

AIRCRAFT FINANCE REPORT 2014



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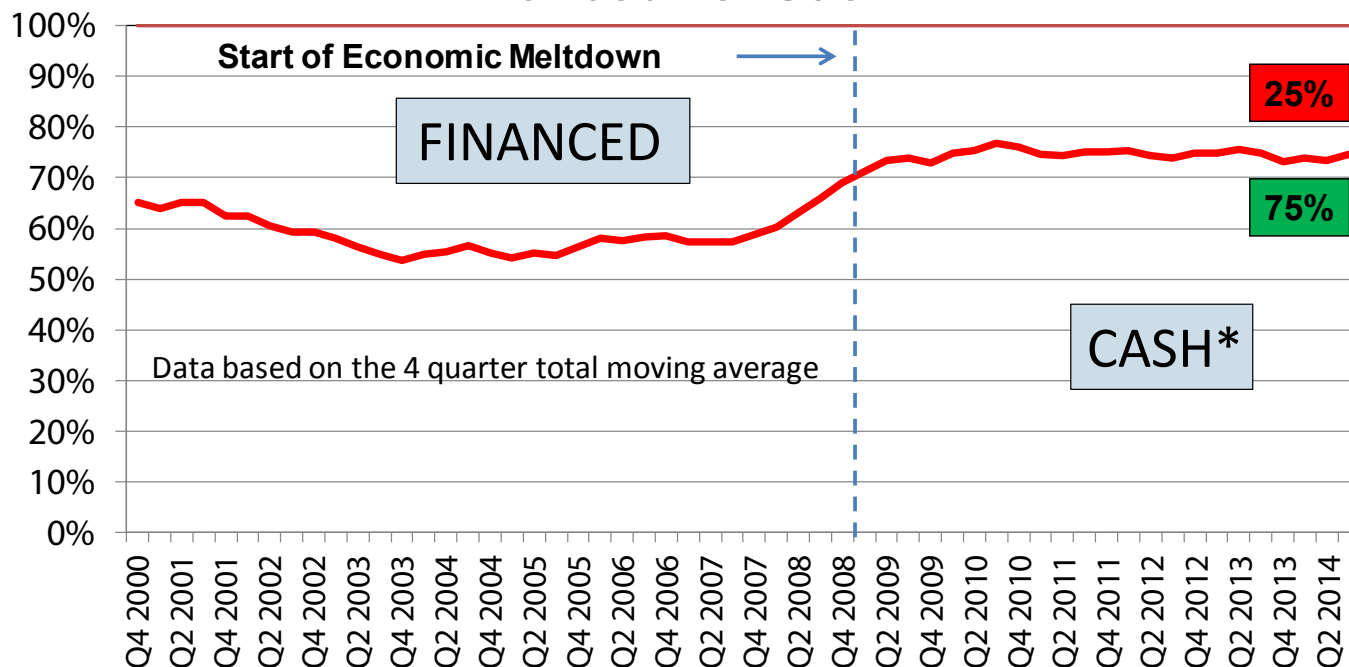
- 9** The U.S. Ex-Im outlook
- 10** For buyers in China, borrowing options abound
- 12** Global Jet Capital presenting wider range of lending choices
- 13** U.S. economy appears better than IMF's new 'mediocre'

Cash is still king, but lenders see fresh activity from buyers

by Curt Epstein

According to most if not all leading indicators, the U.S. economy continues to gather steam as the global recession grows smaller in the rearview mirror. While the Dow Jones Industrial Average surpassed the impressive level of 15,000 last year, it spent this

New/Pre-owned Business Jet Full Retail Sale Transactions U.S. FAA Financial Documents Financed vs. Cash*



Source: JetNet; Presentation and Analysis by Chase & Associates

*FAA registries without debt instruments or lease are presumed to be cash.

year above 16,000 and even broke through 17,000 on multiple occasions. The Standard and Poor's 500 Index likewise broke the 2,000 barrier in September, and in that same month government officials announced that the U.S. unemployment rate had fallen to 5.9 percent, its lowest since July 2008, before the start of the recession.

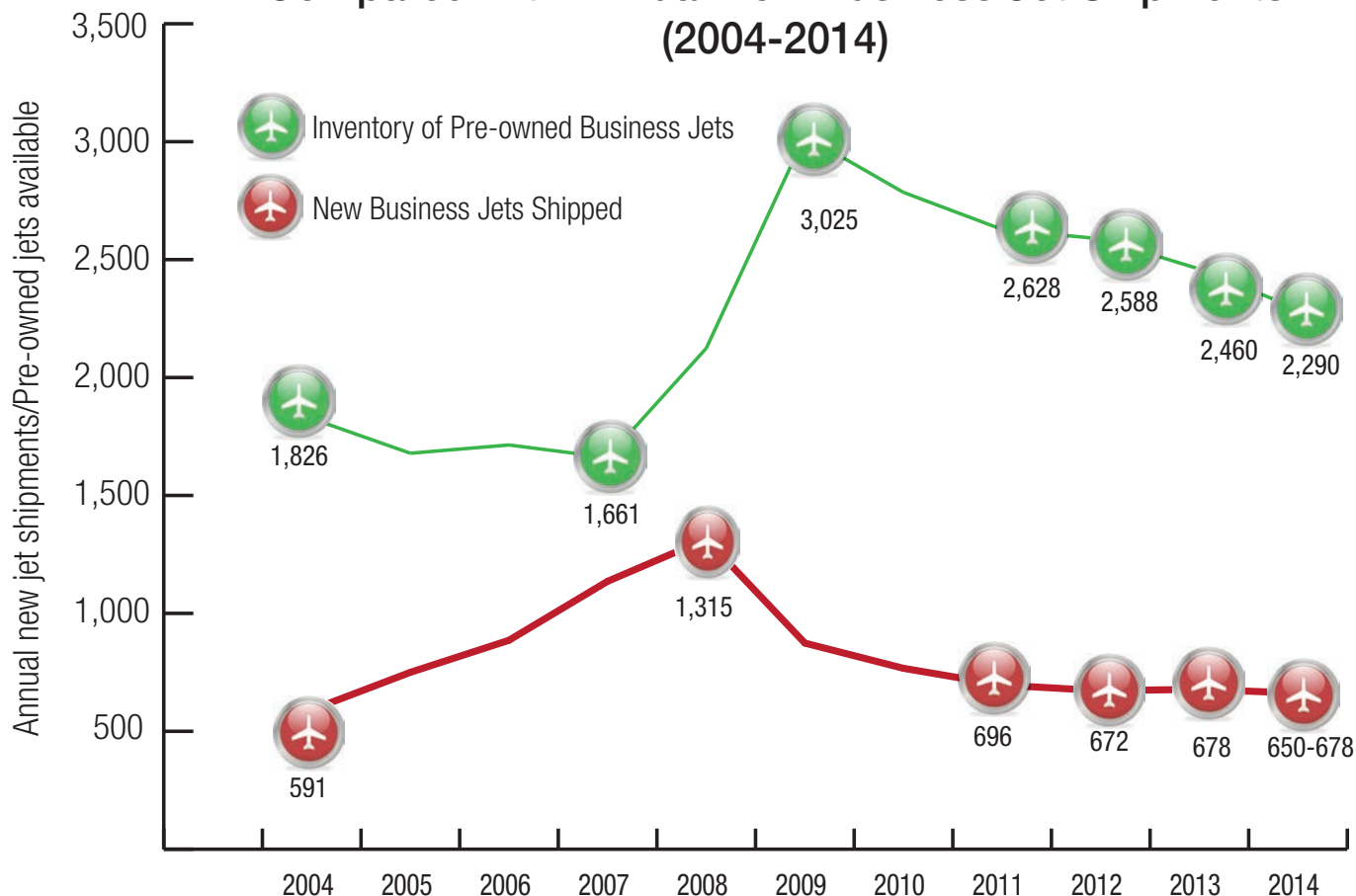
"We bounced back well, and I think the prospects for the U.S. economy are improving," said Ryan Sweet, a senior economist and director of economic research with financial advisory firm Moody's Analytics. "I think the fundamentals are firmly in place for a much better 2015 than we had in 2014,

and 2014 wasn't that bad a year."

Along with the increasing employment rates, Sweet sees salary growth, which has been nearly stagnant for years, as a spur to the economy, boosting the housing market and consumer spending. Another pillar to the improving financial picture will be business investment.

"There's pent-up demand in equipment spending, and interest rates are still [at] rock bottom, so I think businesses are going to want to expand their operations more aggressively in 2015," Sweet told **AIN**. "The roller-coaster ride is now settling down, and I think that does wonders

Annual Average Inventories of Pre-owned Jets Compared with Annual New Business Jet Shipments (2004-2014)



Sources: JetNet (Inventory of Preowned Business Jets); GAMA (New Business Jets Shipped); Honeywell (2014 forecast)

Notes: Inventory numbers for pre-owned business jets are averages for the year. New jet shipments are end-of-year totals.

*The total number of jets shipped by the end of 3Q/14 was 460. In 2013, it was 421, and in 2012 it was 430.

for the collective psyche. You can see it in the measures of business confidence, which are among the highest since the early 2000s.”

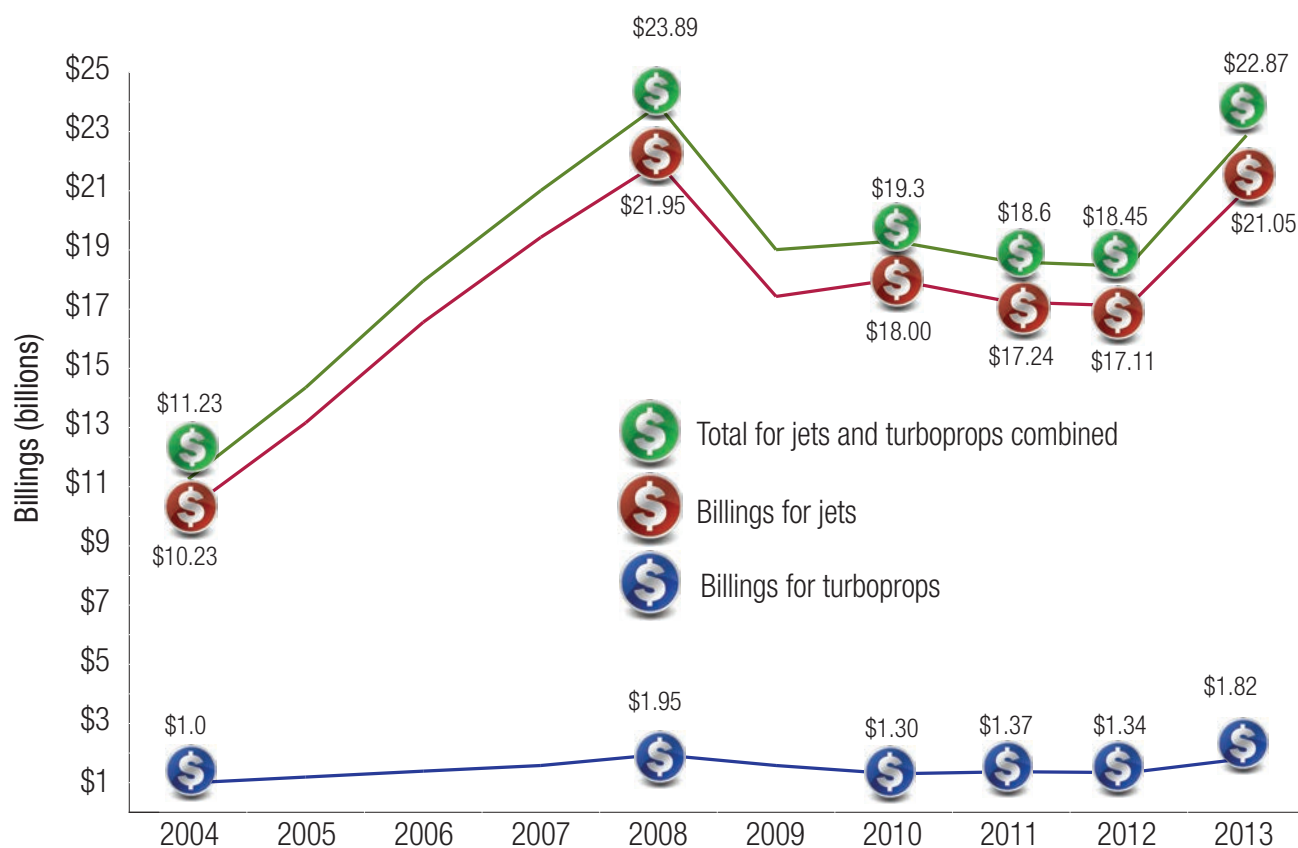
BUSINESS JET MARKET HEATING UP

For business aviation, indicators such as gross domestic product growth (expected to top 3 percent for the year) have long been tied to the health of the industry and may finally be translating into proof that the long-awaited turnaround could be at hand. Flight

activity is up, and based on the General Aviation Manufacturers Association’s (GAMA) most recent quarterly delivery numbers, the OEMs are on track to see bizjet delivery numbers grow for a second straight year. The used business jet inventory worldwide has shrunk by 12.7 percent over the past year, noted industry data provider JetNet, as the level of aircraft transaction activity continues to rise.

For those recent purchases, cash remains the instrument of choice in approximately

Annual New Business Aircraft Billings Worldwide (in billions of dollars, 2004-2013)



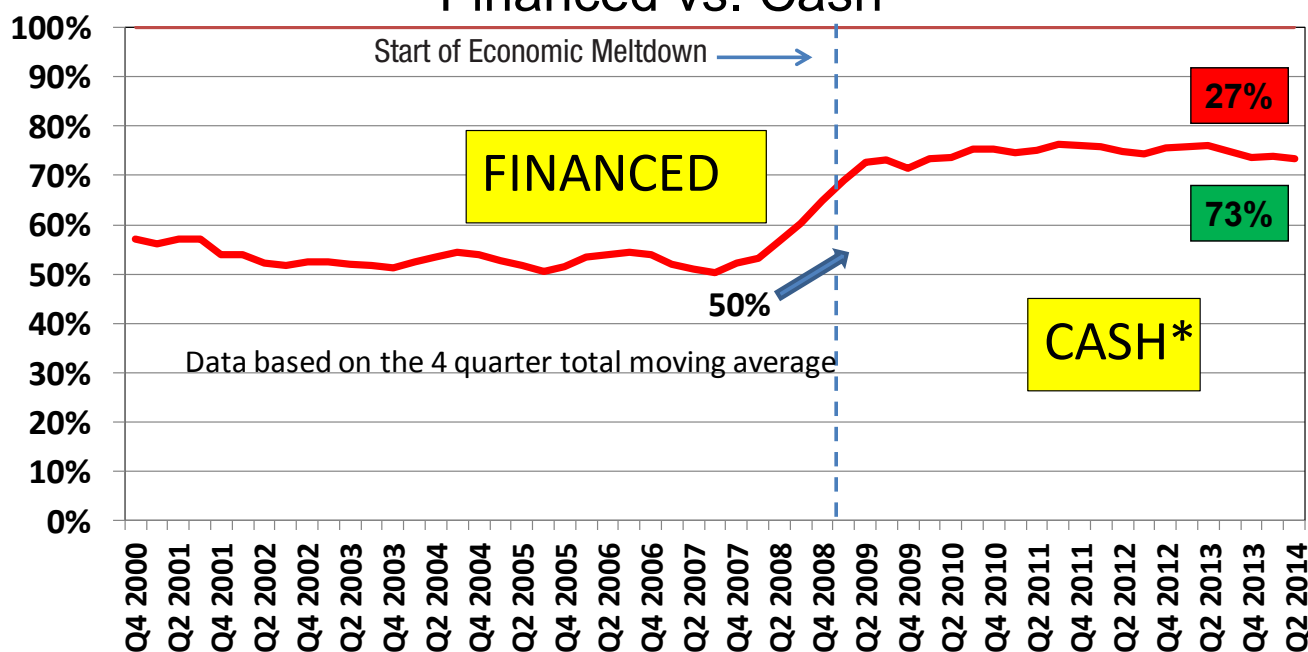
Source: GAMA, 2013 General Aviation Statistical Databook and Industry Outlook
Note: Plot lines show total end-of-year billings.

three quarters of the transactions, for new as well as pre-owned business jets, according to JetNet. “Businesses are flush with cash,” said Sweet. “With the memory of the recession still fresh in any businesses’ minds, they didn’t want to load up on debt; even though interest rates are [at] rock bottom, the idea of taking on additional debt was enough for them to opt for using cash, since they were sitting on so much of it.”

“To some extent this reflects a natural response on the part of business people to a material economic shock,” explained

Michael Kahmann, managing director and group head of CIT’s business aircraft finance division. “It also reflects, in developed countries, low apparent rates of return on many of the more liquid investment vehicles, such as bonds.” “Know your customer” protocols now in place at many lenders have slowed the pace of transacting deals from the days of “if you had a phone, you got a loan.” That reality, combined with the amount of personal financial data disclosure required, could steer some private buyers into avoiding financing.

Pre-owned Business Jet Full Retail Sale Transactions U.S. FAA Financial Documents Financed vs. Cash*



Source: JetNet: Presentation and Analysis by Chase & Associates

*FAA registries without debt instruments or lease are presumed to be cash

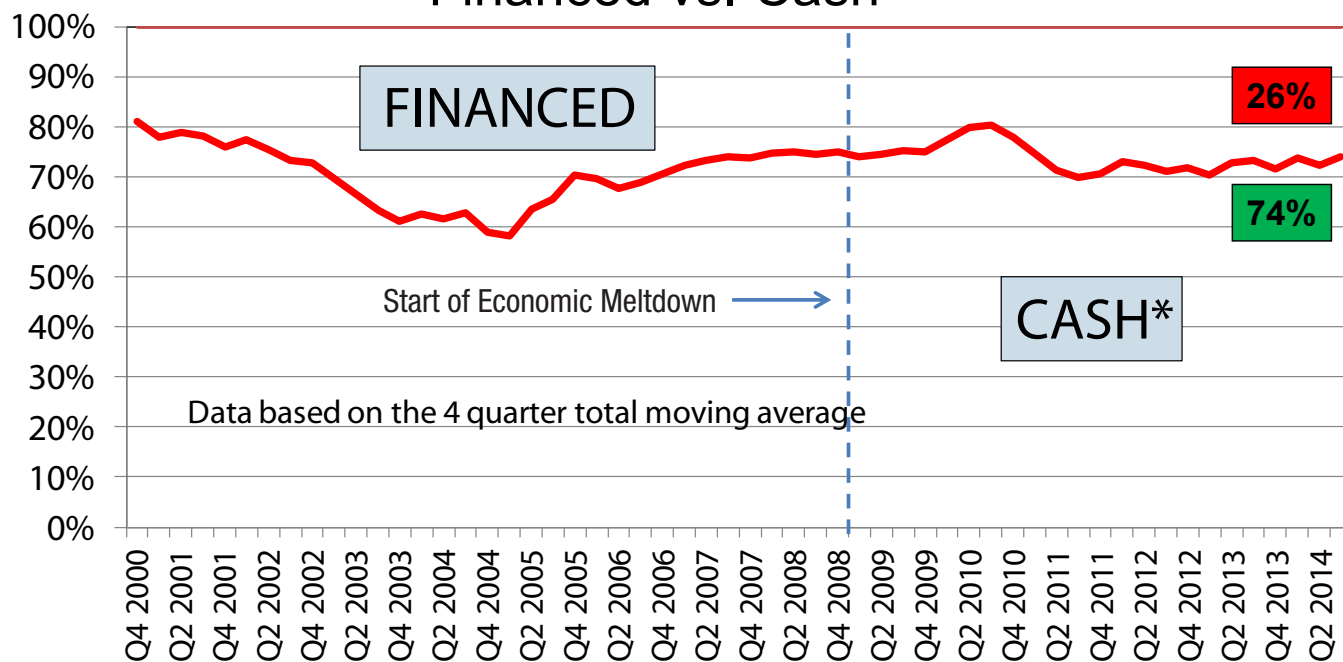
FINANCING ON THE RISE?

But that cash-first mindset might be slowly changing, according to some industry insiders. “In the last six months we’ve seen a lot higher percentage of our clients wanting to entertain financing,” said Chad Anderson, president of international aircraft brokerage Jetcraft. “Straight financing is cheap. If you can earn predictably in a conservative market six or maybe eight percent on your money when it costs you three or four percent to finance your jet, well why wouldn’t you keep that money working for you?”

The Federal Reserve Bank’s midyear Senior

Loan Officer Opinion Survey on Bank Lending practices revealed that while most large banks had kept their loan standards for large and middle-market firms (with annual sales of \$50 million or more) basically unchanged since the previous quarter, more than 10 percent reported they had eased their terms somewhat for commercial and industrial loans, while better than 8 percent noted they had eased terms on such loans for smaller companies. None of the respondents noted any tightening of terms for companies large or small. Those traditional aircraft financiers who rode out the economic storm are eager

NEW Business Jet Full Retail Sale Transactions U.S. FAA Financial Documents Financed vs. Cash*



Source: JetNet: Presentation and Analysis by Chase & Associates

*FAA registries without debt instruments or lease are presumed to be cash

to bolster lending portfolios that were left cratered by the drop in aircraft values, as well as their owners who in some instances could no longer afford payments on aircraft whose loan-to-value (LTV) propositions were suddenly under water.

“The forward-thinking lenders realized that we’ve normalized,” said Jetcraft’s Anderson. “We’re not in a bubble, we’re no longer in freefall, there’s some form of normalcy,” he said, adding that lenders are once again quite willing to provide financing for his company’s floorplan inventory, a willingness he has not seen for several years. “I think it’s

a good trend. The banks do this line of business to get to the end user, the ultimate buyer of that inventory. But the fact that they want to plant themselves with the right caliber of inventory dealer is a really good sign.”

Those traditional lenders find themselves being joined by those who either withdrew from the market when aircraft values began to fall or others who are now eyeing the promise of a resurgent business aviation sector. “We have seen the entry of several new financiers into the business aviation finance market recently, with the new entrants reflective of the changing nature

of the financial regulatory environment,” noted Ford von Weise, Citi Private Bank’s director of global aircraft finance, referring to new regulations imposed on banks in the wake of the economic meltdown. “Private equity and hedge funds are taking advantage of the gap in available financing created by the tilt toward better credit by regulated banks,” he said. That influx of capital has led to a surge in available financing. However, unlike the heady days before the recession, most traditional lenders are now much more discerning when it comes to selecting financing deals.

“Availability of financing from banks and finance companies, particularly in the U.S., is high for companies and individuals that are stable, creditworthy and are looking to finance Tier 1 business jets,” added Joseph DiLallo, head of corporate aircraft finance with BMO Harris Equipment Finance. “It is far less liquid for those with lower-tier credit ratings and those looking to finance lower-tier aircraft.” Customers with sterling credit will find no shortage of lenders willing to engage with them. “The ability of the client to repay us from their own funds is our first consideration, with the collateral value of the aircraft as a distant option,” von Weise told *AIN*. “We really do not want to own an aircraft; it is not part of our DNA.”

Though the decline in business jet prices has largely slowed and in some cases turned the corner, determining residual values still weighs heavily on the minds of the lending industry. “The volatility of aircraft values is the hardest thing to manage in this

business,” noted David Labrozzi, president of GE Commercial Finance’s corporate aviation division, who believes that such volatility could be preventing the lending market from becoming even more saturated. “Financiers may need to rethink how they calculate market depreciation as some of the assumptions about the residual value of an aircraft have changed,” said Nel Stubbs, vice president and co-owner of aircraft valuation firm Conklin & de Decker. “Post-recession, we are seeing aircraft wholesale values falling faster than pre-recession.”

HOW OLD IS OLD?

Such realities will continue to fuel the discussion of an aircraft’s useful life versus its economic life. “The useful life is generally shorter as the complexity of general aviation aircraft increases,” said Robert Kent, president of Scope Aircraft Finance. “The end of the financial useful life is the time when the annual economic depreciation, combined with the probability of a prohibitive maintenance event, exceeds any reasonable amortization schedule.”

While most lenders will consider each deal individually, depending on both the aircraft and the relationship with the borrower, their comfort zone for aircraft age can vary. “Our focus continues to be on aircraft that are 10 years old or newer,” noted Richard Ramsden, vice president with Wells Fargo Equipment Finance. “We do try to accommodate our high valued clients if they have a need outside this preference though.” Some, such as 1st Source Bank, say they will provide

financing even for 30-year-old aircraft, depending on the make and model. “Aircraft age can be important, but it is not necessarily a primary underwriting driver,” said GE’s Labrozzi. “The financial characteristics of the buyer and the intended use of the aircraft are more significant than simply the age in years of the aircraft.”

Another factor is the price of the aircraft, with some lenders preferring to have a minimum value to the deal. Since the transactional costs to the lender are the same whether it’s a \$1 million deal or a \$40 million transaction, some simply eschew the lower end of the spectrum, while others such as PNC offer a broader range. “Last year, 50 percent of the market share for [aircraft] loans or leases was done by small regional community banks that do fewer than two loans a year,” said Wayne Starling, PNC Aviation Finance’s senior vice president of sales and marketing, at a conference in New York earlier this year. “So competition for us in an under-\$10 million loan is more the regional and community banks than it is the national or large lenders.”

THOSE WHO FAIL TO LEARN FROM HISTORY...

With the return of new lenders to the market, some in the industry have seen signs of a return to practices that had led to trouble for financiers just a few short years ago. “Recently we saw a loan for a year 2000 model small-cabin aircraft in which a new name in the lending arena offered a 100 percent LTV loan for 20 years fully amortized,” said Starling.

“While we hope this is a one-off deal, this is an example of what contributed to the meltdown that we are still digging out of.”

“Bankers are notorious for having short-term memories and allowing budget pressures to override intelligence,” said Allen Qualey, president of 1st Source Bank’s specialty finance group. “The insanity repeats itself every business cycle. Amortizations are increasing, downpayments are shrinking and waiving covenants is also in vogue.”

For lenders operating in the international marketplace, financing aircraft that might spend most if not all of their time outside the U.S., continued unrest in the Middle East, Eastern Europe and even concerns in China weigh heavily.

“Nowadays the geographical politics and other situations are causing damage to the whole financing history on our side,” noted Johann Blitz, head of corporate aircraft finance with Switzerland-based UBS, which provides financing for high-end aircraft for the bank’s clients only. “In China, for example, the anti-corruption law forces many Chinese to stay low key,” he said. “In Eastern Europe, every single transaction with a Russian flavor needs to go by the sanctions desk.” Blitz said his company is still active in Russia despite recent developments. “We don’t provide financing for Russian-registered aircraft, so we don’t have to test the Russian legal system too much,” he told *AIN*. “But we’ve gotten opinions about the [repossession] process and what the chances would be for getting something back out of that country.” □

THE U.S. EX-IM OUTLOOK

One of the other pieces on the U.S. financing chess board is the U.S. Export-Import Bank or Ex-Im. Export credit agencies (ECAs) such as Ex-Im provide another source of funding for international aircraft customers, and every country with major aircraft manufacturers has one. In France, Coface serves Dassault, while BNDES can provide financing for Embraer's customers. As Bombardier's operations straddle the U.S.-Canadian border, the company can use Export Development Canada for its Globals and Challengers and can also refer customers to Ex-Im for financing possibilities on Wichita-built Learjets.

While the agency has received the tongue-in-cheek name of "Bank of Boeing" for its support of the commercial aircraft manufacturer, in May Ex-Im announced [a goal of pledging \\$2 billion in financing](#) for U.S.-manufactured business airplanes and helicopters by year-end. The agency reached [a previously announced goal of \\$1 billion in financing](#) last December, 10 months ahead of schedule, and this year it supported two deals for business jets to China, worth approximately \$360 million.

"When you look at just the fixed-wing part of the general aviation industry, the market changed in a fundamental way with the financial crisis," said Kathleen Flanagan, Ex-Im's director of business aircraft and helicopter financing. "Until that point, the majority of the market for those types of aircraft was in the United States and also Europe, but with the financial crisis, the market shifted and export sales became the majority of the business for fixed-wing general aviation manufacturers."

Under its current mandate, Ex-Im is authorized only through next June, and the General Aviation Manufacturers Association (GAMA) has been lobbying Congress for a multi-year authorization for the agency. "It's a global industry," GAMA president and CEO Pete Bunce told **AIN**. Any manufacturer that can't offer Ex-Im Bank financing is at a competitive disadvantage, he said. If Ex-Im financing is not going to be available, "companies have to make decisions on next year's production schedule much earlier," he said, adding that the absence of certainty in any type of long-term reauthorization is already having a negative impact on jobs.

—C.E.

For buyers in China, borrowing options abound

by Curt Epstein

The private aircraft financing market in China has matured over the past several years, and many sources of funding are available for those seeking to acquire airplanes, according to the experts in region. “I don’t think there is any lack of financing alternatives,” said Jeffrey Lowe, general manager of aircraft ownership consultancy Asian Sky Group. “Pretty much all the international lenders are [in China] and all the Chinese lender banks are involved in business aviation. A lot of them have set up leasing arms, so they are all diving in head first.”

Evidence of that growth in the aircraft financing industry is clearly visible, according to Jahid Fazal-Karim, a long-time aircraft sales executive and partner at international aircraft broker Jetcraft. “[Chinese lenders are] pretty smart, and they are getting smarter and smarter in deal structuring,” he told **AIN**. “They’re doing lease deals and classic financing deals, so they have no reason to envy major Western banks.”

“There’s no doubt that indigenous competition is growing, both in terms of their capabilities as well as their capacity to lend,” agreed Michael Kahmann, managing director of CIT Business Aircraft Finance, which derives a large part of its business from the international market. “My hope is that they make us better and raise our game, and if we look at it from that perspective we can’t take the tailwind of the past for granted.”

Fazal-Karim noted the trend in China of banks, such as Minsheng, buying large batches of airplanes, which allows them to use pricing to attract customers. “Banks that are buying in bulk and moving those

airplanes with financing to their clients are not going for too much of a premium on the pricing,” he said. “They seem to be focused on making the margin on the financing, so they are not overpricing the airplanes.”

IMPEDIMENTS FOR BORROWERS IN CHINA

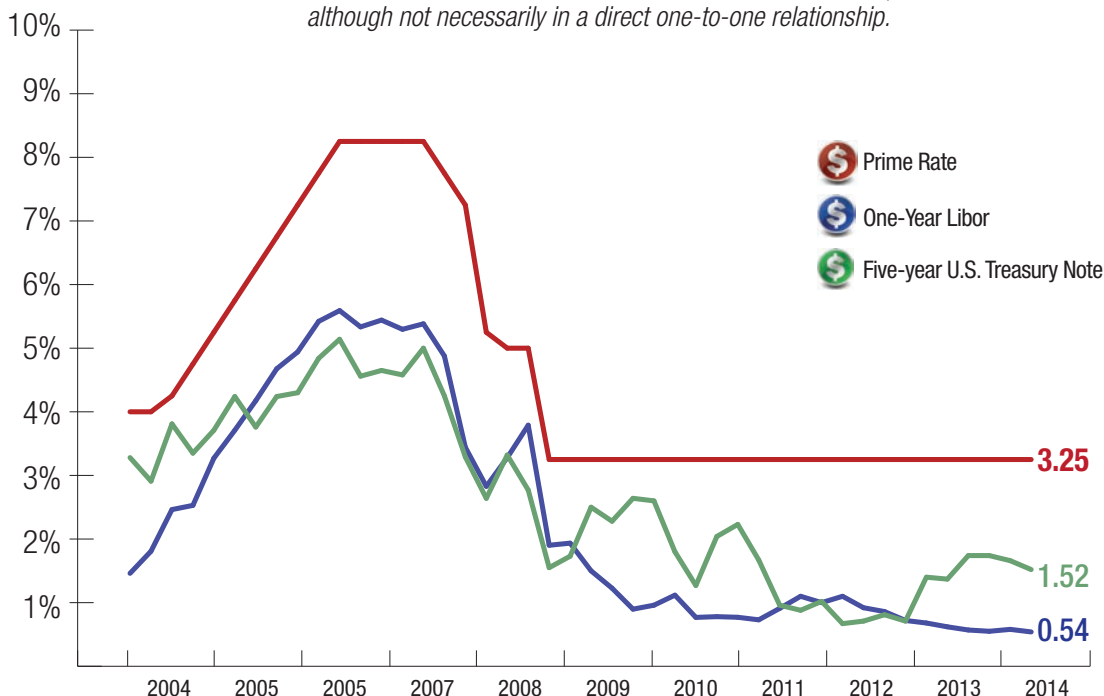
While the domestic lenders are more familiar with doing business in China and may have aircraft available to sell, in most cases the transaction will be more expensive than it would be with a foreign bank, according to Fazal-Karim: “If you are a Chinese client and you do an intra-China deal with one of those major banks, you’ll probably end up paying a higher interest rate than if you have assets outside China and can do a deal with the likes of Bank of America or Credit Suisse.”

Prospective customers should be aware that not all banks are comfortable in the Chinese market yet. “Some lenders will finance B-registered aircraft and some won’t,” said Lowe. “The domestic lenders are more than prepared to do it, but a lot of the foreign lenders are a bit leery.”

The reason for that reticence lies in the prospect of nonpayment and having to repossess an aircraft. No lender has had to repossess an aircraft in China yet, so the system in place in most of the world has never been tested there. “Normally there is a power-of-attorney deregistration that allows the bank to go to the [civil aviation authority] and say, ‘There has been a default, I am now the owner, I am deregistering the aircraft

The Cost of Financing (2004-2014)

Fluctuations in interest rates influence aircraft finance rates, although not necessarily in a direct one-to-one relationship.



Sources: MoneyCafe.com (prime rate); WSJprime rate.us (one-year Libor); Federal Reserve Board (five-year treasury)

Note 1: Lenders base aviation loan and lease rates on a number of indices. The prime rate, which has been unchanged since Dec. 16, 2008, is often the basis for relatively simple domestic loans and one of the several London Interbank Offered Rates (Libor) for the more complex domestic and international loans. Variable-rate loans are often indexed to the prime rate or a Libor rate, while fixed-rate loans are often based on the five- or 10-year U.S. Treasury note rates or the Libor swap rate. The "spread" is the difference in the index rate and the rate charged the client and varies with the lender's estimated risk of the loan.

Note 2: Rates plotted are for the first day of each quarter.

and I am taking it out of this country," said Lowe. "That is the mechanism in place, but it's never been tested in China."

In its Greater China Business Jet Fleet report earlier this year, Asian Sky Group said the business aviation market in the region is growing at 20 percent a year and those foreign lenders who wish to participate in the growth should find a way around the issues.

As for the qualifications of the customer, there does not seem to be much difference among lenders the world over. "It depends on the risk and it depends on who is borrowing the money," said Bill Harris, Textron Aviation vice president of sales for Asia, Middle

East and Africa. "Those that don't need the money seem to be the ones everybody wants to finance." He noted that the only major difference he has noted on loans in China lies in the length of the term. While loans in the U.S. can last 12 years or longer, those in China tend to be much shorter, usually five years. Textron Finance, the manufacturer's captured finance unit, is currently establishing structured finance deals with local third-party lenders. "We work with them because we know our aircraft so well, we help them with the risk analysis of the aircraft, and from that perspective we can help the deal move along," said Harris. □

Global Jet Capital presenting wider range of lending choices

by Charles Alcock

Global Jet Capital (GJC), a new source of leasing and lending options for business jet transactions, started operations this fall. With initial funds of \$2 billion, the company was launched with the backing of three investment firms: GSO Capital Partners, The Carlyle Group and AE Industrial Partners.

The new group's executive committee boasts a wealth of business aviation experience. Shawn Vick, who has held senior positions with Hawker Beechcraft, Gulfstream, Bombardier, British Aerospace and Landmark Aviation, is executive director and chairman of the executive committee. Bill Boisture, formerly with Hawker Beechcraft, Gulfstream, NetJets and Butler Aviation, is an executive director. They are joined by David Rowe, founder and managing partner at AE Industrial Partners (previously known as AeroEquity, where Boisture and Vick also are partners). Rowe was formerly an executive vice president with Gulfstream Financial Services and GE Capital. Seven managing directors—all of them with significant experience in business aviation and/or aircraft financing—report to the executive committee.

The Boca Raton, Fla.-based company is offering a range of operating and interim leases, finance leases and mortgage loans, progress payments and mezzanine financing (a mix of debt and equity financing) for both new and previously owned business jets. Its target market is aircraft valued at \$30 million and higher, including pre-owned aircraft around three to five years old.

GJC expects to work closely with all the leading aircraft manufacturers to help customers who want their aircraft to be off-balance-sheet assets. It sees international markets beyond the

U.S. as being a strong focus of its activities.

Vick told **AIN** that the new venture's backers have been evaluating the market for around the past 36 months. "We see an opportunity in the market because the traditional sources of financing, such as the banks, took a step back and others have placed significant hurdles in the lending process so that the provision of lease financing or debt financing has proved to be challenging," he said.

"[In recent years] many businesses and individuals who have a requirement for large-cabin and long-range aircraft have had to use their own capital to buy these, and then find financing [after the purchase]," explained Vick. He believes that GJC has a "significant opportunity" to help clients finance their aircraft in a more flexible way and free up capital for their own businesses.

The new lender expects to be more willing to provide funds on the basis of the value of the assets being bought, rather than considering only the personal credit status of the buyer. "One of the differences that we are bringing to the market is that we know these assets very well," Vick told **AIN**. He said that GJC's transaction approval committee will be able to give quick, clear decisions on finance packages, and the company expects to close its first deals before year-end.

GSO Capital Partners, which is a Blackstone group company run in partnership with Franklin Square Capital Partners, has approximately \$69.5 billion in assets under management. The Carlyle Group is a global asset manager with a portfolio valued recently at \$203 billion. AE Industrial Partners was founded in 1998 by David Rowe and his late father, Brian Rowe. □

U.S. economy appears better than IMF's new 'mediocre'

by R. Randall Padfield

Dr. James West is chairman of the Department of Economics and Business at Moravian College in Bethlehem, Pa. He has provided his unique viewpoint on the U.S. and global economies for AIN's special report on aircraft finance since 2007.

How is the U.S. economy doing now?

The rate of growth of the U.S. economy for the last two quarters was a revised 4.6 percent and 3.5 percent. With the negative 2-percent GDP [gross domestic product] in the first quarter, largely due to the bad winter, the annual growth rate for this year is forecast to be well above 2.5 percent. A 3.5-percent annual growth rate is plausible for next year, because there is strength in the economy, on both the investment side and the consumer side. Our goal should be to get back to a sustainable, 4-percent annual growth rate. We are well on the way to that.

Although the stock market has shown some record-breaking strength over the last few years, I don't believe the markets are overly speculative. Corporate profits are high, price-to-earnings ratios are still in line with historical trends and many companies that restructured after the recession are now in position for increased productivity and expansion.

I am confident there won't be a crash in 2015. While there might be a modest correction in the works, there is more strength than weakness in the economy at this time. Although this is not a universal opinion, I believe the Dow will continue to advance.

What's been happening recently in the U.S.?

On October 29, the U.S. Federal Reserve stopped its quantitative easing (QE) program,

which it began in November 2008 and involved its massive buying of mortgage-backed and treasury securities to the tune of \$4.8 trillion. New Fed chair Janet Yellen is not projecting a tight-money policy but indicates less expansion than in the past. This will drive interest rates somewhat higher as a necessary, controlled unwinding of the very easy money policies of the last several years.

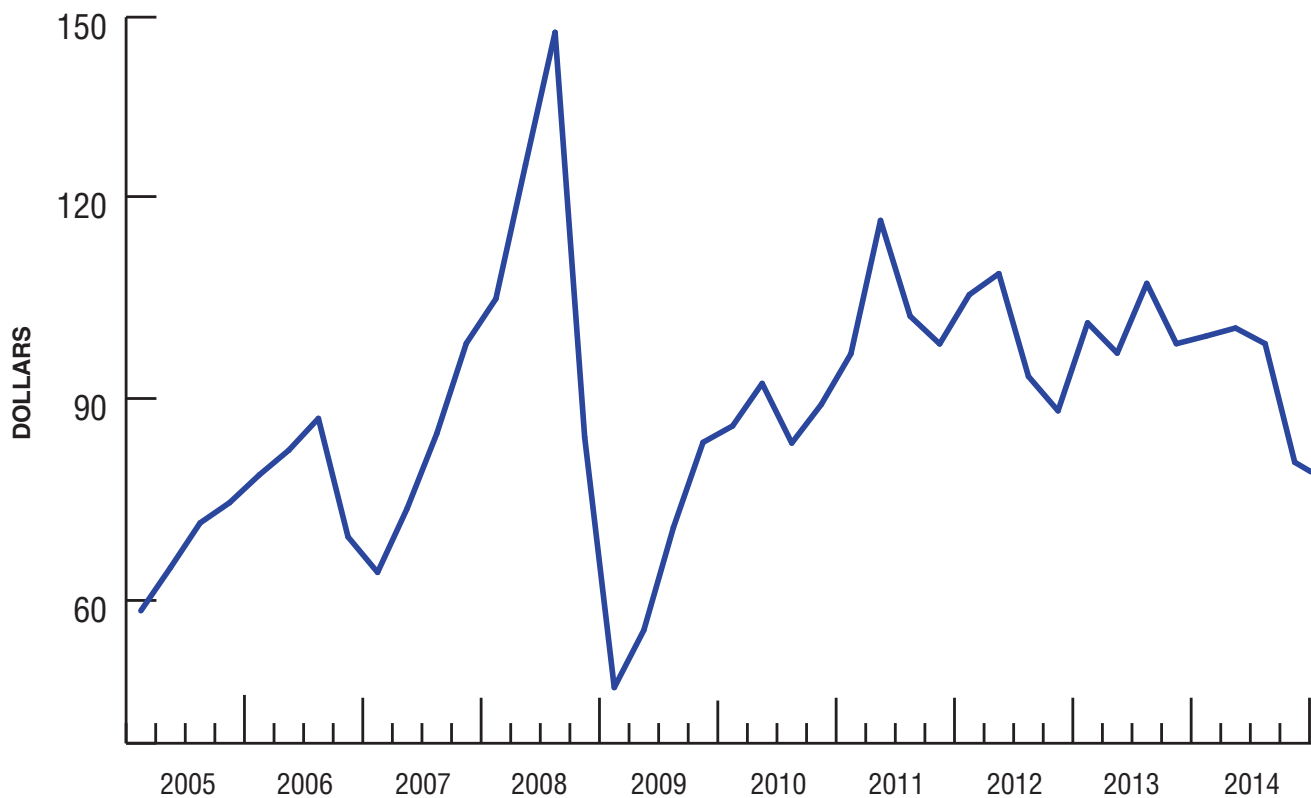
Business investment looks to be strong. Re-engineering and automation will continue generating strategically focused layoffs, but overall hiring will expand as companies fill orders that have been held back for many years. Home sales, both new construction and existing, have picked up substantially and will continue to improve, as unmet demand surges.

The official (U3) unemployment rate is hovering around 6 percent. [This U3 rate is the proportion of the civilian labor force that is unemployed but actively seeking employment.] It won't come down too quickly, as there is still a lot of slack from discouraged, long-term unemployed workers, who are gradually finding their way back into the labor force. But the U3 rate is certainly an improvement of one of the most critical casualties of the recession and slow recovery.

What's the biggest risk to the economy now?

Ben Bernanke, former chairman of the Fed, said that the fundamentals of the crash

Crude Oil Prices By Quarter January 2005 - November 2014



Source: U.S. Energy Information Administration
Average price per barrel of WTI crude oil on the first trading day of each quarter.
Prices are adjusted for inflation using the headline Consumer Price Index (CPI).

of 2008 were actually worse than the fundamentals of the Great Depression of the 1930s and that the economy could have been much worse if the Fed had not taken its very aggressive monetary stance. I agree. Yet, despite this aggressive monetary policy, the ultimate danger seen by policymakers worldwide is devaluation. This necessitates continued monetary easing at home and abroad with the goal of stimulating mild inflation without letting sudden inflationary pressures impact interest rates and currency stability.

Currently, the dollar is strong, interest rates are low and the inflation rate is low. Once the economy starts to grow this could change, and it could change quickly. Policymakers have to watch the inflationary forces while being careful not to slow down a good thing. They need to let the economy grow, and the best way now for stimulating growth may lie less in monetary efforts than in reforming regulatory policies that have been stifling business investment over the last few years.

How are other economies in the world faring?

Christine Lagarde, managing director of the International Monetary Fund, recently coined the term “new mediocre.” [Lagarde was quoted as saying, “The global economy is at an inflection point: it can muddle along with sub-par growth—a ‘new mediocre.’ Or it can aim for a better path where bold policies would accelerate growth, increase employment and achieve a ‘new momentum.’”]

The New Mediocre means barely adequate growth rates. There are now deflationary pressures in Europe, Japan and China. Many of these countries have a well earned loathing of using expansionary monetary policies to inflate their economies. Consequently, they tend to err on the side of tight-money banking policies. Japan recently broke the mold, announcing a major monetary stimulus to its economy, but this stimulus was not enough to stop the economy from slipping into recession. Many observers see Japan’s real problem as not so much monetary as it is the country’s regulatory structure. Both Europe and China see slowing in economic growth and this calls for policy realignments.

For the U.S., the New Mediocre in foreign markets likely means weakness in U.S. exports; and as the U.S. economy continues growing, imports will climb, causing a larger trade imbalance. The U.S. will need to resist subsequent protectionist pressures. Fortunately, the political will to expand trade talks has improved after the 2014 elections. It might seem counterintuitive, but trade imbalances will help global growth

and ultimately redound to our benefit.

Meanwhile, both manufacturing and service-sector work that has been done overseas is now migrating back to the U.S., as the cost competitiveness of American manufacturing and the service sector in the global market improves.

Not to be overlooked, there is always the possibility of existential, geo-political factors, such as rising Middle East tensions, the conflict in Ukraine and the Ebola crisis, affecting the global economy. These wild-card phenomena could worsen or be held in check by good international diplomacy and policy-making.

What’s happening with the price of oil?

Both supply and demand conditions indicate that energy prices will continue to fall for the foreseeable future. While this hurts energy producers, it is clearly good for the rest of the economy. Lower energy prices will be a welcome stimulus to producers and consumers. Oil at \$85 a barrel or less is likely for the foreseeable future. This results in an across-the-board cost reduction for businesses and consumers.

How do taxes, corruption and bureaucracy affect national economies?

At a World Bank conference I attended in India a few years back, an Indian government official explained how India and other countries were entering a new “Ice Age,” with “Ice” standing for “information, communications and entertainment.” While technology is certainly transforming the

developing world, I countered that another acronym “TCB” needs to be taken into account: taxes, corruption and bureaucracy. These three realities have massive negative effects on growth and sustainable development in economies around the world.

High and ill-designed taxes are disincentives for investment. Corruption, often in the form of “crony capitalism,” misallocates resources and impedes innovation, encouraging “rent-seeking” favors from government, such as tax breaks, subsidies and other assistance. While ostensibly to create jobs or spur economic growth, these business/government alliances are too often a form of corruption that needs to be minimized.



Dr. James West

Likewise, when regulation, which is often arbitrarily and undemocratically administered, is excessive, growth and innovation are discouraged.

How does 2015 look for Joe the Investor?

A prominent theory in finance is the efficient-markets theory. The basic idea is that the average investor cannot out-guess the market. There is no way for him or her to know something that the experts have not already factored into a stock's price. Therefore, the best bet is to get a diversified portfolio of stocks, bonds and real estate and just hold them for the long term.

While this is still good theory, many advisors, myself included, think some investors are selling themselves short. By understanding trends that are coming in technology, policy and the global economy, investors can seize opportunities ahead of the market. With that said, the Fed's likely, slight raising of interest rates is another good reason to move toward equities.

But if Joe the Investor is not that market savvy, still has a full-time job and does not have the time to study financial markets every day, he should probably play it a little safer.

My advice to Joe is to take a financial-planning course at his local college. The level of financial illiteracy in the U.S. is staggering and Joe would surely learn that a sound, financial plan requires more than some good stock picking. I stand 100 percent behind this advice for Joe because while things are looking better, we're not yet out of the financial woods. □