DELTA

FINANCIAL ADVISORS

Investment Counsel

April 2015

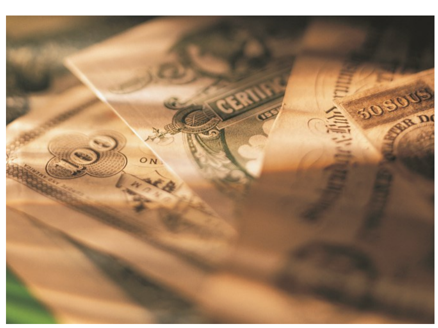
IN THIS ISSUE

Economic Comments

At quarter end, Fed Chair Janet Yellen expressed renewed concerns regarding the strength of the economic recovery despite the previous year's impressive progress on jobs creation. By stating her firm intention of being deliberate in only slowly raising rates, most economists felt that the likelihood of a June rate increase has become remote. Helping set the table for her comments, the Fed's preferred inflation gauge (the personal consumption expenditures price index) rose by only 1.4% in February when adjusted for the more volatile food and energy prices. This now makes 34 consecutive months that inflation has undershot the Fed's espoused 2% target.

To keep these levels in better perspective, Fed policymakers said in their March 18th statement that they do not plan to raise short-term interest rates until they are "reasonably confident" that inflation is moving back towards the desired 2% level. Adding additional concern for Chair Yellen were some other unanticipated economic headwinds experienced in recent months. In particular, a series of severe winter weather in the Midwest and Northeast along with a recently resolved labor dispute at the West Coast's ports put a damper on the most recent quarter's output.

Added complications were provided by the poor reading on gross domestic product for 2014's fourth quarter. At a 2.2% seasonally adjusted rate, the quarter's activity was a significant slowdown from the blistering 5.0% pace of 2014's third quarter. Expectations for this year's first quarter, which will first be reported in late April, have diminished to near a 1.0% pace. One economic sector that is helping drive this slowdown is the manufacturing sector as it struggles with the stronger dollar. Besides making U.S. exports more expensive, the strengthened greenback also makes imports less expensive. Further sector pressure has been caused by reduced demand from the energy sector as domestic oil investment has declined.



An interesting conflict had arisen in recent months as economic growth had slowed while jobs growth had continued at elevated levels. Eventually something needed to happen to resolve this conflict - either job growth needed to slow or economic growth needed to pick up. Unfortunately, and after a 12 month streak of gains above 200,000, the U.S. only added 126,000 jobs in March. Adding insult to the injury, January and February jobs creation numbers were revised downward by almost 70,000 positions. The decline echoed earlier signs that sluggish business investment was exacting a toll on the economy. While employers have not started laying workers off, they have instead slowed their rate of filling new positions.

Yet even this employment news is a mixed blessing. While the

(Continued on page 2)

Economic Comments continued from cover

energy sector has been shedding jobs, the average consumer is now saving large amounts of money due to lower gasoline prices. Surprisingly, consumers pocketed much of this savings rather than spending their new found cash. February's personal savings rate showed that Americans sharply increased their savings to 5.8% of disposable income, its highest level in more than two years. In the face of this savings increase, consumer spending barely rose in February while spending on goods and services declined on an inflation adjusted basis.

Although, the quarter's economic news was not all dire as unemployment held steady at 5.5% while hourly wages for private sector workers rose by 0.3%. Nonetheless, wages rose 2.1% year over year and showed little change from the rate of increase over the last five years.

Interestingly though, the lower unemployment rate could foreshadow bidding wars for new employees as employers fight for desired new hires and drive up wages. While there is anecdotal evidence in support of this, including McDonald's recent decisions to increase its minimum wage for company owned restaurants, the data is still inconclusive. Wage data for the last several months shows wage gains to have stayed in line with those increases seen in recent years.

Given the other factors discussed, the slowdown in jobs creation has renewed concerns over a return to the more tepid growth seen for most of the current economic recovery. The trillion dollar question is whether this most recent data is only a reflection of the harsh winter and/or a one-time adjustment to lower energy prices or is instead something more structural. In any case, the recent shift has re-energized the debate as to the timing of the Federal Reserve's anticipated rate increases.

While there was never the expectation that the U.S. economy would continue to log the robust growth of last year's third quarter, we are optimistic that second quarter economic activity will snap back as the first quarter's unique disruptions become more distant. We believe that the sharply lower energy prices are a substantial tailwind that will provide support through any additional unexpected turbulence. While the recovery's continuation is by no means assured, we emphatically believe that the U.S. economy is uniquely situated to thrive in today's currently challenging environment.

Analyst Corner

The financial sector has rebounded sharply since the dark days of the fall of 2008 and the winter of 2009. One property and casualty insurance firm that weathered this economic storm particularly well is The Travelers Companies (*NYSE: TRV).* Aiding the company during the Financial Crisis was Travelers' more conservative investment strategy, which allowed it to largely avoid the severe losses that afflicted many of its peers. As part of this conservatism, the company maintains strong underwriting discipline in pricing its coverages and has suffered underwriting losses only once in the last 10 years. With a record of strong returns on shareowners' capital and a history of consistently growing its dividend, investors might have to "travel" far and wide to find another finance firm with attributes as attractive!

Market Comments

On the backs of weak end of quarter economic data, the stock market managed to eke out only a slight increase for the year's opening quarter. Leading the market was the healthcare sector with gains of more than 6.5% as investors sought the assurances of the more stable growth provided by the country's aging demographics and growing insured patient base, courtesy of Obamacare. Conversely, in the face of the quickly approaching start of Fed rate increases, the highly rate sensitive utility sector gave back some of its large 2014 gains as it lost more than 5% .

Even more so than the stock market, the fixed income market has been struggling to understand the ramifications of the oft delayed Federal Reserve rate increase. After declining appreciably in January, 10-year Treasury rates increased sharply by more than half a percentage point in February only to decline as the quarter closed in the face of additional weak economic data. Expectations for the Fed to start raising interest rates have largely shifted to this year's fall or early winter as compared to prior expectations for rates to start moving up as early as June.

With investors already nervous about the Fed's rate increase plans, any added economic weakness could weigh heavily on the markets as the S&P 500's stocks now trade for 18 times trailing 12 month earnings. In comparison, recently disparaged emerging markets now trade at around 12 times trailing earnings—the widest valuation disparity since the Asian financial crisis of 1998. As a result, we have been encouraging clients to actively consider shifting some investment funds into both emerging and developed markets due to this valuation disparity.

For the U.S markets, Wall Street is going to be more focused on earnings reports. As the first quarter's earnings season starts, analysts anticipate the S&P 500's profits per share to decline by more than 4.5% as compared to the year earlier. This bleak forecast is mainly due to the projected 65% earnings drop from energy companies, although small profit declines for the quarter are anticipated for several other sectors. Indeed, this projected profit decline could be the sharpest reduction in corporate earnings since the peak of the Financial Crisis in early 2009. Beyond plummeting energy prices, other factors hindering the quarter's earnings were the severe winter weather experienced in the Midwest and Northeast, the sharply appreciated dollar, and the slower growth rates seen in both China and Europe. For the full year, expectations are for modest profit advances of around 2.5%.

Looking forward to the remainder of the year, we anticipate both greater volatility and investment returns that will be more muted as the markets struggle against challenging earnings comparisons and rising interest rates. However, this thought should not be taken to suggest that a wholesale change of approach should be taken by investors. Rather, we feel that a market environment such as this only further highlights the importance of maintaining an appropriately allocated investment portfolio. By factoring in the key considerations of immediate liquidity needs and longer term cash needs while considering both the ability and desire to assume risk, investors should be prepared to weather both the expected, and unexpected, tumult of the markets.

Performance as of 3/31/15

	Close	Month	YTD	1 Year
DJIA	17,776.12	-1.85%	0.33%	10.57%
S & P 500	2,067.89	-1.58%	0.95%	12.74%
NASDAQ Comp.	4,900.88	-1.26%	3.48%	16.72%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	1.93%	2.17%	2.72%

Planning Thoughts

Higher education costs have handily outpaced inflation in recent decades. The possibility of paying for a college degree by working part-time has long passed. As a result, concerns over how to pay for college have escalated in recent years. Somewhat shockingly, the government has made an "error" and put in place some tools that can help manage, if not reduce, this enormous cost. One opportunity is simply where other parties, usually grandparents, directly pay for educational costs. So long as payments are made directly to the school or university, there are no gifting considerations or gift taxes levied.

529 plans are another attractive option due to their tax benefits. These accounts are educational savings plans that allow for the contribution of post-tax dollars to grow tax deferred and then be removed, so long as they are used for approved higher educational expenses, on a tax exempt basis. Another benefit of 529s is that many states, including Louisiana, offer an upfront tax benefit for plan contributions while still allowing for full donor control. Additionally, funds can be transferred between family members' plans with no gifting or tax implications. Finally, these vehicles can act as wonderful estate planning vehicles as they remove funds, and future growth, from an individual's taxable estate.

If you are interested in learning more about either of these opportunities, please call us!

Partners

Gerard A. Plauché, CFA

Clifford F. Favrot, CFA CFP™

Ainsley D. Bishop

Frank A. M. Williams, Emeritus

Operations Manager

John T. Egnatchik

Office Manager

Angelle M. Verbois

Contact Us Toll Free:
1-888-522-9019

228 St. Charles Avenue, Suite 1100, New Orleans, LA 70130
504-522-9019 PHONE • 504-522-9676 FAX

www.deltafinad.com

DELTA FINANCIAL ADVISORS
Investment Counsel