WINFIELD
ASSOCIATES

Winfield Quarterly

October 2014

Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

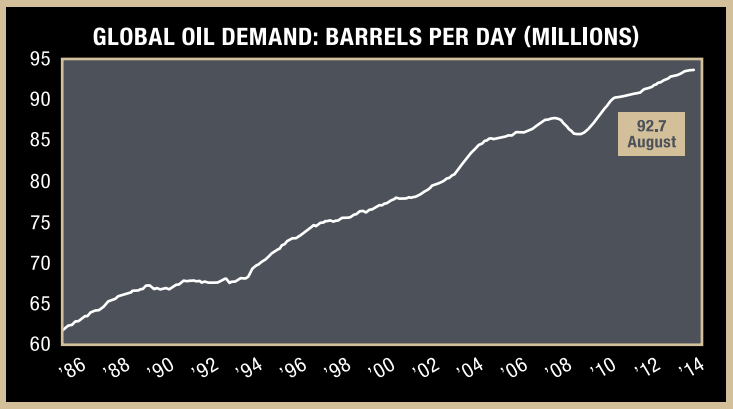
Despite the benchmark indexes hitting historic new highs several times during the third quarter, the Dow Jones Industrial Average (DJIA) and the S&P 500 edged out gains of less than 2%. Mid cap and small cap indexes fared much worse, dropping 4% and 7.4% respectively. Performance for the nine months showed a similar bifurcation. The DJIA was up 4.6% and the S&P 500 up 8.3%, but the mid cap index appreciated only 3.2% and small caps decreased 4.4%. Apparently, investors currently view larger companies as having less risk and are more likely to have steady cash flows and dividends. International markets showed a similar disconnection as the MSCI EAFE index declined 5.9% in the third quarter and is down 3.7% for the year.

The major equity indexes' performance reflects the state of the world's economies. The United States continues to show improvement from the 2008-2009 recession, albeit at a slower pace than other post WWII recoveries. Auto production, housing starts, industrial production, and employment have experienced significant improvement and have been aided by historically low interest rates. Forecasts for GDP growth for the third and fourth quarters of 2014 are at nearly 4%, and most economists forecast 3% GDP growth for all of 2015. Interest rates are expected to stay low well into next year, even though the Federal Reserve will end its balance sheet expansion this month. Inflation and employment, the two Federal Reserve mandates, seem to be well under control, so we don't think the Fed will change its monetary policy direction of moderate, slow tightening of interest rates. If anything, deflationary pressures are a concern. The Fed is not currently on track to meet its modest inflation goal of 2%, and this will be a major topic of discussion in the meetings to come.

The economic situation in the European Union (EU) is less sanguine and a primary reason for the volatility with the US markets. The EU, made up of 28 different countries, is the largest economy worldwide and has a GDP of more than $18 trillion. Following the 2008 recession, many EU countries struggled with their financial viability, but stabilized by 2012-2013. This is in large part due to an easing monetary policy from the European Central Bank. Weakness in the EU has led to a sharp rise in the dollar against the Euro. Eventually, this could hurt US exports and ultimately the trade balance. The Fed will be watching this closely and it could be another factor that encourages a continued loose monetary policy.

Bonds moved higher during the quarter as investors sought U.S. Treasuries for lower volatility and safety. The Barclays U.S. Aggregate Index advanced 0.2% during the quarter, and is now up 4.1% for all of 2014. The benchmark 10-year Treasury note ended the quarter yielding 2.49%, still well below the historical average of approximately 5% despite the Fed's plan to end balance sheet expansion.

This year, turmoil in the Middle East and Russia has had a negative impact on global trade. Despite geopolitical supply risk in these oil-rich regions, crude oil prices have fallen by around 13% through the end of the third quarter. Most global energy stocks have subsequently fallen in line with this drop. While the hope is that this indicates an abundance of energy supply worldwide, the possibility exists that this fall is demand-driven and may be a leading indicator of slower economic growth.



As the graph above indicates, over the past 30 years, the global consumption of oil has risen from 62 million barrels per day in 1986 to almost 93 million barrels per day in 2014. Much of the growth in oil consumption in recent years stemmed from economic growth in emerging markets. Data indicates that an increase in global oil demand growth is indeed slowing below recent average rates of 1-2%. A more severe drop would seem to mimic the conditions of the early 90's and the subprime crisis in 2008 - the only instances in recent history where oil demand has actually fallen. Since oil supply has consistently risen to meet a growing need, a small drop in demand is noteworthy. However, the information belied by oil futures is more positive. Forward contract prices continue to fall significantly over the coming months, but level off at around $85 per barrel. This indicates that many major market players believe that oil prices will not continue to plummet. We will monitor the oil market closely in the coming months for signs of improvement or deterioration.

ESTATE PLANNING DOCUMENTS

Organizing important documents should be the first step to comprehensive estate planning. Winfield's ClientView web portal offers a secure, cloud-based document storage vault for copies of your most important estate planning documents.

Most important

- Will or living trust
- Durable financial power of attorney
- Medical history
- Durable health care power of attorney
- Living wills
- Guardian documents for minor children

Financial

- Investment account numbers
- Insurance policies
- Retirement and pension accounts
- Annuity contracts
- Debts and loan obligations and loans you have made to others
- Documents of houses and land ownership
- Tax returns

Other

- Marriage license
- Divorce, child support and alimony papers
- Military discharge papers
- Instructions what to do with your online life – Facebook, Twitter, Instagram, digital photos, domain names

CLIENTVIEW WEB PORTAL

Winfield's ClientView serves as your financial hub. Clients can upload wills, trusts, insurance policies, and other critical financial documents and view them in a completely secure environment. Cloud-based technology ensures that clients can access all of their important financial information in one place from anywhere with internet access. Our platform allows clients to gain a better understanding of their investments by providing performance and asset allocation information that is not available through traditional brokerage websites. We strongly encourage any clients or prospective clients who are interested in this tool to call for further information.

MARKET PERFORMANCE

	3Q 2014	2014 YTD
Dow Jones	1.9%	4.6%
S&P 500	1.1%	8.3%
Nasdaq	2.2%	8.6%
Russell 2000	-7.4%	-4.4%
MSCI EAFE	-5.9%	-3.7%
Barclays Agg	0.2%	4.1%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

www.winfieldinc.com

700 West St. Clair Avenue, Suite 404 • Cleveland, OH 44113

(216) 241-2575 • (888)322-2575 • fax: (216)241-4774