"We don't have to be smarter than the rest. We have to be more disciplined than the rest."

– Warren Buffett

Stocks finished down for the year in 2015, ending a three-year streak of solid annual gains.

It was the sort of trying year that can separate successful investors from speculators. Faced with flat or negative returns, a speculator might throw up his hands and start looking for something—anything—that will produce a positive return. A true investor, on the other hand, will look beyond a 12-month market snapshot to focus on longer-term returns.

Consider this: While the benchmark S&P finished 2015 down about 1%, the index has returned about 16%, on average, over the past three years. Over the past five, it's returned about 10%—right around its historical average. Markets don't go up in a straight line. But historically, those who have kept faith in the market and stayed the course have been rewarded.

A Year of Headwinds

Most asset classes didn't do well this pat year, thanks to four significant headwinds. First, prices for oil and other commodities fell for a second year in a row—contrary to the predictions of many Wall Street experts. Sinking oil prices hurt energy stocks, which weighed on the overall market.

Second, the U.S. dollar's strength continued versus other global currencies. The dollar unexpectedly rose more than 10% this year, after soaring 12% last year. That hurt U.S. exporters by making their products more expensive for foreign consumers. China was also a major drag on global markets, with disappointing economic growth and currency devaluation.

Finally, U.S. markets seemed to suffer because of uncertainty about when the Federal Reserve would raise interest rates. The Fed finally pulled the trigger, beginning to raise rates in December. Many had expected the cycle of rate increases to begin as early as the first quarter of 2015.

The past year underscored the fact that crystal balls just don't work when it comes to investing. Before the year began, market strategists forecast 10% returns in the stock market. Those expectations ran into surprises—and there are always surprises—in the form of continued drop in oil prices starting in the summer, and the Fed's foot dragging on rates.

Market/ Index	End of 4Q	End of 3Q	Change	1 Year Ago	Yearly Change
DJIA	17425.03	16284.70	7%	17823.07	-2.23%
NASDAQ	5007.41	4620.16	8.38%	4736.05	5.72%
S&P 500	2043.94	1920.03	6.45%	2058.90	-.72%
Russell 2000	1135.89	1100.69	3.19%	1204.70	-5.7%
Global Dow	2336.40	2245.80	4%	2501.69	-6.6%
10-yr Treas.	2.27%	2.06%	21 bps	2.17%	10 bps

Strength At Home

Considering the headwinds, one could argue that U.S. stocks held up quite well in 2015. One reason is that the country's huge service sector remained healthy throughout the year. Consumer spending appears to be in solid shape, in part because of savings at the gas pump.

In addition, the employment picture continued to brighten, with the economy adding 211,000 jobs in November and 292,000 in December. The U.S. unemployment rate, which started the year at 5.6%, stood at 5% by the end of the year. That's down from 10% at the peak of the recession.

Markets were very volatile in 2015, but after all the sound and fury ended up rather flat. A big reason for that appears to be the underlying strength in our economy.

The Fed Raises Rates

With the Federal Reserve poised to start raising interest rates throughout 2015, much doom-and-gloom commentary appeared in the financial media. The upshot: That by tightening credit—making it more expensive to borrow money—the rate increase would slow the economy and perhaps tip it into recession.

Most of these stories omitted important background and perspective. Overall, we believe the Fed's course of gradually increasing interest rates from their historic lows is a positive for the economy and for investors.

The Fed controls short-term interest rates, and in December, it raised them for the first time in almost a decade. The target for the federal funds rate, which is the rate banks charge each other for short-term loans, was raised from between 0% and .25% to between .25% and .50%.

Fed chair Janet Yellen indicated that the move was the beginning of a "gradual" tightening. The expectation is that, barring a surprise, the Fed will nudge short-term rate to about 1.4% at the end of 2016. The Fed's long-range target for short-term rates is 3.5%--which still leaves rates lower than in 2006.

The Fed's rate increase concluded a period of unprecedented, near-zero rates that were intended to help stimulate the U.S. economy in the wake of the Great Recession.

So why is the Fed raising interest rates now? One reason is that its members believe that key indicators, including employment, gross domestic product and inflation—point to a healthy economy. Thus, the Fed can remove stimulus, allowing to economy to stand on its own feet. Keeping rates low could lead to dangerous bubbles, such as the real estate bubble that led to the 2008 crash.

In addition, raising rates gives Yellen and company leverage to fight any future economic downturn. By raising rates, the Fed will have room to lower them when stimulus is needed once again.

Short-term market reaction after the Fed's rate increase was volatile. But it's impossible to say how much of that was due to interest-rate concerns as opposed to other factors like weakness in commodities or geopolitical worries.

It's worth noting that markets have tended to perform well in rising-rate environments. Since 1946, stocks have risen by an average of about 3% in the year following the beginning of rate increases. No one can predict the future, of course, but history doesn't seem to support an alarmist point of view.

Looking Ahead

The past year will be remembered as one of surprises; Wall Street's prophets blew the call on oil, interest rates and the stock market. From our perspective, this underscores the importance of a balanced, diversified investment approach that doesn't rely on short-term forecasts for its success.

If you have in place a long-term investment strategy based on your goals, time horizon and comfort level with risk, there is likely no need to make significant changes. On the other hand, if your objectives, comfort level with risk, or time horizon have changed, we suggest that you sit down with your financial advisor and discuss making appropriate adjustments to your portfolio.

Giving Back to the Community

At Steel Peak, we are proud to support organizations that work to strengthen our communities. Our donation to Walden Family Services this past holiday season helped to make possible a party, with gifts, for abused and neglected children. We also supported The Safe Passage organization, a non-profit dedicated to supporting women and their children who have been victims of domestic violence, by sponsoring its Day of Unity press conference in October. Steel Peak is proud to have made these important contributions on behalf of all of our valued clients.