

## INVESTMENT NOTE

August 24, 2015

In recent days we have seen the broader equity markets decline swiftly in reaction to several events that have taken place. We remain firm that long-term fundamentals remain positive and these market disruptions are not systemic of a broader global failure.

The following are facts that we know:

- The stock market is approaching (or in) correction territory, depending on what index you look at and there may be more selling to come.
- The Federal Reserve wants to tighten as we move through the balance of 2015.
- China has thrown global markets for a loop with their decision to devalue their currency.

Despite these “facts”, we are not in panic mode.

Why?

Valuations are still reasonable in U.S. equity markets, meaning future growth will come from earnings growth rather than expanding the price/earnings multiples. Earnings growth will be tied to economic growth which has been a long and winding journey domestically. The most important driver for economic growth is the US consumer which is still 70% of the economy and the U.S. consumer is still in pretty good shape.

The fall in energy prices is a big economic stimulus for consumers. It is like getting lower taxes every week at the gas pump. But the consumer has been saving, not spending this new found cash in their pockets. Once the consumer becomes comfortable that gas prices are not going back to the \$4.00 a gallon level, they should start spending more. Employment is improving. The trend in wages is likely to be higher from here, suggesting that this cycle will continue to mature, but that broad inflation will be slow to build. Weekly jobless claims also remain low in the U.S., i.e., no pick-up in firings.

Housing starts rose +0.2% m/m in July, with upward revisions to the prior month. New household formations, the key driver for housing starts, appear to have bottomed.

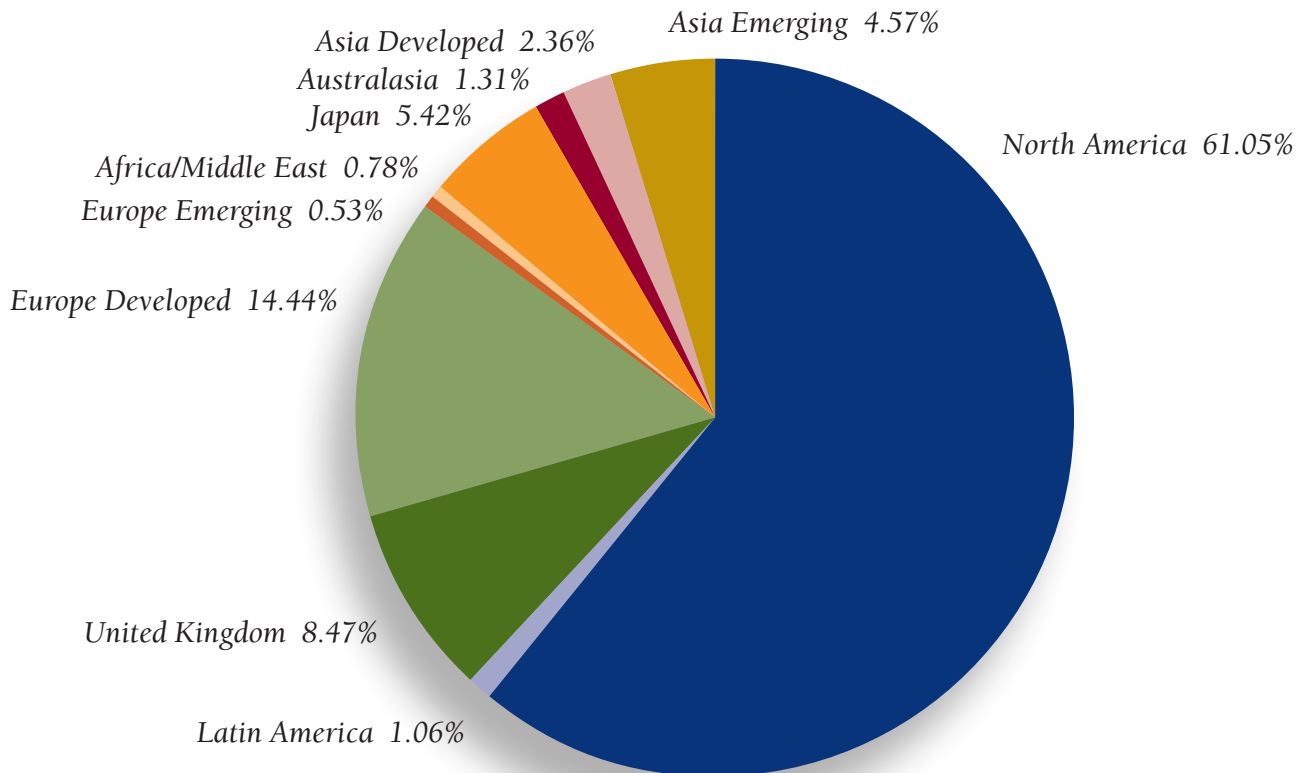
The economic growth drivers will take some more time to gain traction.

Economic growth outside of the U.S. is less encouraging. Europe is about where the U.S. was three or four years ago and Japan is trying to boost their economy while China is slowing down.

The second area of concern affecting the markets is the U.S. monetary policy. The Federal Reserve, U.S. Central Bank, wants to start raising rates for the first time in 9 years. The domestic economy continues to strengthen; with very low rates and no appreciable inflation. The problem is the rest of the world is seeing little, if any growth. Their central banks are keeping rates flat or in decline. This is a recipe for continued strength in the U.S. dollar which could slow U.S. growth.

We believe a continuation of the market correction is likely until greater clarity regarding monetary policy in the U.S. or global economic growth is achieved. An end to the bull market, which started in March 2009, is unlikely until better global growth produces higher inflation and ties the hands of global central banks – likely 2 or more years away.

## OUR RECOMMENDED EQUITY WEIGHTINGS



**TOTALS:**

Americas: 62.11%  
Greater Europe: 24.22%  
Greater Asia: 13.67%