
Sound Investments Inc.

DJIA 17823.7 S&P 500 2058.9 NASDAQ 4365.3

Summary

As the U.S. economy enters 2015, it exhibits its strongest momentum in at least a decade. We are the fittest of all industrialized nations.

It's not a walk in the park as the market has a lot to stew about including 1. Job losses from higher oil prices. 2. Higher Interest rates. 3. Weaker economies throughout the world. 4. Lower commodity prices 5. A Higher U.S. Dollar

As I write this on Jan 12th the S&P 500 are currently at 2058.9. We do not expect a collapse but it could easily drift down to the 1900 range, then regroup depending on the news. As I wrote in my last report, corrections of 10% are normal.

We think stock volatility has risen and should continue to rise. We strongly believe we are still in a bull market and expect to see the markets higher by 7 or 8% next year.

This investment letter is mailed quarterly to our clients and friends. The intent of this publication is to share some of our more interesting views and research

Perseverance Pays

U.S. stocks notched another winning year in 2014 and ended the sixth straight year of gains. It was not, however, smooth sailing, as many areas of the market did not offer gains. Small caps, energy and internationals lost ground for the year.

Last year included several bouts of market volatility. Stocks pulled back 5 times in 2014, twice dropping by about 10%. In our quarterly reports throughout 2014, we reported several times, that corrections are normal and are to be expected. Generally, we remained fully invested throughout the year and were rewarded.

At the beginning of every year, I like to review what some of the top firms on Wall Street are saying and have enclosed an easily readable guide entitled Wall Street Strategists Forecast More Stock Gains In 2015.

What Smartest Minds on Wall Street are Saying (NOTE: I Don't Fully Agree)

Analysts expect the U.S. economy to remain on a moderate growth track in 2015 based on the following factors:

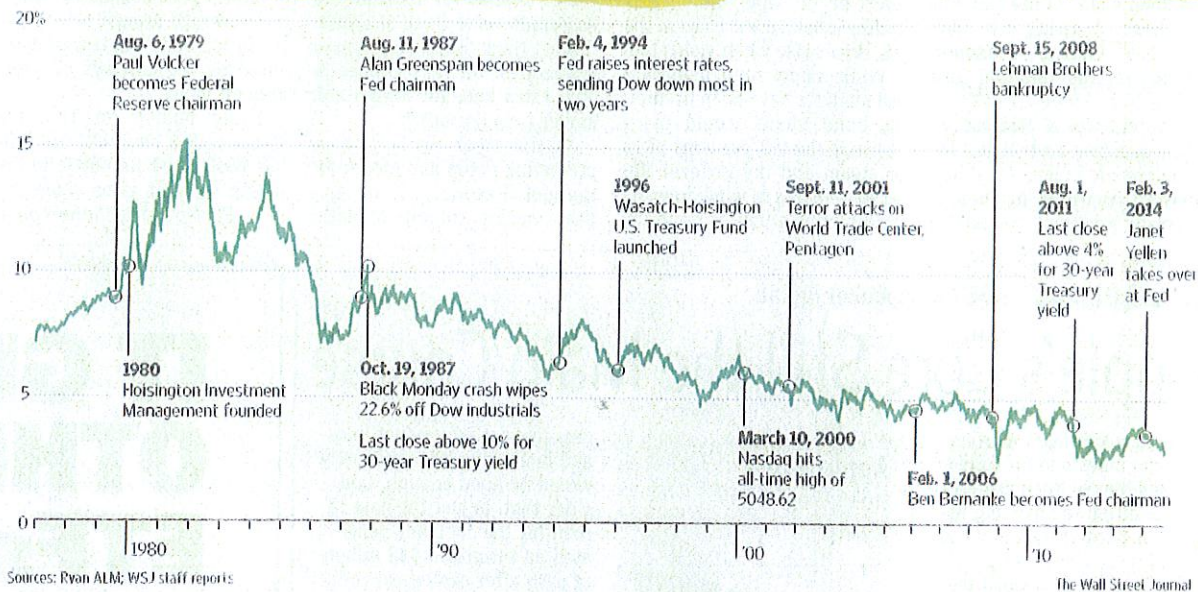
- Industrial production increased 1.3% in Nov, the most since May, 2010. On a year over year basis, industrial production increased 5.3%, the fastest pace since Jan 2011.
- Capacity utilization increased 0.8% in Nov to 80.1 % and is now equal to the long term average rate for the past 40 years. This indicates that our factories are running near full capacity. To get extra productions prices normally rise which can result in inflation.

As the U.S. economy enters 2015, it exhibits the strongest momentum in at least a decade. We are the fittest of all industrialized nations. The question, is whether that muscle can help yank the rest of the world out of its doldrums. Economic output registered its best 6 month stretch since 2003. (See Chart on page 4)

Interest Rates For Past 3 Decades on 30 year Bond

Declining Trend

Yields on 30-year Treasuries have been falling for three decades, benefiting bondholders including Hoisington Management. Bond yields fall as prices rise.



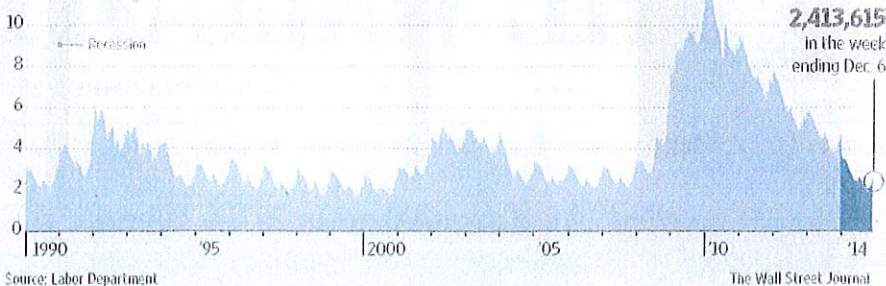
Interest Rates have come down From 15% To 3% on 30 year Bonds and will likely go up but not a lot.

Claims Check

The number of Americans receiving unemployment benefits returned to prerecession levels in 2014 (■).

U.S. residents receiving government unemployment benefits

12 million



Lower unemployment claims is a clear sign of an improving economy.

The market has a lot to stew about and, while I agree it will be higher at year end, I believe we will face a lot of ups and downs as it sorts out the following items:

1. **The immediate impact of lower oil prices.** Lets review the situation - - - Some 16 states benefit from the decline in oil prices, of which, 6 really depend on it for job growth. Approximately 10% of the population lives in these states. That means that, even if every one of those people were to be hurt by oil, there are still 290 million people, or 90% of the population, who would benefit. If it were only that simple! The end result will be layoffs in the oil and gas sector and related industries, (i.e. steel mills that make pipe), immediately. This will reduce GNP by 1/2 of 1%. Meanwhile, it will take 6 to 8 months for the benefits of lower oil to **seep** through the economy. Also, we don't know how long lower prices are going to last so businesses will be reluctant to invest, based on the lower price of energy.
2. **Higher interest rates are on the way.** Every time, Janet Yellon, the Chairperson of the Federal Reserves, mentions the mere possibility of higher rates, the market takes a tumble. Interest rates are extraordinary low, (see Chart on page 2) and will eventually rise. We think things will be OK - - - The stock market just doesn't want to face it or hear about it.
3. In our last quarterly report we recorded that the **weakening economies of the euro-zone** could pose problems. Since then, things have got worse. Prices in Europe fell 1/4 of 1% in Dec, the first decline since 2008. This is a symptom of weak demand in Europe. Other weak spots abound! Japan's economy shrank in the 2nd and 3rd quarters. In addition, growth in China has been disappointing, putting downward pressure on commodities world wide. Can the U.S. thrive while much of the world is stumbling?
4. It's not only oil prices, **lower commodity prices in general**, from copper, wheat, corn and soy beans are all down at least 20% (i.e. Copper is down 40%) . Mining and Oil production, account for 15% of the index and these lower prices will surely affect earnings of the S&P 500. This will result in a lower level for the indexes.
5. In many ways, the U.S. is back in the driver's seat of the global economy. We are generating jobs and profits and continue to be the envy of the world. What comes with this is a **higher U.S. dollar**, which is great if you are traveling to Europe but it cost more for U.S. exporters when selling their goods abroad. Also it makes imported goods cheaper.

As I write this on Jan 12th, the S&P 500 is currently at 2024. We do not expect a collapse but it could easily drift down to the 1900. range, then regroup depending on the news. As I wrote in my last report, corrections of 10% are normal and healthy. **The market has a lot to think about and this is what's causing the unsteadiness. We think stock volatility has risen and should continue to rise. We strongly believe we are still in a bull market and expect to see the markets higher by 7 or 8% next year.**

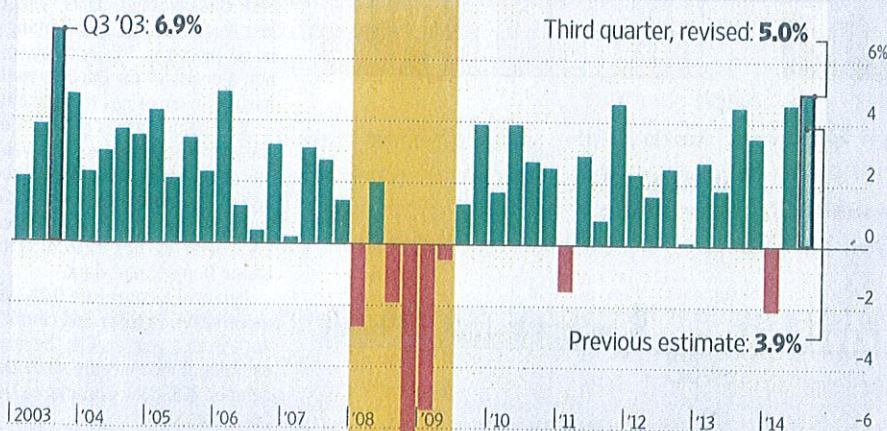
Conclusion

We expect more more backing and filling along the way. This ebb and flow will be more the norm for this long understated business expansion. We remain generally positive on the Market's 2015 outlook. We continue to monitor the situation and welcome your calls.

U.S. Economy Gains Momentum

After the strongest GDP report in more than a decade...

Change in inflation-adjusted U.S. gross domestic product at a seasonally adjusted, annualized rate



...the Dow Jones Industrial Average rose above 18000 for the first time.

Dec 23 Tuesday: 18024.17
 Jan. 20 2015. -17500.
 July 3, 2014

Nov. 21, 2013

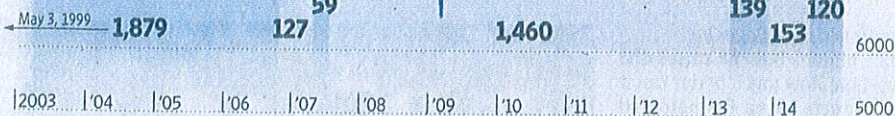
May 7, 2013

July 19, 2007

April 25, 2007

Date of milestone
 Oct. 19, 2006

Number of trading days to next
 1,000-point milestone



Sources: Commerce Department (GDP); WSJ Market Data Group (Dow)

The Wall Street Journal

The economy has improved over the past 3 years.

The stock market has responded to the improved economy as well. Our sense is the market is fully recovered from the Great Recession. It can move higher as long as earnings continue to improve.