West Oak Capital, LLC



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**We welcome your call or email if you have any thoughts you would like to discuss.**

*Byron, Lisa, Jerry and Marcia*

Freedom and quarantine.  Citizens in Hong Kong are clamoring for greater political influence, while healthcare workers are scrambling to keep an Ebola epidemic from spiraling out of control.  These worries pile on top of airstrikes against Islamic State targets in Iraq and Syria, political uncertainties ahead of the U.S. mid-term elections and extreme weather conditions causing floods in parts of the country while California remains dangerously parched.  Even though portfolios ended up roughly even for the recent quarter, it has not been an easy few months for investors.  A lot of news seems to be spooking the capital markets as we head toward the Halloween season.

We do not dismiss the worries casually.  Terrorism, political unrest, viral epidemics and bad weather do have the potential to temporarily disrupt economic activity.  However, they are not easy to predict, and their consequences can actually create an opportunity for a variety of businesses.  Consumer goods, drug treatments and other healthcare supplies, military and industrial equipment, energy, transportation, finance and insurance are just some of the needs that come to mind when responding to a potential crisis.  From an economic perspective, risk and opportunity go hand in hand.

Worries sometimes overwhelm positive news. The September report on real gross domestic product showed our economy gaining at an annual rate of 4.6 percent, a welcome turnaround from the previous quarter's surprising 2.1 percent decline, which now appears to have been weather-related. Corporate profits for companies in the S&P 500 index are up around six percent this year, and they are forecast to rise approximately eight percent in the coming year. At their September meeting, the Federal Reserve indicated they remain on track to wrap up their bond purchases this month. It appears likely that economic conditions will support interest rate hikes sometime during the first half of 2015. While there are valid concerns worth monitoring, we believe the positives remain more actionable than the threats at this stage in our nation's economic recovery.

This recovery is still a long way from reaching its full potential. More than five years after the economy began picking up the pieces from the credit crisis, job creation and new business formation continue to be much less robust than we would like to see. While the headline unemployment rate has softened to an encouraging 5.9 percent, workforce participation has actually slipped to the lowest level in 36 years, with 92.6 million Americans now considered out of the workforce. About half of the recent decline in labor participation can be explained by the baby boomer generation reaching retirement age. As for the rest, it remains to be seen whether those folks can be coaxed back to work. Even for people with jobs, far too many are working on a part-time basis, and overall wages have been relatively stagnant. The U.S. is in better shape than many foreign economies. Europe has an unemployment rate of 11.5 percent and is teetering on the edge of another recession. There is plenty of room for economic conditions to improve, progress that we believe would provide upside for investors.

Earning a return requires taking risk, but not all risks are worth taking. That distinction is where significant value gets added over the life span of an investment program. A primary challenge for investors is to find an acceptable balance of risk and safety in their portfolio. Too much risk can tempt an investor to overreact when conditions get choppy. Too much safety can cause a portfolio's value to whither over time from distributions or the insidious erosion of buying power due to inflation. Our discussions with clients are meant to increase the probability of success and provide a guideline for navigating through unexpected market conditions.

There has been a modest but notable increase in volatility to the capital markets in recent months. In our opinion, the economic recovery that began over five years ago still has plenty of room to run. That bodes well for the future value of portfolios, even if that progress is buffeted by some setbacks along the way. As always, we welcome your call if you would like any additional information or have topics you would like to discuss.

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