DELTA
FINANCIAL ADVISORS
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July 2015

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Economic Comments

Despite rosier expectations as 2015 started, the year is not playing out as anticipated. In the face of a stronger dollar, collapsing energy prices and severe winter weather, economic activity contracted by 0.2% in the year's first quarter. Fortunately, the prevailing view is that the quarter's weakness was caused primarily by temporary factors rather than more fundamental ones. Nonetheless, the U.S. economy is still not where it needs to be.

Notes from the Federal Reserve Open Market Committee's (FOMC) mid June meeting underscored the belief that the first quarter was an aberration rather than a new trend as more current economic data continues to show positive momentum. Thus, the central bank's narrative on how the economic expansion is unfolding appears to remain on track, at least so long as turmoil from other simmering issues like the Greek debt crisis abates.

One of Chair Yellen's ongoing concerns remains to be the continued low levels of price increases, aka inflation. The central bank's preferred measure, the Personal Consumption Price index, showed only a 0.2% increase year over year through the end of May. A key reason for this historically low increase has been the pressure that the strong dollar has put on import prices as the greenback strengthened by more than 15% against a basket of major currencies over the last year. While inflation remains stubbornly low, the FOMC affirmed its contention that inflation will trend back towards the more desired level of 2% in the intermediate term. With this most recent update, observers' expectations for the Federal Reserve's initial rate increase have been pushed back three to six months from prior expectations of this summer.

Strengthening the argument for a modest delay in the long awaited rate increase has been the mixed jobs data. While June's nonfarm payroll rose to 223,000, this figure was down from the 254,000 positions created in May. To put recent payroll data in context, the creation of 200,000 jobs/month is considered to be relatively strong as this level is more than sufficient to keep up with the U.S.'s population growth. Despite this historically strong number, the labor force participation rate, a broader and better gauge of economic strength, slid by 0.3% to 62.6% - its lowest level since 1977. With 432,000

people choosing to discontinue their job search, the most recent unemployment reading was a superficially low 5.3% as it was skewed by an exodus from the workforce rather than a robust job market. Adding to further discouragement was the data on average hourly earnings, which showed no change — crushing incipient hopes that wages were finally strengthening for most workers. Interestingly, one contrary interpretation is that the limited growth in wages is an offshoot of older workers working longer to replace interest income lost by lenders, and made by borrowers, due to the Fed's historically low interest rate regime.

Looking longer term, one ongoing concern has been the decline in U.S. labor productivity. During the most recent economic expansion, productivity has grown by an average 1.1% per year which compares poorly with the 2.6% growth rate seen in the prior

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expansion of the mid 2000s. To the extent that longer term living standards are dictated by labor productivity growth, this is an area of appreciable concern for future generations. In parsing the data more closely, our belief is that the current conundrum is an offshoot of the Financial Crisis. The Great Recession caused a sharp reduction in business investment and R&D. We project that as the economy strengthens further, these processes should work in reverse, thereby sharply boosting our productivity to more historic levels.

One of the largely unsung economic heroes in recent months has been the steadily recovering housing market. New home sales recently hit their highest levels since 2008. Moreover, as home prices have rebounded, owners' share of value of real estate holdings has surged to almost 55% - up sharply from the crisis' lows of less than 37%. This increase in home equity provides benefits to the economy in two ways: homeowners feel more economically secure and homeowners are more motivated to maintain and improve their homes.

Additionally, consumer sentiment has rallied appreciably in the first half of the year with the University of Michigan's consumer confidence index improving at its fastest pace in more than 10 years. Driving the improved sentiment were consumers' favorable personal financial prospects and low inflation expectations. In a similar vein, consumer spending rose at a strong 2.1% rate in the 1st quarter of the year. Both data points provide contradictory evidence to the labor participation rate as they highlight consumer optimism.

On balance, and despite the muddled labor picture, a number of economic reports have shown a more positive tone in recent weeks. This has caused many to re-adjust upwards expectations for 3rd quarter growth. Even 2nd quarter estimates have modestly risen in recent weeks with analysts now anticipating growth of around 2.5%.

Looking ahead, we remain positive about the economy's prospects as the usual signs foreshadowing incipient recession are missing. Inflation is low. Energy prices are down and, despite the low unemployment rate, there is plenty of spare labor once the labor force participation rate is examined. Clearly, few of the normal signs of recession are flashing. Nonetheless, there are two multi-trillion dollar questions remaining as yet unanswered: will the U.S. central bank be able to successfully negotiate a well timed return to more normal interest rates and will labor productivity return to more historic levels? We are bullish on both counts.

Analyst Corner

While scientists do not fully understand the biological imperative of humans to sleep, an imperative it is. Few things are more enjoyed than a good night's sleep or more dreaded than a bad night's rest. For those who do not sleep well, one possible solution is Resmed Inc. (*NYSE: RMD*) which focuses primarily on sleep disordered breathing and other respiratory issues. With a single minded focus, the company has come to be a dominant player in its small, but lucrative, healthcare niche. Showing a robust balance sheet and attractive margins, we foresee attractive returns to investors in the intermediate to long term. While a bit riskier of an investment, we anticipate that Resmed should provide sound sleep for its satisfied investors.

Market Comments

2015 has not been kind so far as investors have started to ramp up their concerns over the markets' various risks. Year to date, the broader market is largely unchanged while bond prices have fallen. Tepid corporate earnings, poor 1st quarter GDP growth, the pending default of Greece along with Puerto Rico's finances collapsing have NOT been what the investment doctor ordered! Throw in the prospect of imminent interest rate increases and many investors are now keeping their hopes in check for the remainder of the year.

In the face of these manifold obstacles, the financial markets struggled this Spring with the S&P notching a very modest 0.28% gain for the quarter. That being said, there has been substantial variance in stock returns across the different economic sectors. The healthcare sector continued to score gains on the back of the ongoing expansion of Obamacare and has advanced by more than 9.5% since the start of the year. In contrast, the clear market laggard has been the utility sector, which has faded to an almost 10.7% loss due to expectations of imminently rising interest rates alongside de minimis increases in overall power needs.

Directionally, bond values retreated in the year's first half as interest rates rose. In general, fixed income investors appear to have re-assessed upwards the strength of the broader global economy. Adding to the situation, risk, aka volatility, has re-entered the vocabulary of investors over the last several months.

The stock market's risk indicator, known more formally as the CBOE volatility index, has risen by more than 50% in recent weeks, albeit from record lows. Mirroring its counterpart, the fixed income market has also started showing elevated levels of risk. Traditionally, bond markets have been less prone to irrational jitters as they have been dominated by large institutions. As a result, bond prices have more typically moved due to fundamental reasons rather than day to day market jitters.

While 2015 has seen a largely rational increase of bond yields, this move has been punctuated by elevated levels of volatility. Driving this market change has been the reduced amount of market liquidity. With global central banks largely on the sidelines, having previously binged on bonds as part of their quantitative easing, the cash available to the market has been further squeezed due to increased banking regulation and asset managers crowding in and out of trades.

The 800 pound gorilla continuing to hang over both the fixed and equity markets remains the timing and severity of the central bank's long anticipated rate increases. While financial markets are now predicting the increases will not start until the beginning of 2016, most economists continue to anticipate a Fed tightening before year's end. Whether the policy shift starts in 2015 or 2016, the current labor market situation has given the Fed plenty of room to maneuver before it is compelled to sharply raise rates.

This latitude should give Wall Street some reason for cheer as near term corporate profits are unlikely to provide any reason on their own. In the face of reduced overseas profits due to the strong dollar and sharply diminished energy profits from the tumble in oil prices, overall 2nd quarter profits for the S&P 500 are anticipated to decline by at least several percentage points from last year's levels. To date, though, market pundits have been fairly sanguine about the quarter's diminished prospects.

Will this current mindset continue indefinitely? It will undoubtedly not. The current bull market, now 75 months old, is the third-longest bull market on record. Stocks have rallied by more than 200 percent since their March 2009 lows. As we do not know when, or how, the current stock market party will end, we make no effort to time the vagaries of the markets. Instead, we remain ardent believers in diversification. Through diversification, we aim to limit the risk of losses in an uncertain world. No matter our best efforts, the future will play out in ways we can and will never fully be able to anticipate.

Performance as of 6/30/15

	Close	Month	YTD	1 Year
DJIA	17,619.51	-2.06%	0.03%	7.21%
S & P 500	2063.11	-1.94%	1.23%	7.42%
NASDAQ Comp.	4986.87	-1.64%	5.30%	13.13%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	2.34%	2.17%	2.52%

Planning Thoughts

Following Hurricanes Rita and Katrina, property insurance rates started a long term upward climb along the entire Gulf Coast. In response to these increases, several years ago Louisiana legislators enacted a piece of little known law that allows for the reduction in homeowner's insurance premiums depending upon a structure's ability to withstand wind damage. The key factors in this risk reduction are the design and construction of both the structure and its roof. While not all structures qualify for wind mitigation credits, surprisingly much of the region's older housing stock is eligible. Depending upon the house's design, we have seen reductions in homeowner's overall insurance premiums of as little as 5% and as much as 20%!

To receive these credits, a wind mitigation survey must be conducted by a state licensed surveyor. As the fee for a survey typically costs less than $200, the potential savings can quickly add up. To date, there are only a few approved wind surveyors for Louisiana. Having seen the savings realized from several of his projects, we have found one local surveyor, Bill Hatchett, to recommend. If you are interested in pursuing this cost saving idea, please feel free to contact us with any further questions or you can contact Mr. Hatchett directly at (504) 439-2860.

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