CONWAY • JARVIS LLC
Investment Outlook

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The Bull Market That Keeps on Giving

In early October, we sounded the alarm that the long-awaited correction in the stock market was imminent. The Ukraine conflict and its resulting economic sanctions combined with the Ebola scare to form a polar vortex of sorts that chilled the market to the tune of a 10% pullback in the S & P 500 several weeks later. Predictably, as those events retreated from the front page, the S & P rallied to post a new record high on December 5th. Once again, the media brought drama to bear on stock prices, raising the specter of higher interest rates in the very near future and economic calamity resulting from the precipitous decline in the price of oil. To that we say Bah! Humbug! And to those purveyors of gloom and doom who once again find themselves on the wrong side of the ledger: This is not your classic Bull Market.

Twas the Week Before Christmas and Not a Bull Was Stirring…..

Well, truth be told we were among the few, having advised investors to put their portfolios on Hold rather than Sell despite the punishment meted out to the Energy sector. However, our voices were lost in the din of those who were frightened at the speed with which the price of oil had been declining. Others warned of an imminent increase in key interest rates due to recent data points indicating that the recovery of the US economy was picking up speed and thereby raising the inflation alarm. These bears were roaring early last week as the averages plummeted on heightened volatility, leaving the DOW and S & P 500 off more than 5% in a matter of days. Things looked particularly bleak last Tuesday with the DOW off 300 points from its intra-day high.

While we found it credible that lessened demand for oil could indicate a global slowdown, the mere possibility of that occurring rendered the prediction for higher interest rates laughable. Only an ideologue or a fool would tighten the reins of the world's economic plow horse while both Europe and the Emerging Markets struggled to advance. Janet Yellen is neither. Right on cue, the Fed delivered an early Christmas present with the announcement that "considerable time" and "data dependent" had not been idly stated as part of the Fed's approach to tweaking interest rates. Wednesday saw the markets up sharply, more than 400 DOW points, and the subsequent rally has taken us once again to new record highs in the DOW 30 with the S & P 500 not far behind.

Ignoring the short-sellers and talking heads selling TV advertising has once again paid off for investors. Objective minds deduced that a glut in the supply of a precious commodity that is a cost component of almost every product sold is a good thing for consumers. In a recent letter to clients, we likened lower oil prices to a massive tax break for *all* Americans, something Congress and the White House have been unable or unwilling to do. While that may not be ideal for Energy stocks in the present, it's good for the global economy and for the stock market in the long run.

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The View of the Market is All About Perspective.

These past ten days have hopefully been instructive for investors who think this is your run-of-the-mill Bull Market. It's one of the longest and most durable in history for good reason. The US economy is single-handedly keeping the global economy afloat as Europe repairs itself and China deals with the reality of a moderating growth rate more befitting of one of the world's largest economies. This is our long-term view that endures amidst all of the bad news that the uninitiated investors are encouraged by the media to act upon. John Bogle of Vanguard recently said something that all investors should take to heart. "Don't just do something, stand there". *Translation: Maintain your position as a long-term investor rather than succumb to the temptation to act on news that, months from now, will prove to be inconsequential to the global growth story.*

The Financial Broadcast Media is all about "Now" and what you need to know to "trade this market". They're afraid you won't tune in if there's no market drama. Recently, they've bombarded us with negative connotations surrounding oil and interest rates with little critical thinking. The print media does a much better job of delivering a balanced assessment of recent events within the context of a longer-term investment horizon. We'd recommend the Economist, Financial Times, and the Wall Street Journal as credible sources for those investors looking for information rather than titillation. Needless to say, the talking heads, with their short-term view, badly misread the tealeaves in December. ***We're focused on the "Big Stuff" that determines the trajectory of the global economy and its markets in the long term*. *You should be viewing the market from that perspective too if you're an investor, not a trader.***

The Big Stuff

In recent issues we've identified a couple of factors that concerned us regarding the long- term future of this market. The Ebola scare has faded from prominence but the Russian/Ukraine conflict and its potential unintended consequences shouldn't be ignored. Russian-Euro relations are key to the success of the global economy and will ultimately be impactful on interest rates, another factor affecting the market down the road. We should all be paying attention.

Russia is currently growing at a paltry 0.5% and predicted to see *negative* growth of 3.6% in 2015. That's a polite way of saying the Russian economy is on the verge of imploding. They've spiked key rates to absurd levels in defense of the ruble but to no effect. Credible sources are predicting disaster for Putin's Russia as a weakened currency ignites rampant inflation in a contracting economy. There are those who liken a default by Russia on their debt to the failure of Long Term Capital in 1998 that shook the market when investors fretted over which financial institutions were caught holding the bag and whether they were considered to be "too big to fail". Of course Dodd-Frank legislation has taken care of that or has it? We hope we don't have to find out but we're comforted by our memory of what the markets did in 1999. We'll watch this one closely.

For the US, the short-term outlook is bright because of cheap oil and low interest rates. We guarantee that interest rates will be normalized at higher levels…..*some day*. Recent history teaches us that the market's initial reaction to higher interest rates will be a negative one. Once again, perspective should determine action. Traders will trade but investors will have to assess the conditions that prompt the return of higher rates. Russia recently raised rates for all the wrong reasons and their stock market is collapsing. We should see our key rates rise for all the right ones: A robust US economy has kick-started a sustainable expansion of the Global Economy and inflation has replaced deflation as a concern for investors. If that's the case, heed the words of John Bogle and be prepared for another leg of this storied Bull Market to take stock prices higher following the downturn triggered by the first signs of real interest rate-change.

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