

LEE FINANCIAL GROUP HAWAII FINANCIAL NEWS

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LEE FINANCIAL GROUP
HAWAII



Aloha,

On behalf of the staff and management of Lee Financial Group Hawaii, Happy New Year! I hope you had a happy and safe holiday season. I can't believe it, but 2015 marks our 27th year in business. I guess like for most of us, time has just flown by.

One of the changes you may have noticed last year was our name change. Our previous name, Lee Financial Group, has been changed to Lee Financial Group Hawaii. It may not seem like a big change, but we believe it has meaningful significance. We wanted our name to represent the pride we have in being a local firm with deep local roots, especially when I meet other investment professionals on my mainland business trips who often seem surprised that we do more than sit on the beach and drink mai tais.

The first investment we offered our clients in 1988 was the launching of the Hawaii Municipal Fund. It was designed to provide Hawaii investors the opportunity to receive federal and state tax exempt income through a portfolio of primarily Hawaii state municipal bonds. Although that was 27 years ago, we believe today municipal bonds seem to be as important, if not more important, an investment option as it was back then.*

In 2013, the top federal income-tax rate jumped from 35% to 39.6%. In addition, married couples with more than \$250,000 in adjusted gross income (\$200,000 for singles) will be taxed an additional 3.8% in their investment income. We believe this has created a situation where investors

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MARKET SUMMARY

During the 4th quarter of 2014 equity investors experienced increased volatility but those who stuck to their allocations were rewarded with the US stock market indices closing near record highs. Equity investors had a lot to worry about in the last few months of 2014 with falling oil prices, valuation concerns, and slower growth prospects from countries outside of the USA. The majority of major US economic data was strong as Gross Domestic Product ("GDP" - one of the primary indicators used to gauge the health of the economy) and employment figures provided a catalyst for investors to bid US stocks up. Janet Yellen, Chair of the Federal Reserve System, gave the impression that the Federal Open Market Committee ("FOMC") would not want to prematurely raise interest rates and this helped stocks run higher.

The increased volatility in US stocks was evident when looking at the price level of the S&P 500 Index. During the 4th quarter of 2014, the S&P 500 Index had two instances where it fell more than 5% over a multi-day period. The drop from peak to trough in October was near 10%.

The price of crude oil broke out of its four year range of \$90 to \$100/barrel and headed lower to close the year near \$55/barrel. The amazing rise of North American production from shale and steady supplies coming from the Organization of the Petroleum Exporting Countries ("OPEC") created a classic supply and demand scenario where high prices attracted more supply. This larger supply coupled with slowdown in demand was a fundamental reason crude oil prices fell. As crude oil prices fell, there were worries that companies who drill would not be able to service their debt. Countries which are highly dependent on crude oil

exports have also experienced budget snags. As a benefit to consumers, lower oil prices translated to more discretionary income to spend.

After a 4th year of strong gains in the US stock market, investors started to worry about stock valuations. But with the FOMC and world central banks providing a backdrop of low rates, investors felt compelled to continue buying stocks. The drop in oil prices also lowered inflation expectations which could also be a reason the FOMC is holding rates steady. Other asset classes such as real estate also benefited from the low rate environment.

There has been a general growth slowdown in China, Japan, and the Eurozone countries which have underperformed the US economy. From a global view, the US stock market offered the best outlook for growth and investors contributed investment capital to the US stock market. The US Dollar was also a recipient of the fund flows and appreciated over 12% in 2014.

Lee Financial Group's outlook for 2015 is to be patient and opportunistic. Economic factors such as the possibility of an increase in short term interest rates contribute to a more cautionary investment scenario. We believe a defensive equity strategy will continue to be a key objective for 2015.



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are really looking at the advantages of tax free or tax deferred investments.

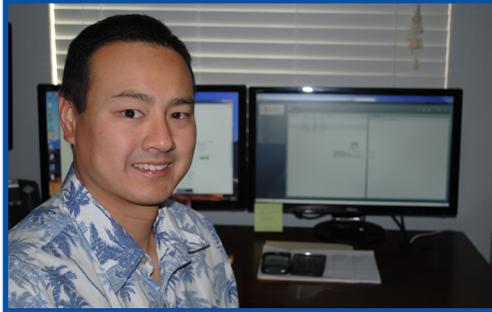
Many Hawaii residents in the top federal and state brackets pay a combined federal and state rate of just under 50%. "To these taxpayers, a 3% tax free yield would equate to just under a 6% tax equivalent yield," notes Glenn Hayashi, a Honolulu CPA in private practice.

As another year rolls around, I would personally like to extend my best wishes for a happy and safe new year. We are grateful for the trust you have placed in us and look forward to continuing our relationship in 2015.

Mahalo,

Terry Lee

TEAM MEMBER PROFILE



Paul Seto, Senior Analyst, CFA® CAIA

In this issue, we'd like to introduce you to Paul Seto, Senior Analyst at Lee Financial Group Hawaii, Inc. ("LFG").

Paul Seto has been with LFG since May 2014, and has become a valuable member of the LFG team. Paul researches investment ideas and emerging trends and assists in the day-to-day analysis of investment portfolios and models.

After graduating from University of California at Berkeley, Paul worked in investment research and risk management for over 16 years. Most recently, he was with the start-up investment firm Redleaf Capital, LLC which focuses on commodities. Paul created their business plan and helped get operations running.

Paul says he decided to join LFG because of his desire to find a new challenge within an established company, as well as to work with highly motivated individuals who are also fun to be with.

"I enjoy being part of a team where my analytical input and experience is highly appreciated. I am having a lot of fun

because the work is challenging and the LFG team is so friendly."

Born in Tacoma, WA, Paul is a self-described "Army brat," the son of a Sergeant Major, raised all over the world in such diverse locales as South Korea, Okinawa, Memphis, and Sacramento.



He is married to Shelley and has two children, Kai, 4, and Maile, 1. A fan of water sports, Paul enjoys surfing and snorkeling, and wants to try paddle boarding with his son. He also likes mountain biking and hiking, and one of his resolutions is to get more reading done this year.

Like many at LFG, Paul is also active in the community. He and his family decided on a more hands-on approach, and have been making care packages for the homeless with such items as shaving kits and other everyday items, as well as small treats.

"We hope that by donating these care packages, we can make at least a little positive difference in someone's life."

TAX-FREE OPPORTUNITIES* AND OTHER DEFENSIVE STRATEGIES

A Free Seminar Presented by Terry Lee, President and CEO.

TUESDAY, FEBRUARY 24, 2015

Morning Session - 10:30 a.m.

Evening Session - 5:30 p.m.

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All offers for investment in the Lee Financial Tactical Fund and Hawaii Municipal Fund are made by prospectus.

*Some income may be subject to the federal alternative minimum tax for certain investors. Income may also be subject to capital gains taxes.

A word about risk: Mutual fund investing involves risks. Principal loss is possible. The Hawaii Municipal Fund's investment in municipal bonds subjects the Fund to interest rate, credit, call and geographic concentration risk. This is not a complete list of risks that may affect the Fund. For additional information concerning the risks applicable to the Fund, please see the Fund's prospectus.

Lee Financial Securities, Inc. is the distributor for Lee Financial Mutual Fund, Inc.

Before investing, read the prospectus carefully. Please carefully consider the Funds' investment objective, risks, and charges and expenses before investing. The prospectus contains this and other information about the Funds. Call (808) 988-8088, (800) 354-9654 or visit our website www.LeeHawaii.com for a free prospectus.

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This newsletter may contain certain forward-looking statements about factors that may affect the portfolio performance in the future. These statements are based on the predictions and expectations of Lee Financial Group Hawaii, Inc., concerning certain future events, such as performance of the economy, changes in interest rates and other factors that may impact the performance of the portfolios. Lee Financial Group Hawaii believes that these forward looking statements are reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.