FINANCE REPORT

Investors face unique challenges in 2015, with economic growth slowing in other parts of the world, inflation fears growing and oil prices expected to average less this year than they did during the financial crisis. We talked to several local advisers to get their take on what's ahead this year.

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Q: What do you think the biggest issues are facing the financial industry in 2015, and why?	The biggest issues most likely will be SEC regulatory changes and fee compression. The SEC will be focusing on protecting retail investors with greater scrutiny on hedge funds and other alternative investments, as these investments are becoming more available and increasingly popular. The SEC will do this with new regulations and more examinations. Fee compression will become more of a problem for advisers who outsource the money-management piece. Investors are realizing they are, in essence, being double-charged — first with an advisory fee and then again when they have to pay their individual mutual fund managers a fee.	The biggest issue for the financial industry and global economies in general this year will be the growing ineffectiveness of central bank policies. The idea that quantitative easing and low interest rates alone can spur economic growth is being proven false. Unless that changes, the world's central banks risk a credibility crisis that could have huge repercussions for global equity and debt markets.	The biggest issues facing the investment industry are the actions by central banks both in the United States and abroad. Because the U.S. is the world's largest economy, speculation of the first rate rise by the Fed will have repercussions around the world and, in the interim, will create uncertainty, which markets despise. Other central banks' efforts to combat deflationary pressures have recently been exacerbated by the rapid decline in oil prices, potentially leading to economic stagnation abroad.	We believe the extremely low interest rate environment is the most challenging issue facing our industry in 2015. Current interest rate levels make it difficult to understand the intrinsic value of most asset classes. We are devoting significant resources to understanding how potential future interest movements might impact portfolios, including making thoughtfully designed allocation decisions based on our research. The goal is to insulate client portfolios from significant interest rate changes and create opportunities from these movements.
Q: How will the steep decline in oil prices affect your investment strategies in 2015?	The significant drop in oil prices won't change Northstar's strategy in 2015. If anything, it has made the large integrated oil companies that we like even more attractive in terms of price and dividend yield. Eventually when oil prices find a bottom, these same companies may have a significant rally because they're attractive, not only for income but also for long-term appreciation potential. With gasoline prices now under $2 a gallon in most parts of the country, it will continue to fuel consumer spending, which will benefit the stocks we own in the retail and transportation sectors.	The recent drop in oil prices likely isn't sustainable absent a prolonged global recession. U.S. shale producers need prices above $65 to be profitable, and most OPEC nations need even higher prices to balance their budgets. We have started selectively buying energy production stocks, as well as stocks in other areas that have fallen along with oil, such as Canadian banks and railroad companies. It may be a bumpy ride for the next several months, but eventually we expect the price of oil and oil-related stocks to recover substantially from today's current prices.	Our firm maintains a well-diversified portfolio, therefore our investment approach has not changed considerably due to falling oil prices. With regards to our exposure to oil and gas investments, we have generally held firm during this sell-off and are now beginning to buy what we consider to be underpriced assets. We have also slightly rebalanced our MLP [master limited partnership] portfolios.	The ramifications of this rapid price decline will reach into many corners of the markets, such as high yield, private equity and private lending. We do not anticipate a sharp rebound in oil prices back to the $100/barrel level anytime soon, but we do expect a reasonable level of price appreciation over the next 12-18 months. We are working to appropriately allocate capital to this sector, given the recent volatility and the impact on various asset classes that clients may not anticipate.
Q: Economists are expressing growing concerns that growth globally is slowing down, and that deflation is popping up in Japan and Europe. Will concerns of a global slowdown affect your investments this year? Why or why not?	Deflation and a slowdown in Europe shouldn't impact the U.S economy in 2015. U.S. GDP is projected to grow at over 3 percent, and if this is indeed the case, the companies that we own for our clients — with strong balance sheets, that pay a meaningful dividend and can increase their dividends every year at twice the rate of inflation — should outperform their European and Japanese counterparts. On the fixed-income side, municipal and corporate bonds that are dependent on the U.S. economy will continue to do well from a credit standpoint.	Slowing global economic growth will be a major concern in 2015. We expect yields to remain low across the globe and recent volatility in equity markets to continue. The real concern is not growth rates themselves, though, but the increasingly feckless response by the worlds' central banks. The limited impact of quantitative easing on economic growth is becoming readily apparent, and a growing lack of confidence in global central bank policies could have dangerous ripple effects in equity, bond, currency, and commodity markets.	Concerns of a global slowdown are not going to affect our investment strategy. Global stocks are priced at a discount relative to domestic companies, compensating investors for additional risk. A modest allocation to foreign markets makes sense. Economic pressure is a catalyst for change and improvement, which has worked in countries such as the United Kingdom and Spain. China's GDP continues to grow in dollar terms, even though there has been a decline in percentage terms. Finally, energy importers will benefit from lower oil prices, acting as a stimulus to those countries.	The road ahead for international investments will be volatile, but we believe opportunities will present themselves. The European Central Bank began a large-scale stimulus program, similar to the quantitative easing program the U.S. implemented in November 2008. This injection of cash is intended to fend off deflation and ignite the economy. We believe the biggest impact will be continued downward pressure on the currencies of countries participating in stimulus programs. Knowing what you own in this area, specifically exposure to currency risk, is critical.