding the energy sector are projected to grow at 9.1%.

**Inflation**

Headline consumer prices rose 0.2% between February and March, and are now flat y/y seasonally adjusted, while core CPI inflation firmed slightly to 1.8% y/y. Import and export prices both fell in April, -0.3% m/m and -0.7% m/m, respectively, despite a move upward in energy prices. Final demand producer prices were down -1.3% on a y/y basis in April, although inflation ex-food and energy came in positive at 0.8% y/y.

**Rates**

There were no policy changes in the FOMC's April statement, but it was noted that weakness in U.S. economic data in 1Q is "transitory". The Fed stressed a rate increase would only come after further improvement in the labor market and when the Committee had "reasonable confidence" inflation would hit 2% in the medium term. In March, the Fed lowered its forecasts for both the long-run unemployment rate and near-term economic growth, signaling the Fed sees more slack in the economy than previously thought.

**Risks**

- Volatility caused by the timing and communication of Fed tightening.
- Political risk potentially caused by Middle East turmoil and lower oil prices.
- Deflation worries in other developed economies outside of the U.S.
- Volatility caused by sharp swings in commodity prices and exchange rates.

**Investment Themes**

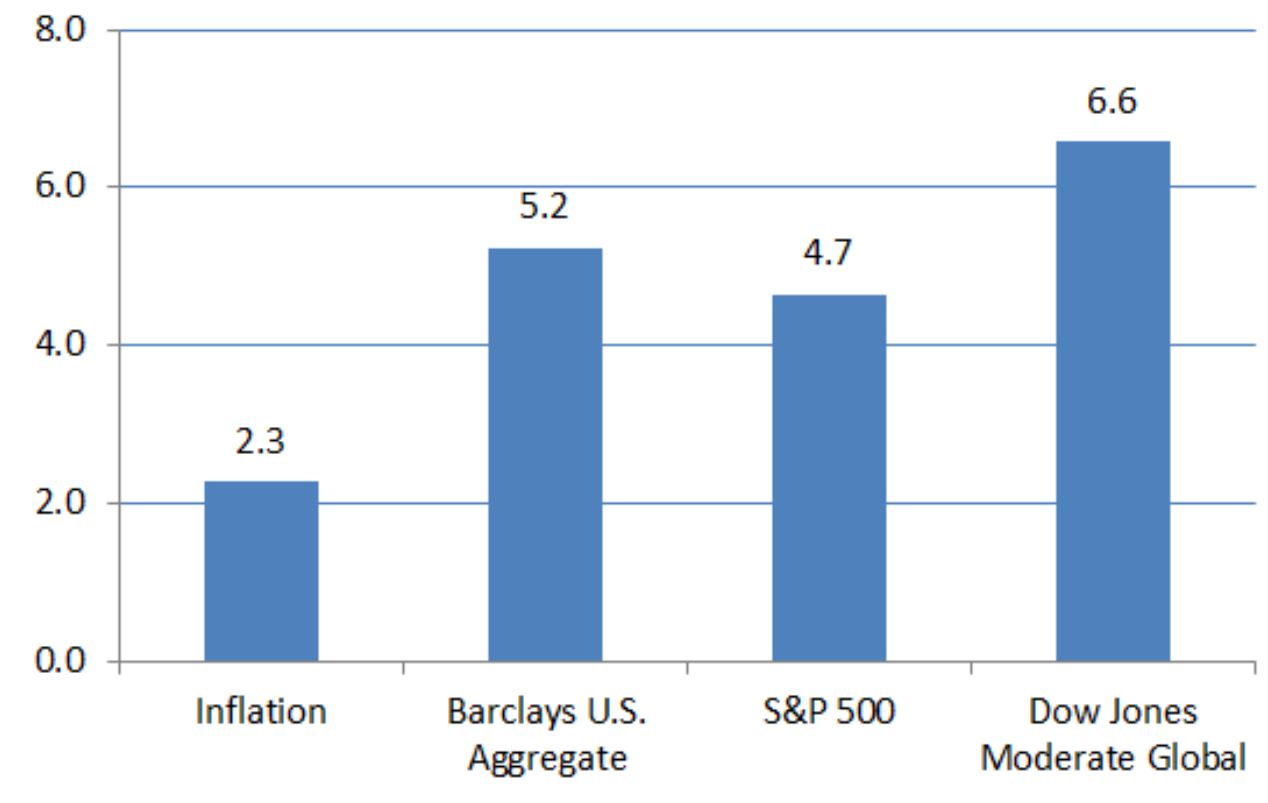
- A slow upward trend in earnings (despite special factors depressing 4Q 2014 numbers), coupled with low interest rates, still make stocks look attractive in relative terms.
- Cyclical and small cap stocks are generally favored in a rising interest rate environment.
- High yield bonds look more attractive than Treasuries, but a diversified approach to fixed income investing seems appropriate given likely Fed tightening in 2015.
- Despite disappointing returns due to a stronger dollar in 2014, international exposure is still warranted given growth prospects abroad.

■ Denotes updated information

J.P.Morgan
Asset Management

Benefits of Diversification Over Previous 13 Years

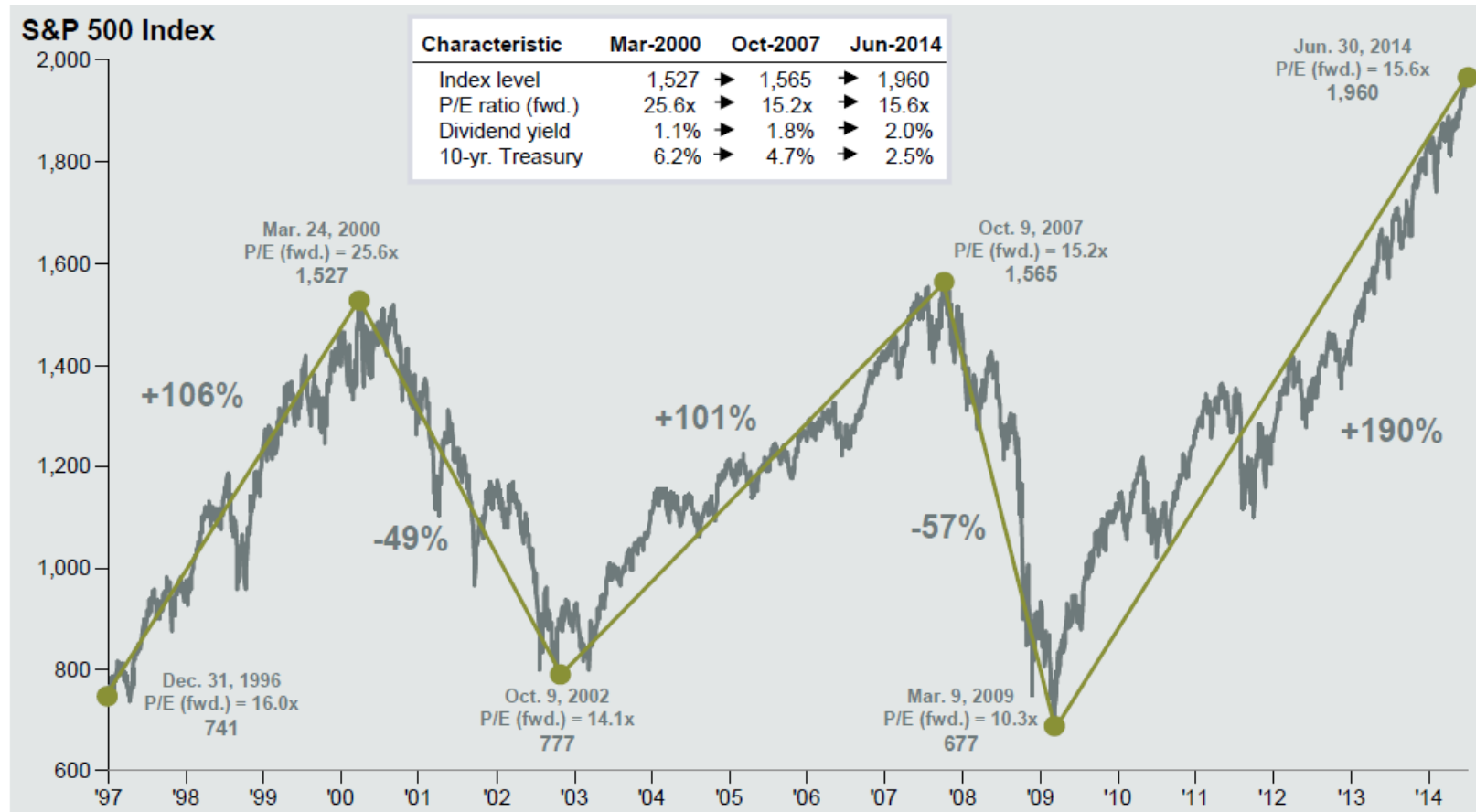
Annualized Return (%)



Total Returns January 1, 2001 - December 31, 2013

	Annualized Return (%)	Cumulative Return (%)	Std Dev (%)
Inflation	2.3	34.0	1.4
Barclays U.S. Aggregate	5.2	94.2	3.6
S&P 500	4.7	80.5	15.5
Dow Jones Moderate Global	6.6	129.2	10.5

S&P 500 Index



Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S.

Data are as of 6/30/14.