November 2014

Idaho Trust

Wealth Management

SOLUTIONS FOR YOUR LIFENEEDS™

Market Insights

A periodic newsletter from Idaho Trust

The U.S. equity markets experienced a swift decline and subsequent rebound in October as investors worried over the impact from the change in the Federal Reserve Bank's accommodative monetary policy. Although these actions were widely expected, investors fretted that these changes were coming at a time when global economies were experiencing a sharp slowdown in economic growth. While recent changes in monetary policy are unlikely to have a significantly negative impact on overall economic activity, they are likely to result in more market volatility than has been the case in recent years.

The Equity Markets

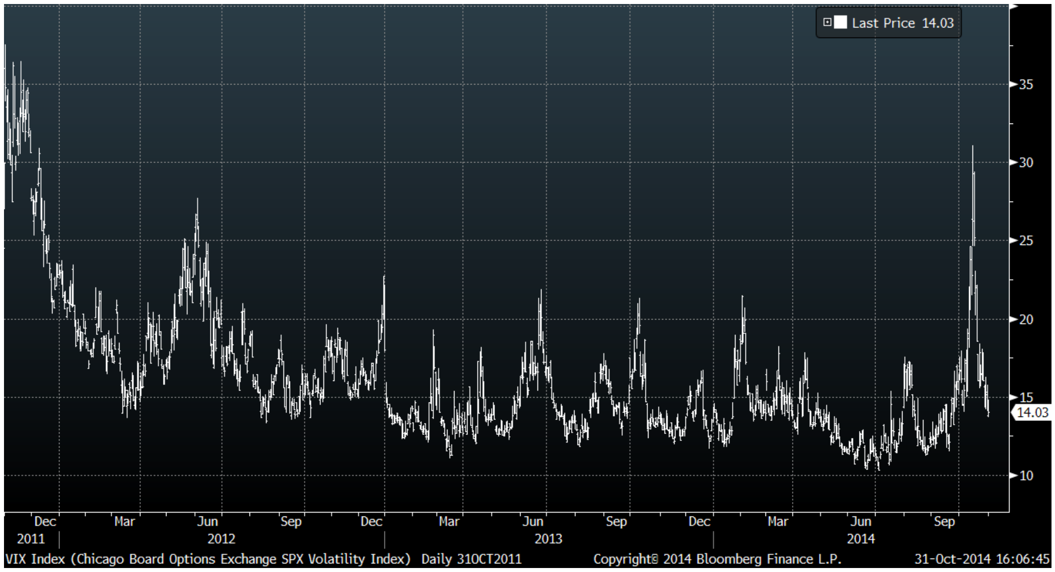
The domestic equity market managed to post a decent gain in October. However, there was a great deal of volatility during the month. In fact, at one point, the S&P 500 declined more than 5%. Many market commentators have attempted to assign a reason for this sharp and sudden decline. The explanations ranged from weaker economic data to concerns about the trouble in the Middle East. Others speculated that failure to contain the Ebola virus could result in a pandemic crisis, which would have severe consequences. Although these issues are all very troubling, a broader examination of the domestic equity market reveals that the market had been struggling for a while. The Russell 2000, comprised of small-cap stocks, had peaked in early July and had declined nearly 10% by the end of September. This pattern is fairly typical during market corrections. Generally speaking, the small-cap stocks tend to underperform before a broader market correction develops and can be noticed in the large-cap sector, such as the S&P 500 or the Dow Jones Industrial Average. The International equity markets experienced a similar pattern.

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

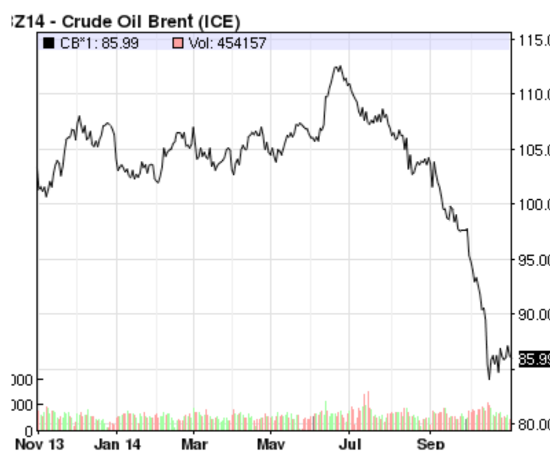
LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

Wild swings in the investment markets were accompanied by a sharp spike in volatility. As you can see from the chart below, the market's volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index, rose sharply in October after remaining relatively calm for several years.

The CBOE Volatility Index (VIX)



The Federal Open Market Committee concluded its quantitative easing/ bond purchase program last month. These actions were widely anticipated by the market place, as the Federal Reserve had done a thorough job of telegraphing its intentions. The biggest change from these actions may be a more volatile investment market. Despite its assurance to keep short-term interest rates near zero for a "considerable time", many members of the Committee seem to be suggesting that interest rate policy will become more "data dependent". This shift in thinking will likely result in volatility levels that are higher and more in line with historical averages than has been the case in the past few years. Since 2012, the impact of events that could influence economic activity have been muted as the Fed had pledged to keep its super accommodative monetary policy regardless of how well the economy performed. Investors looked past these events with the belief that the Fed would continue with its super accommodative policy, basically ignoring short term blips in economic activity. With this new "data dependent" philosophy, monetary policy will not be as predictable as it has been.

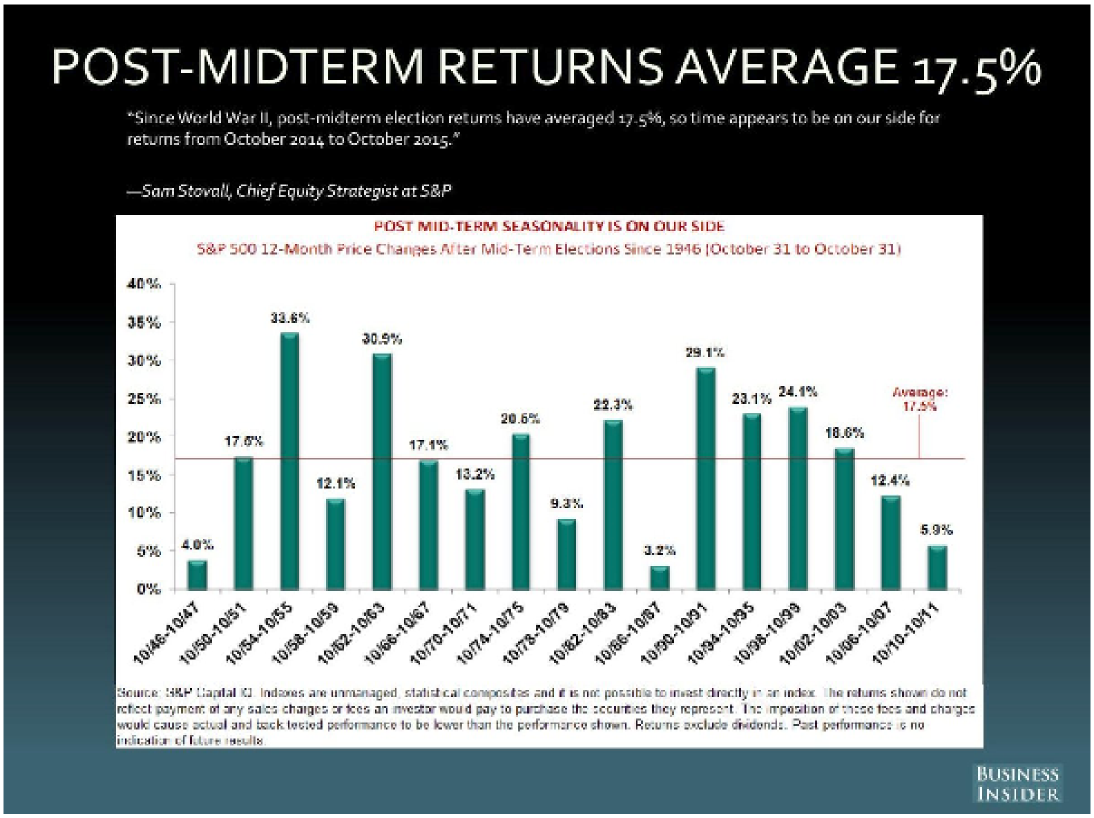


Oil Prices

Global oil prices have declined sharply since this summer. The decline of over 20% was a result of strong growth in U.S. production as well as a drop in demand from Europe and China. Saudi Arabia dropped the price of Brent oil for its biggest customers. This signaled that it would rather maintain its market share than support prices. The move suggests that oil prices may stay lower for a long period of time. This will benefit both consumers and shippers with lower gasoline costs. However, the benefit of lower energy costs may not be as beneficial to many consumers in foreign markets since oil is priced in U.S. dollars. The U.S. dollar has been very strong relative to other currencies, which will lessen the positive impact.

Mid-term Elections

The chart below outlines returns on the S&P 500 for the 12 month period following the Mid-Term elections since 1946. The average return during these periods is a positive 17.5%, which suggests that it should be a good time to have exposure to the domestic equity markets.



Conclusion

The conclusion of the Quantitative Easing program may have the most notable impact on market volatility, which is almost certain to be higher than it has been in the past three years. It does not appear that the U.S. economy has enough strength to move the interest rate curve materially higher in the near term, but continued progress in improving the economy, as well as the favorable period of post Mid-Term elections should provide a nice tailwind to solid investment returns as we finish this year and sail into 2015.

S&P 500 Index

3 Month	5.05%
Year-to-Date	10.99%
1 Year	17.26%
3 Year	19.74%
5 Year	16.66%

MSCI EAFE Net Index

3 Month	-5.39%
Year-to-Date	-2.81%
1 Year	-0.60%
3 Year	9.67%
5 Year	6.51%

Barclays Aggregate Bond Index

3 Month	1.40%
Year-to-Date	5.12%
1 Year	4.14%
3 Year	2.73%
5 Year	4.22%

As of 10.31.2014

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