Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE JUNE 2015

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MARKET COMMENTARY

US stocks continued to trade in a narrow range during the second quarter. Large cap stocks in the S&P 500 and DJIA finished the quarter basically flat. Small cap stocks in the Russell 2000 were also basically flat for the quarter. Even international stocks were up less than 1%. Year-to-date, the S&P 500 Index is up 1.2%, the Russell 2000 is up 4.8% and the MSCI EAFE is up 5.9% Bond yields reversed course and rose sharply thereby wiping out their gains from first quarter.

Corporate earnings growth not only slowed during first quarter but turned negative compared to first quarter 2014 mostly due to the energy sector and the strengthening dollar. Earnings of companies in the S&P 500 Index were -5.6% lower than a year ago but when energy companies were excluded, earnings were 8.5% higher. For second quarter, earnings projections have been revised lower over the last 6 months and they may also sport negative overall growth. However, most analysts are expecting improvement in the second half of the year when the change in the value of the dollar isn't as drastic in year-over-year comparisons.

GDP growth in the first quarter was disappointing with a decline of -0.2% from the prior quarter. The blame was placed on weather in the eastern US and a dock workers strike on the west coast. Both these issues seem to be resolved so should not continue to impact GDP growth. However, the Federal Reserve did lower their full year estimate for GDP growth to 1.9% in 2015. In 2016, their estimate is 2.6% GDP growth.

International markets were largely impacted by the uncertainty surrounding Greece's eventual default on their debt. Analysts do not expect Greece's problems to be a contagion that would bring down other economies. They expect it to create some volatility in the short-term but not have long-lasting repercussions. International stocks are still cited as attractive by many analysts because the European Central Bank and Bank of Japan have been implementing monetary easing policies, the PE ratios on foreign stock indices are more attractive than US indices and the MSCI EAFE is still below previous highs reached in 2000 and 2007.

The Fed has continued to insist that they intend to raise rates during the year, but the market does not appear to believe they will do so - at least not at the rate they project. Six months ago, the Fed had projected that the Federal Funds rate would be at 1.13% at the end of 2015; now their projection is for 0.63%. The futures market shows that investors expect the Fed to only raise rates to 0.31% by year end.

The yield on the 10-year Treasury bond is currently 2.34% up from the 1.93% at the end of last quarter. Although many expect that longer-term rates will eventually rise, this increase is seen as unsustainable. The yield curve is expected to flatten with the rise in short-term rates. Analysts expect rates on these longer-term bonds to fall first before their eventual long-term rise.

We expect volatility to continue causing stocks to continue to trade in a range. Valuations seem high compared to long-term average PE ratios, but alternatives do not seem to have better opportunities. Until GDP growth and earnings growth pick up again, stocks have few reasons to climb quickly. Negative surprises could create pullbacks in prices but we would not expect these to be the start of a more significant decline. Depending on the circumstances, even a 10% correction could be short-lived and more of a buying opportunity than a worry. We continue to recommend a diversified approach to asset allocation with bonds providing support during such pullbacks. Higher cash balances could be used to buy back into stocks on dips in stock prices.

2015 BENCHMARK RATES OF RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	0.3%	1.2%
DJIA	-0.3%	0.0%
NASDAQ	1.7%	5.3%
Russell 2000	0.4%	4.8%
International	0.8%	5.9%
Fixed Income	-1.7%	-0.1%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

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FINANCIAL PLANNING

Planning for retirement

We've all heard how important it is to start saving for retirement at an early age. When you start younger, you have more time to take advantage of the compounding of earnings. Also, since you have more time until retirement, you can be more aggressive in your asset allocation and take advantage of the growth opportunities stocks provide. These advantages can mean that you save less and end up with more than someone starting later in life. Many in Generation X and Y understand these advantages but still fail to save more than a small amount. Not prioritizing saving is one of the biggest mistakes younger people can make.

Another mistake all ages of people make is not spending time to figure out how much they need to be saving. According to the Employee Benefit Research Institute's 2015 Retirement Confidence Survey, only 48% of workers or their spouses had tried to calculate how much money they would need to save for a comfortable retirement. Unfortunately, there is not a good rule of thumb (such as save 10% of your income) that fits everyone. Some people contribute just the amount needed to their retirement plan that gets them the company match. Most likely, that will not be enough for anyone. Others may max out their 401k contributions and stop saving there. For someone who lives more frugally that strategy could provide a satisfactory retirement lifestyle, but for high income earners (and spenders) that, most likely will not be enough and saving outside a retirement plan would also be needed.

You can find many "retirement calculators" online that will try to help you figure out how much is the right amount for you to save. However, entering the same information into multiple calculators can produce quite different results. When using these, it is very important to understand assumptions the calculator is making and how the calculations are being performed. They may be using faulty assumptions that don't fit your situation. The earnings rate they are incorporating may not reflect your asset allocation or may be too optimistic based on historical returns rather than the lower expected returns analysts have for stocks and bonds. The last thing you want to do is depend on what an online calculator told you only to realize after it is too late that it didn't work for your situation.

Recently, there has been more attention placed on the new "robo advisors" that large financial institutions have been rolling out. Although these automated investment services may seem attractive because of the underlying technology, most investors want and need the personal interaction professional advisors provide. An advisor also provides the quality check and often has more advanced tools for financial planning and investing. Furthermore, advisors understand the complex inputs and how they affect outcomes. Advisors also have an ongoing relationship with you thereby giving you a trusted source for when you have questions about what you should do.

Cambridge Advisors is dedicated to helping our clients reach their financial goals - we help them determine what they need to do to reach their goals and then we implement and monitor an appropriate investment plan with custom-tailored portfolios. If you have questions about your financial situation, please do not hesitate to contact us.

QUESTION: *How often do stocks have a 10% decline?*

ANSWER: According to Capital Research and Management Company, from 1900 to 2014, the Dow Jones Industrial Average has declined 10% or more about once a year. These corrections are normally short-lived with an average length of only 115 days - less than four months. Over the past four years, we have only seen one such decline which was in October 2011. A 10% correction does not need to be feared; it could be seen as a normal occurrence that can provide buying opportunities for investors with available cash.

CAMBRIDGE ADVISORS NEWS

In our 25 year history, Cambridge Advisors has always valued education Our portfolio managers have earned highly sought after professional designations including CFA, ChFC, and CPA and advanced degrees including the MBA. Since our portfolio managers work as a team and share their knowledge and experiences this benefits all clients of Cambridge.

Please join us in congratulating Karen Benefiel. Karen has been an important member of the Cambridge portfolio management team since 2003. Recently, she was awarded the CMT designation which stands for Chartered Market Technician. The rigorous program to achieve this designation spans three levels centered on technical analysis and technical risk management. She has contributed additional insight and perspective into our investment management process. We believe she is the only CMT charterholder in the state of Nebraska at this time.