

July 1, 2014

Greetings,

I find it kind of eerie how quiet the market is this year. There was a nasty sell off in the NASDAQ in April but the broad market barely budged. The bears call this market “complacent”. The naysayers have been calling for a 10% correction for over 2 years now. I suppose if I were short the market with much of my assets (as the hedge funds are) and underperforming the broad market for 5 years, I would be calling for a big correction also. Since, professionally, I tend to look at the glass as being half full, I consider the market as being more resilient than it is complacent. Neither what is going on in Ukraine nor Iraq can shake this market up on a sustained basis. Sure, there were a couple of down days here and there, but that was it so far. More often than not, in the short term, the market’s actions are not rational. This year, for the most part, however, the market is acting logically (with the outsized gains in the utility sector being the exception).

The GDP for the first quarter of this year was -2.9% and the stock market ignored the dismal report. Last week, someone on CNBC said there was a zero correlation between the GDP and stock market returns. I have been writing that in my investment letters for years so, for the most part, I agree with that statement. You will not however, see strong returns during a recession. Conversely, it is also unusual (as also written in previous letters) to see strong stock market returns in a hot economy. My memory is pretty good and it is difficult to remember the last time the economy was strong, never mind “hot”. I do know that I was a lot younger, my hair was darker and I had more of it. The market is forward looking. In the second half of 2007, the economy was in similar shape as it is now but the stock market was headed downward because there were signs of trouble on the way.

Now, most people feel the economy will show improvement in the coming quarters. Given how lousy it is now (winter weather aside), it won’t take much to show an improvement. I will state this: given how well the stock market has done over the past 18 months, if the economy doesn’t show improvement soon, the naysayers will finally see the 10% correction that they have been anticipating. I have seen mixed economic data lately, but it largely points to the likelihood of some economic improvement in the near future. Better than expected corporate earnings will accompany economic improvement and that will provide support for the stock market.

Please either call me or email me if you have any questions of if there is anything that you want to discuss.