A Quarterly Newsletter Bringing you Financial Insights from the Leaders

March 2015
Volume 8, Issue 1

THE SEIA REPORT

Successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

THE ECONOMICS OF OIL PRICES AND POTENTIAL IMPACT TO YOUR PORTFOLIO

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On June 19th of last year, Crude Oil was trading at $106.83/barrel. A mere seven months later, on January 19th, frenetic trading had brought the price per barrel down to $46.47 (a historical drop of 56%). Yet demand is holding steady and, in fact, projected to increase over the next couple of years. The problem today is not a demand problem but rather a "supply" problem that's directly attributable to the U.S. Shale Oil revolution. In short, the world is awash in too much oil.

According to Goldman Sachs, over the last seven years the U.S. has morphed from a country that imported a net 13 million barrels per day (b/d) to one that imports around 5 million b/d. The 8 million b/d swing is comprised of a 2 million b/d efficiency-driven demand reduction, along with a 6 million b/d supply increase from shale. Taken together, it appears that shale oil has created a global surplus of roughly 1 million b/d. For the markets to rebalance, this surplus must be stored for future use, demand must increase, or production needs to decline.

In the long-run, supply needs to match up with demand, and lower prices should allow for supply and demand to realign by year-end. Either supply will be reduced via a decline in the growth rate of U.S. production (job cuts, idle rigs, etc.) or global demand could increase due in part to lower oil prices. Most likely some combination of the two will come to pass. Once investors start to anticipate this realignment, the downward price pressure on crude oil should cease.

Key Data Points to Watch

Job Cuts: Economists were taken by surprise in January when jobless claims shot above 300,000. Whereas increased layoffs normally portend a weakening economy—this time they appear in large part attributable to the recent plunge in oil prices. Energy companies such as Halliburton, Schlumberger, Baker Hughes, and Suncor have all announced plans to cut jobs and reduce the number of active oil wells. Unfortunately, we are in the very early innings of what appears to be a long game, and additional future job cuts are likely.

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Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to meet the client's goals.

A Case for US Optimism – and Caution

Brian D. Holmes, MS, CFP®, CFMC, AIF®

It may be hard to fathom, but the US economy is booming. That doesn't sound like it could possibly be right, does it? We all still feel the sting of 2008, like a fresh slap to the face. And yet, it's true. The US has created jobs to the tune of 250,000 per month over the last year. The unemployment rate, at 5.6%, is the lowest we've seen since 2008. The budget deficit has been cut by two thirds, and the dollar is the strongest its been against the Euro in 11 years. The US continues to set the standard for technology innovation, outstanding cultural achievement in cinema, and eight of the world's ten most valuable companies reside here. And for good measure, tack on a shale oil boom with its epicenter in the middle of the US – a boom which has driven the price of OPEC-produced oil to its lowest point in years.

And yet despite all of this, why doesn't it *feel* like we're dominating? For one thing, the rest of the world is floundering. For the US to remain on this path, we need to increase total factor productivity and we need the rest of the global economy to be healthy enough to buy from us. In Europe, many economies are bottoming out and just beginning their recovery. At home, while we may briefly revel in a 5.6% unemployment rate, lets not forget that part of the reason for the continuing drop in unemployment is that many have simply stopped looking for work. The overall number of people in the US workforce fell by 3% in 2008, during the recession and never bounced back. The yield on 10-year Treasury notes is still only 1.8%.

So while none of us has a crystal ball about the future of the US economy, what we do know is that it is very good for all of us, US citizens, as well as for citizens of other countries, when our economy, the largest in the world, prospers. American companies stand at the forefront of technology and innovation and are building and developing exciting things. The exploration of new frontiers in nanotechnology, genomics, quantum computing, artificial intelligence, and more, will continue and other American companies will follow suit We must keep leading the world with our invention and reinvention, and setting an example that there are always boundaries to be pushed and barriers to be broken. American companies are developing new cures as researchers are close to breakthroughs on a cure for Ebola, as well as Alzheimer's, and our military still stands as the strongest in the world, joining with other countries to confront emerging threats to global security.

For our part, we will continue our watch over your financial lives, throughout all market cycles, to safeguard you and your family's financial security. To do this, we review everything mentioned above, and much more, every day. We analyze, discuss and adjust, as and when needed. The US is back, and we're getting stronger by the day. With everything seemingly in turmoil around the globe, and as the northeastern states get pounded by relentless weather, it doesn't feel like it, but it is happening. Now we must sustain it.

Source: Coy, Peter. "America the Relatively Beautiful." Bloomberg Business. Bloomberg L.P., 29 January 2015.

"Believe nothing you hear, and only half of what you see."

Eric C. Pritz, CFP®, CMFC

Often attributed to Benjamin Franklin, the quote that serves as the title of this article is actually the work of Edgar Allan Poe – an appropriately dark author for a discussion about a topic I've come to see as an increasingly sinister financial evil. Ask any financial advisor to name the greatest impediment to their clients' success, and chances are that financial news outlets like CNBC will be near the top of every list.

Under the pretense of providing education, enlightenment and transparency into the complex world of financial markets, these nattering nabobs of negativism actually offer very little in the way of genuine insight or understanding. They merely rely on sensationalism to feed on our base fears and biases. And it's by no means a case of just "one bad apple." Much of what is broadcast and printed under the guise of financial journalism, even from so-called "reputable" sources such as The Wall Street Journal and PBS's The Nightly Business Report, to a greater or lesser extent appeals to our baser instincts.

Make no mistake; what on the surface might seem predictive, is anything but! The lion's share of financial journalism is purely reactive – each individual putting his or her own spin on the day's news and events to explain and justify why the markets responded the way they did. Let's be honest, nobody is going to regularly tune into Squawk Box if the hosts are scratching their heads, perplexed by the fact that the market is sharply down despite a huge drop in the monthly jobless claims number. Instead, they'll highlight some secondary piece of data (e.g., the European Central Bank deciding to postpone additional stimulus) that fits the down market narrative and allows them to seem virtually omniscient.

The simple truth of the matter is that no amount of information or data, regardless of how instantaneous or immediate, will ever enable you to predict the day-to-day movements of financial markets. Anyone who tells you otherwise (like the financial media) is trying to sell you something. There's a reason why trends like day-trading seem to disappear as quickly as they burst on the scene – because the core tenets of sound investing have actually worked. Diversification, risk management, and asset allocation, when consistently monitored, deliver objective guidance for the long-term.

> ***"All media exist to invest our lives with artificial perceptions and arbitrary values."***
> ***~Marshall McLuhan***

Extensive studies have been conducted in the field of behavioral finance to try and help us better understand the inherent cognitive and emotional biases that drive investors to make bad financial decisions. And while there are a myriad of them, three biases in particular are heavily-fueled by financial journalism outlets such as CNBC.

Present bias tells us that people tend to place a higher value on a benefit received today versus a potentially larger benefit received at some point in the future. More often than not, we want the immediate over the future, even when the future is a far better option. Along with this desire for instant gratification, the tandem of ***availability bias*** and ***confirmation bias*** lead us to overvalue information and advice that's easily accessible, as well as to seek out and embrace information that tends to support or lend credence to our particular world view while discounting any evidence that may be contrary to our beliefs.

For most investors, these inherent behavioral characteristics mean that rather than going outside their comfort zone to seek out expert counsel, they're more inclined to heed the ranting of Jim Cramer on Mad Money offering his hot picks of the week.

While there's no question that accurate and timely information is critical to making sound financial decisions, the common fallacy lies in believing that information is somehow the key to predicting the market's movements. It's not, and never will be. So turn off those televisions, and get back to the fundamentals of making sure you have a well-diversified portfolio of investments for the long-term.

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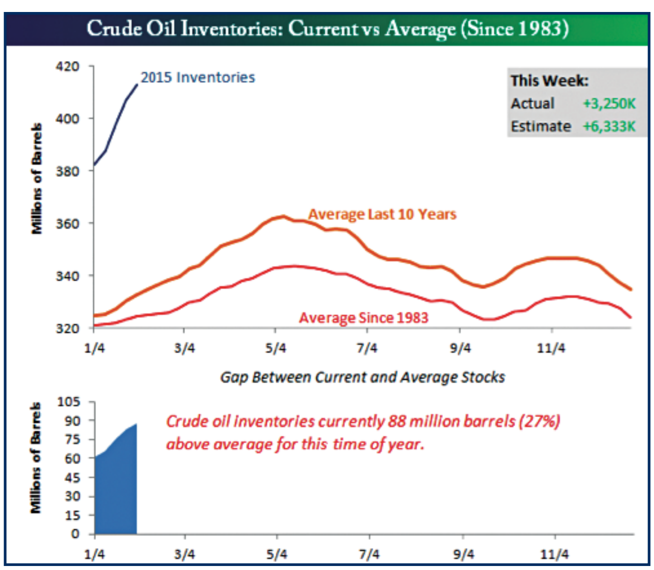
Rig Counts: As energy companies scale back on employees, they'll also need to reduce the number of active oil rigs/wells/drills in operation. Baker Hughes has issued a "Rig Count" since 1944 when the Hughes Tool Company began weekly counts of U.S. and Canadian drilling activity. The Rig Count is an important business barometer for the drilling industry as acts as a leading indicator. As of January 30th, the North American Rig Count stood at 1937—a drop of 456 rigs from a year ago and back to levels last seen in 2010. Fewer rigs equal less oil.

Capital Expenditure Reductions: In order to produce oil, energy companies must spend money. But in a period where they're driven to reduce output, these capital expenditures must also be reduced. According to Goldman Sachs, the overall capex in the U.S. Exploration & Production (E&P) sector is already down 25%. Why? Many E&P companies are small, with highly-leveraged balance sheets that rely on the High Yield bond market to access debt financing. Strict capital structure mandates require these companies to aggressively reduce capex to ensure continued access to the high yield marketplace and avoid potential high yield bond defaults.

Inventories: As of late January, there are no signs that supply is slowing down. Further analysis from Goldman Sachs reveals that U.S. crude oil production recently hit a new multi-decade high above 9.21 million barrels per day. And on a four-week rolling basis, output was up 1.1 million barrels per day (13.3%) from last year. With production still robust and demand not keeping up, all of the excess oil must be stored somewhere, thus inventories keep piling up.



While the industry is starting to respond to falling prices by taking rigs offline, reducing capital expenditures and cutting jobs—it is not yet being reflected in the inventory numbers. This data will be watched closely to determine when and at what price crude oil will bottom because the investment ramifications extend far beyond commodities and energy stocks.

Investment Implications: "It's all connected."

For stocks, the winners are likely to be those industries that are high consumers of energy. Airlines and cruise lines should benefit as their costs go down. Traditional auto makers, retailers, restaurants, lodging, entertainment and other consumer discretionary stocks should also all benefit as consumers will likely have more money in their collective pockets. And consumers with more discretionary cash should translate into increased earnings for discount stores and mass retailers. Regionally, countries that consume and import oil (Europe, Japan, China, India, etc.) will likely outperform oil exporters (Russia, Brazil, OPEC, etc.).

It's logical to expect that some oil exporting Emerging Market (EM) countries such as Russia and Brazil may see their currency weaken. Besides the Russian Ruble, investors may also expect near-term weakness in the Nigerian Naira, South African Rand and the Columbian Peso. Conversely, the currencies of oil importers could benefit; specifically the Turkish Lira and the Indian Rupee. U.S. investors will want to avoid owning assets based in depreciating currencies.

For high-quality bonds, lower oil prices are deflationary and low inflation should keep a lid on developed market interest rates. However looking further out, oil should stabilize and when prices top $60 it will then be inflationary, driving interest rates higher. In lower-quality fixed income, the story is much different. With E&P high yield debt levels twice as high as they were just three years ago and oil prices half of what they were just six months ago, credit bond investors could end up holding the bag (think 2009 subprime mortgage holders). As energy makes up 20% of the High Yield index, look for subdued gains in the near term. Floating-rate Bank Loans look better positioned as energy exposure is minimal.

The real danger for most investors is whether the troubles in High Yield Energy spread into the broader market and whether ultra-low oil prices lead to Sovereign instability in Russia and elsewhere. Perhaps most importantly, the long-run economics for U.S. shale oil remain favorable. U.S. demand is continuing to increase and most U.S. producers have a lower cost versus other areas of the world. Also, American innovation and technology improvements seem to continue unabated, boosting recovery rates and lowering future costs. The cost advantage of most U.S. producers over other regions of the world appears to be both sustainable and growing—not to mention more attractive than ultra-deep water production or operations in politically unstable regions around the globe. U.S. producers are well positioned to substantially grow production and gain market share at the expense of other higher cost producers, and for many years into the future.

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Congratulations to One of Our Own

The SEIA family would like to extend congratulations to our long-time colleague and friend, Jennifer Kim on becoming a Senior Partner at the firm. Jennifer has been with SEIA for 21 years, and during the course of her distinguished career has made great efforts to provide an exceptional level of service and wealth counsel to our clients.

"Jennifer's contributions to our firm's culture, her dedication to client care and her unparalleled professionalism inspire us all," said Brian Holmes, CEO. "I congratulate Jennifer and her entire team on their contributions to this firm and for exemplifying our very high standards."

Jennifer and her team, Joyce Mizuhata (15 years with SEIA) and Youna Ko (3 years with SEIA) epitomize why SEIA continues to grow at its current pace.

Jennifer was featured in the Los Angeles Magazine as one of the Five Star Wealth Managers* in 2012 and 2013. She has also written several articles for Worth Magazine and Audrey Magazine on various financial topics. Jennifer is also a sought after speaker on finance, and has addressed the USC County Hospital, the Writers Guild of America, Panda Express, and Charles Schwab executives.

Congratulations again to Jennifer and her entire team on a job extremely well done.

**The Five Star Wealth Manager Award is a client services award issued by Five Star Professional, based on an overall evaluation score of a wealth manager that reflects an average of all respondents and may not be representative of any one client's experience. The inclusion of a wealth manager on the Five Star Wealth Manager list should not be construed as an endorsement of the wealth manager by Five Star Professional or the magazine.*

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SIGNATURE FUND *for* GIVING

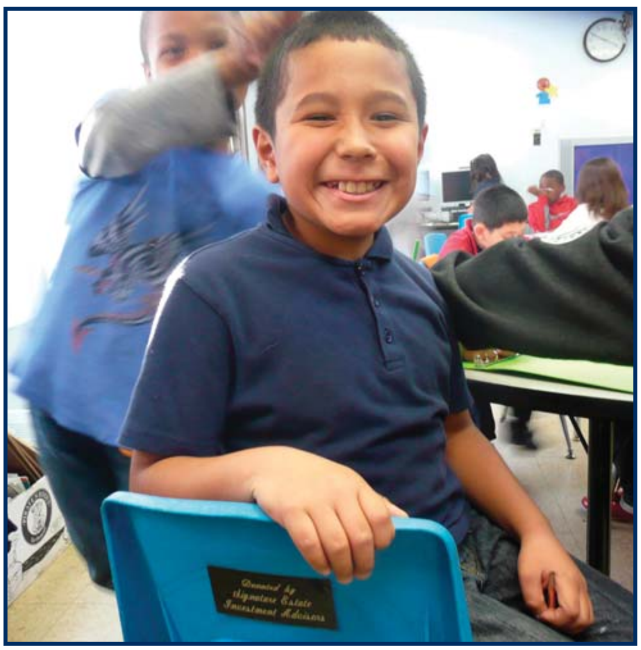
The Signature Fund for Giving is SEIA's flagship charitable giving initiative, having raised over $222,797 since its inception in October of 2011. The three local non-profits that we have partnered with are A Place Called Home, Toberman Neighborhood Center and the Children's Hospital of Orange County. All donations to the fund are used towards educational, counseling and mentorship programs at these non-profits.

Giving back to our communities is an integral part of what SEIA stands for, and a cornerstone of our corporate culture. We encourage all of our staff and clients to get involved, by donating their time in addition to making a capital contribution.

Outside of the Signature Fund, we raised over $142,441 for various non-profits across the country that our partners, advisors and staff work with on an individual basis.

We understand that often, despite best intentions, it is difficult to allocate the time and focus required to evaluate and donate to various charities. As such we are happy to summarize those we've selected and vetted as both outstanding in their mission and powerful in their impact. If you have any questions regarding our Signature Fund for Giving or about how you can get more involved, please feel free to contact me at 310-712-2323 or at ccheung@seia.com.

Thank you all for your continued support. We could not have experienced such growth in giving without you.



This chair, and the donations that fund it, seats a child in need all year round at the Toberman Neighborhood Center, thanks to the Signature Fund for Giving.

a place called home | Toberman Neighborhood Center, Since 1903 | CHOC Children's