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QFC$

October 17, 2014

Dear Friends and Investors:

First, I would like to thank you for the opportunity to provide investment management to you and your family. It is a task we take seriously at QFC, and one we strive to perform at a high level of professionalism by looking past the headlines and market noise seeking the best course for each of our clients.

In recent weeks, the major market indexes have fallen. Despite some headlines to the contrary, the world is not coming to an end and the amount of decline has ranged from 7 to 10%. Either this is a precursor to a new recession or a normal and needed market correction.

MARKET CORRECTION OR NEW RECESSION?

Recessions rarely just occur. Most of the time, there are early indications the economy is slowing and the prospect of a recession grows over time. If you ask yourself how the U.S. economy is performing today versus six months or one year ago, you should conclude it is better today. While there are always pockets which lag the general economy, significant jobs are being added, the unemployment rate has fallen to below 6% for the first time in years, and corporate profits and revenues are increasing for the majority of businesses. Additionally, interest rates remain low and the Federal Reserve has announced they expect to start raising rates in 2015 to move back to a 'normal' range, which is a move which would only occur when the economy is doing well.

Nothing has changed in the last 30 days to indicate we have shifted from a growing economy to one that may be stalling or declining. While there are always areas of concern, we must weigh its impact on the economy as a whole.

If you listen to market news, most likely you have heard there are three concerns being discussed most often - the decline in oil prices, the health of the European economy, and the two nurses who contracted Ebola while on U.S. soil. Two of these are 'normal' and factors we have seen and worked through in years past. The third is the 'unknown' which always raises doubt in the markets. As the headlines on the Ebola story reached the public, the markets were reacting, in this case by trading lower. Since this is a 'new' potential impact to our economy, no one knew with certainty how and when it may impact our economy; therefore, many investment management companies reacted with immediate sells. Many of these sells were by 'hedge funds' which not only invest money they manage, they also invest heavily with borrowed funds.

Companies investing with borrowed funds will often react very quickly in the market; not that they know more than others, but to avoid losing borrowed funds. If they did, they would have to use their own funds to pay back the loans. This often creates larger than normal market swings; and on occasion through the process, opportunities arise. The concern caused by Ebola may have created most of the recent sell-off in the markets, not a fundamental change in our economics.

Market corrections are generally brief and small, usually eight to twelve percent, and follow a period of increasing values in market indexes. It is <u>expected</u> to see at least one correction every year if not two. However, the last correction occurred in June 2012 and August 2011 before that. The Dow Jones Industrial 30 (DJ 30) reached its last market high on September 19. Since that date, the index has been contracting, but not without indications it may go higher. The DJ 30 has moved up 4 of the last 18 trading days since its high; and in each case, the move was more than half of one percent.

I believe the current move is the long expected correction. Like most corrections, it had a trigger which started the move lower. I see two triggers this time, first lower crude prices and the second the confirmation a Dallas nurse contracted Ebola.

The question is often asked if corrections can be timed. Thus, pull out of the market to minimize the short-term losses and come back in once the correction is over. While anyone can get lucky once in a while it is impossible to consistently time market. We have had many two to five percent market dips only to be followed by new market highs. Those trying to time the market would most likely get out on the dips only to miss one or more of the new highs.

Corrections will find a level of support and the upward trend in market indexes will resume. This means the professional money manager will see prices of select stocks at a level they perceive is a good value and buying into these positions will resume. Since we are also in the middle of 'earning season', as additional earnings reports are released this should confirm corporations are still doing well and provide insight into the strength of the economy.

We continue to analyze what is happening in the world and how it may impact the investment markets. The strength or lack thereof in the European economies is a concern, but one we presently believe will have minimal impact on the U.S. economy. Another concern is lower oil prices. This appears to be a short-term event, and oil prices will move back to between $93 and $105 per barrel later in 2015. There are several factors impacting the current price; and while a low price is great as it will translate into lower gas prices at the pump for the American consumer, it *could* be an indicator that the economy is slower as less is consumed. We considered the improved efficiency is also reducing consumption as the average miles per gallon on vehicles is now above 24. With the automobile industry's improved sales for the last twelve months, more efficient vehicles are on the roads and those traded in are either scrapped or become second or third cars for families and are often driven less than the new primary vehicle. This along with increased production in the U.S. and worldwide has aided in the oil price falling; but these levels should gravitate back to normal, however not for several quarters.

Based upon the information we currently have, we expect the markets to continue its upward trend. As always, the move upward will not be without its minor downward moves and the expected eight to ten percent corrections. I hope this information is beneficial and provides additional understanding of the investment markets.

Sincerely,
QUALITY FINANCIAL CONCEPTS

James D. Horn, CFP