ANALYTICS INVESTMENT ADVISORS, LLC

Slow, Slower, Slowest

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What? The U.S. economy contracted by -2.9% in the first quarter of 2014 and is the weakest recovery since Franklin Roosevelt's tenure with GDP growth averaging only 1/3 of the historical average since 1933 in spite of large amounts of monetary and fiscal stimuli.

Roosevelt	(1933-40)	6.2%	Reagan	(1981-88)	3.5%
Truman	(1947-52)	3.8%	G.H.W. Bush	(1989-92)	2.3%
Eisenhower	(1953-60)	3.0%	Clinton	(1993-00)	3.9%
Kennedy-Johnson	(1961-68)	5.0%	G.W. Bush	(2001-08)	2.1%
Nixon-Ford	(1969-76)	2.8%	Average	(1933-2013)	3.6%
Carter	(1977-80)	3.3%	Obama	(2009-13)	1.2%

Why?

- Excessive regulation is choking the recovery;
- The unemployment rate is 12.3% when taking into consideration part-time workers that prefer to work full time;
- Teenage unemployment is approximating 20%;
- Federal policies of extending unemployment and liberalizing disability eligibility have reduced the incentive to search for work;
- The Dodd-Frank Act is adding to business' cost of operation, discouraging lending;
- Reduced competition for Obama Care is significantly increasing costs to consumers, reducing service options and creating a high degree of uncertainty; and,
- The lowest labor participation rate in 36 years (62.8%) is resulting in an underutilized labor force, sapping the U.S. economy of the necessary manpower needed to boost expansion to a higher level.

How? In spite of the numerous adverse consequences of misguided federal policies, there is vigorous competition between states, the private sector is growing at 4%, housing is rebounding, and the stock market continues to rise (Chart 1). Moreover, corporate profits are projected to improve, consumer confidence is rising, and the service and manufacturing sectors are expanding (Table 1). These seemingly diverse observations can reconciled by:

- Continuing to offer a range of strategic allocation models utilizing exchange traded funds (Table 2);
- Staying fully invested while maintaining the flexibility to adjust to changing economic and unforeseen global circumstances; and,
- Emphasizing sectors that show good relative strength and the potential to outperform the overall market as measured by the S&P 500, which will be the topic of the next quarterly newsletter in October.

Table 1. Market Fundamentals 1/

		June	May	Apr	Mar	Feb	
DEMAND	Consumer Confidence	85.2	82.2	81.7	83.9	78.3	Conference Board
	Retail Sales	2/	0.1%	0.5%	0.2%	0.9%	% Change
	Housing	2/	504	425	410	432	New Home Sales 000s
	Durable Goods	2/	-1.0%	0.8%	0.4%	0.3%	% Change
	Deficit (-)/Surplus	2/	-$490	-$499	-$493	-$563	12 Months Billions

		June	May	Apr	Mar	Feb	
SUPPLY	Manufacturing	55.3	55.4	54.9	53.7	53.2	ISM Manufacturing Index
	Services	56.5	56.3	55.2	53.1	51.6	ISM Services Index
	Capacity Utilization	2/	77.0%	76.7%	76.9%	76.5%	% of Capacity Total
	Inventories/Sales	2/	n.a.	1.18	1.18	1.19	Wholesale Business
	Employment	230	217	282	203	222	Non-Farm Payrolls 000s

	2Q 3/	1Q	Q4	Q3	Q2	Quarters 2014 - 2013
GDP	2/	-2.9%	2.6%	4.1%	2.5%	% Change GDP Yr/Yr
Corporate Profits	11.91%	6.36%	22.0%	12.17%	3.66%	% Change EPS Yr/Yr

	June	May	Apr	Mar	Feb	
Leading Indicators	2/	0.5%	0.4%	0.3%	0.2%	Total Index
Inflation	2/	0.4%	0.3%	0.2%	0.1%	CPI All Items

1/ Source: www.briefing.com/investor/calendars/economic/
2/ Not Available
3/ Projected

	2012	2013	2014 30-Jun	Risk Criteria		
				Alpha	Beta	Sharpe Ratio
S&P 500	**13.41%**	**29.60%**	**6.05%**			
Barclay US TR	**4.42%**	**2.02%**	**3.93%**			
Cautious	8.53%	32.73%	5.89%	4.61	0.93	1.74
Moderate	10.51%	35.85%	6.76%	5.25	0.97	1.75
Assertive 1	17.10%	38.40%	6.92%	7.7	1.05	1.87
Assertive 2	n/a	44.93%	11.73%	11.63	1.55	1.80
Aggressive	22.70%	68.62%	-5.60%	11.65	2.05	1.67

Chart 1. S&P 500 (SPY 12 month) Price, 13 Week & 200 Day Moving Averages