



As an investment advisor, we feel investors should have an information outlet for the financial markets that is thorough, but does not require a prerequisite degree in economics. Thus we have included a glossary of terms at the end of this commentary. Each term with an asterisk has a corresponding definition in the glossary. We hope this makes our commentary informative and educational for all levels of investors.

Quarter in Review

The past quarter went for the markets much like it does for many--a quiet and enjoyable end of summer followed by busy and nerve-wracking September. July and August showed mostly steady gains and low trading volume, but once the calendar turned for September the trend broke. A poor employment reading from August kicked off the first week and was followed by increasing unrest in the Middle East and ended with the first confirmed case of the Ebola virus in the U.S.

Overall both the U.S. equity and bond markets showed slight gains for the quarter with 1.1% for the S&P 500 and 0.2% for the Barclays Aggregate Index. In an almost entire reversal from the second quarter, valuations* edged lower while volatility made a comeback. Stock valuation based on the S&P 500 p/e ratio* fell to 18.2, down from 19.0 at the end of September due to strong company earnings.

Outlook

Typically, we reserve any comments on the current quarter for the following Investment Letter, but the beginning of the 4th quarter has been far from normal. The volatility that resurfaced at the end of September continued into October where 1% moves both up and down have become a near daily occurrence during the first two weeks of trading.

The U.S. economy continues to show signs of improvement with positive long-term trends in unemployment and consumer confidence*, but lately those trends have been overshadowed by current news about rising tensions in the Middle East and the potential spread of Ebola. These events, combined with weaker economic growth statistics from abroad, lower oil prices, and a strong dollar, have all clouded an otherwise spectacular long-term market trend.

Two of the most interesting trends in the market today are a strengthening U.S. dollar and lower oil prices. Read on to learn how they could shape the financial landscape in the next few months.



Strengthening U.S. Dollar

A strong currency sounds desirable on the surface. As the U.S. dollar strengthens, Americans can purchase foreign goods at a lower price. This portrays a sense of economic superiority and makes for a cheaper vacation when travelling abroad. However, the danger in a strong dollar is less about how Americans view purchasing international goods, but rather how foreign nations react to paying higher American prices. Since American goods become comparatively more expensive in a strong dollar scenario, it could lead foreign countries and companies to reduce purchases of American goods. The resulting lower demand for U.S. goods is potentially a cause for concern if it has a ripple effect across U.S. employment and economic growth. A more likely result is a reduction in the stability gap between U.S. and foreign countries, which in the long run should be more valuable to investors around the world.

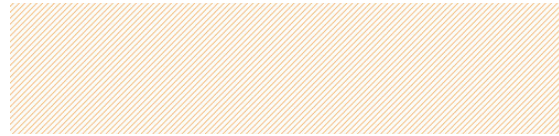
Lower Oil Prices

Until recently, worldwide population growth and an increased global reliance on oil from OPEC led to steadily higher oil prices since the 1970's. As consumption increased, OPEC was able to maintain supply levels that set the market price. These economics changed when hydraulic fracturing (fracking) allowed for previously un-drillable oil to be pumped out of the ground in the U.S., lessening America's dependence on OPEC oil. Coupled with the above-mentioned weaker international growth prospects, there is a larger supply of oil and less demand. The resulting lower prices have positive effect such as lower gasoline and heating costs, giving U.S. consumers the equivalent of a tax break. There are limits however, to how low the price of oil can go. Drilling for oil is a capital-intensive process that becomes unprofitable at certain price thresholds depending upon how and where the oil is drilled. Hitting the point where a majority of suppliers decide to halt production is not a desirable result, as it no longer benefits consumers with lower prices. The hope is that demand will increase as the price of oil falls, which like a strong dollar, could spark global economic activity.

Glossary

Valuations and p/e ratio – Standardized measures that help determine how much a company is worth. The p/e ratio is a standardized measure of how much investors are paying for each dollar of earnings. An 18x p/e ratio means investors are paying 18 times each dollar of earnings.

Consumer Confidence – Economic indicators that measure the degree of optimism consumers feel about the economy and their personal financial situation. Higher consumer confidence is considered a bullish indicator of the economy.



OPEC – The Organization of the Petroleum Exporting Countries. A group of major oil producing nations that collude to set production levels. OPEC produces approximately 40% of the world's oil supply.

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