DELTA

FINANCIAL ADVISORS

Investment Counsel

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IN THIS ISSUE

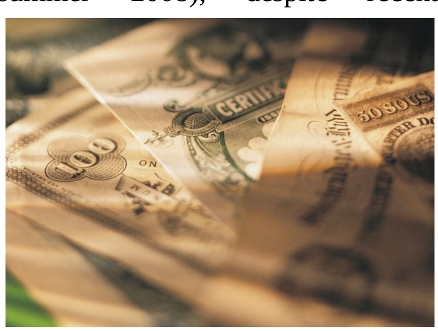
Economic Comments

Even in the face of unexpectedly poor 1st quarter economic results, the Federal Reserveôs rate setting committee continued its ongoing reduction of the current bond buying program. At its June meeting, the FOMC announced that its monthly security purchases were to be reduced to $35 billion/month - down from the original level of $85 billion/month last Fall. With this most recent downshift, the central bank is on track to cease its current bond purchases by October. Despite this modest move away from its policy of monetary expansion, Chairwoman Yellen highlighted the belief that the ultra-low rate environment could continue for ñsome time.ò

Providing some support to the Fedôs ongoing 5+ year easy money position could have been the dismal economic performance of the 1st quarter, where the economy shrank an inflation adjusted 2.9%. The periodôs decline was the result of several factors including persistent severe winter weather, very low healthcare expenditures (in itself a substantial surprise as Obamacare commenced during the quarter), and a sharp widening in the quarterôs trade deficit. Although there have been few quarters of such severe contraction in the post World War II era, recessionary alarms were not triggered as other key recession indicators such as industrial production, retail sales and employment have remained positive.

Underscoring the fluky nature of the quarterôs performance, and even though we are now entering the 6th year of the current economic expansion, reports for June showed an unexpectedly robust jobs report. As the quarter closed, business activity appears to have strongly snapped back as employers added 288,000 jobs - far above analyst estimates of 215,000. Moreover, unemployment fell to 6.1% - the lowest level since September 2008. With this most recent report, an average of 231,000 jobs/month have been created over the past 6 months ï the best 6 month average since early 2006.

While these numbers reflect a strong move in the right direction, the labor market still has substantial ground to make up after the losses from the Financial Crisis. Overall, labor-force participation rates remain near historic lows at 62.8%, a 36 year low (compared to 66% in summer 2008), despite recent



monthsô consistent job creation. Moreover, the broadest measure of unemployment, which includes people working part time but who want full time work, still stands at greater than 12.1%. Nonetheless, June end reports showed weekly payrolls grew by a strong 0.4% reflecting both higher pay and a longer workweek.

Further bolstering the current feel good atmosphere was the mid June housing report that showed home building activity remaining above the critical one million per year rate. As a result, analysts are virtually unanimous in discounting the first quarter and are now projecting a hearty growth of 3.1% the 2nd half of the year. While we do believe that the 2nd half will be far stronger, and that the first quarter numbers were largely an aberration, some of the underlying data remains weak.

Overall consumer spending remains tepid as wage growth continues to be modest. Additionally,

(Continued on page 2)

Economic Comments continued from cover

retail purchases climbed 0.2% in May ï little changed from their April levels. Moreover, much of the hiring in recent months has been concentrated in low-wage fields such as the retail and hospitality sectors. In fairness though, we should note that the most recent monthly data did report that higher paying labor sectors started to show more substantial jobs gains. With U.S. workersô earnings climbing slightly faster than inflation at 2% annually, wage growth shows little sign of accelerating as the abundance of idle labor is allowing businesses to keep pay increases modest. For the time being, the evidence points to more of what weôve seen for most of the last six years: employees having little negotiating power to demand higher pay.

Despite these modest levels of wage increases, U.S. consumers are on balance feeling more optimistic. Two recent surveys of consumer sentiment showed a continued improvement of American householdsô feelings regarding the economy and the labor market. On the inflation front, the personal consumption expenditure price index, the Fedôs preferred measure of inflation, has remained beneath the Fedôs target for the past 25 consecutive months. Although the May reading of 1.8% was appreciably up from the 0.8% level seen as recently as February, it remains unclear as to whether this is the result of a structural acceleration in price pressures or the random result of swings in several underlying data points.

The critical question remains, as always, where are things headed? While the Federal Reserve continues in its belief that at least another year will pass before actual rate increases will be enacted, the financial markets are not in agreement as the fixed income market is now projecting a strong likelihood of a Fed rate increase by next summer. Not to belabor the point we have repeatedly raised, and although the near-term picture appears much improved, we remain concerned about our political leadersô inability to come up with a viable longer term economic and budgetary strategy. Their ability, or inability, to do so within the next two to three years will have enormous ramifications for decades to come.

Analyst Corner

The advent of Obamacare has started a sea change in the healthcare industry. In the critical insurance market, the future remains uncertain. With tens of millions of Americans gaining access to health insurance for the first time through the new law, the ramifications of this tidal shift on the industry are enormous. Given its scale and diversification, we believe that Aetna Inc. (NYSE: AET), one of the nationôs leading medical benefits companies, could profit ñhealthilyò from the new industry landscape. In the face of the substantial uncertainty, industry projections are very scattered. We believe, though, that AETôs solid operations and substantial membership base will allow it to navigate the next several yearsô transition. Sporting a rapidly growing dividend and strong management, we believe that Aetna could just be what the doctor ordered for a previously ailing portfolio.

Market Comments

Rolling into the yearôs 2nd half, the stock market is looking stronger than many had anticipated. Wall Street has now gone more than 2 years since its last 10+% downward correction. Up more than 7% year to date, the S&P 500 has continued to build upon its 30+% upward spike of last year. While the stock market is continuing to show bullish sentiment, a closer examination reveals some blemishes to this pretty story. Looking at underlying sector performances, the economically sensitive consumer discretionary segment is up a very modest 0.6% year to date while the defensive, and interest rate sensitive, utility sector has been the yearôs star with gains of 18.7%.

With the Federal Reserve expected to maintain its easy money policies for at least another year, investors are continuing to bet that this aging 5-year old bull still has life. With money markets and fixed income yields so low, few liquid options are as attractive as stocks. Interestingly, the current bull market has occurred in the face of tepid economic growth ï a marked contrast to the two most recent bull markets which occurred alongside robust growth of around 3% per year.

However, not all investors are viewing the markets in the same light, and not all investors are convinced that economic growth is about to accelerate. The mood in the bond market, for instance, is much more circumspect. Bond yields have fallen this year, indicating that investors believe the Fed will have to keep interest rates low to prevent the economy from stalling. The 10-year Treasury note has rallied over the past 6 months with its yield declining by almost 0.5 percentage points. Other skeptical stock analysts contend that the market is trading at lofty valuations when using longer-term comparisons of earnings and stock prices. One measure, developed by economist Robert Shiller, shows the stock market is trading at close to the valuation it had before it plunged in 2008. During past peaks, even though some stocks were significantly overvalued, many others had attractive valuations. Now, few companies in the S&P 500 are real bargains.

Markets are made up of different opinions. Optimists, for instance, note that the stock market value of the S&P 500 is only 16.5 times 2014ôs projected earnings. Adding further support to the positive argument, albeit from a contrarian perspective, investors have remained unenthusiastic about the marketôs continued advances as stock trading volumes remain near 7 year lows. Also, a recent American Association of Individual Investors survey indicated more investors being neutral on the market with bullish investor sentiment being only in line with long run averages. Further market support has come from increases in profit projections with corporate earnings now expected to increase by double digits in the 2nd half - the most robust growth since the third quarter of 2011. In summary, we find appreciable reassurance from the market climbing a wall of fear rather than the unbridled enthusiasm of the Internet Boom.

Planning ahead, our concerns remain elevated about the potential for a market correction. Without an appreciable market retrenchment in over 2 years, this likelihood elevated. Highlighting this issue has been the near record lows now being delved by the marketôs fear index, the CBOE Volatility Index. In the face of improving corporate profits and historically low interest rates, we believe the recent upward bias for stocks will remain. A rising market, however, should never be taken as a free pass to take on extra risk. We urge our clients to continue taking only those risks consistent with their longer term needs and objectives rather than trying to make quick, and supposedly easy, extra profits.

Performance as of 6/30/14

	Close	Month	YTD	1 Year
DJIA	16,826.60	0.75%	2.68%	15.57%
S & P 500	1,960.23	2.07%	7.14%	24.61%
NASDAQ Comp.	4,408.18	3.99%	5.63%	29.64%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	2.52%	3.03%	2.48%

Planning Thoughts

With the start of 2013, Congress substantially revamped the rules for inheritances and gifting. After many years of debate, a permanent framework was put in place allowing for the tax free transfer of large, but not dynastic size, estates. The new law allows for up to $5.34 million to be transferred or gifted on a tax-free basis. While few are fortunate enough to have these type of resources, a far greater pool of people can, and do, make occasional gifts of much smaller figures that can have legal and tax consequences. Under the current law, annual gifts of up to $14,000 (or $28,000 for a married couple) can also be made, tax free, to anyone without eating into the $5.34 million limit referenced above. Importantly though, if a gift in excess of the annual gift limit is made, a report to the IRS does need to be filed. If you fall into this category, please be sure to consult with your tax and/or legal advisor for added clarification. In the same vein, if you would like to discuss your overall annual gifting or estate strategy, please do not hesitate to call us.

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