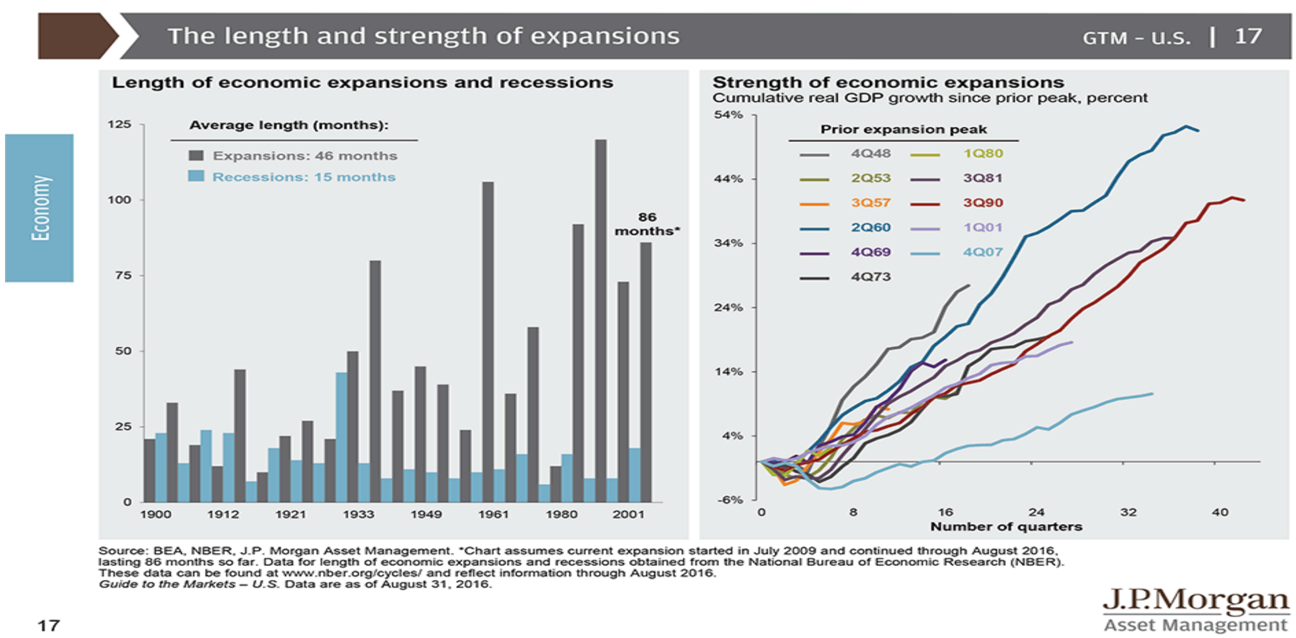
Quarter 4 | 2016

MCM connections

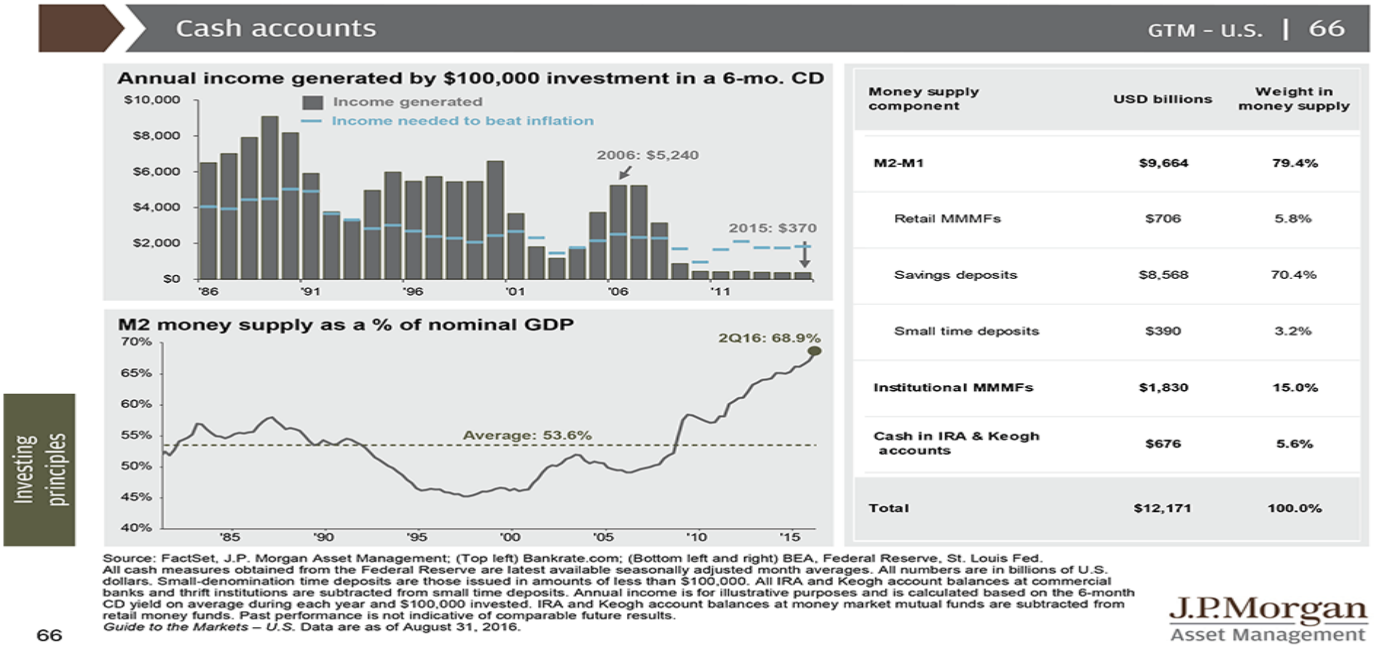
IS THIS BULL MARKET REACHING ITS PEAK OR IS IT JUST GETTING STARTED?

The length of the current economic expansion is 86 months – far longer than the historic average (46 months). This statistic alone has investors fearing the next recession is just around the corner. But economic expansions have never died simply of old age. This recovery has been a slow one and all leading indicators are still in the recovery stage – they have not yet reached the expansion period. This leads us to believe this bull market has plenty of room to continue.



Another key indicator that the market is not over inflated is investor sentiment. This bull market has been called the most unloved bull market in history and we couldn't agree more. As Liz Ann Sonders, Chief Investment Strategist at Charles Schwab, states, The Great Recession has clearly scarred the way Americans see the economy. Recent studies show that consumers are now using 1/3 of their income apiece on spending, saving and paying down debt. Typically low oil prices inspire people to reallocate those funds 100% toward consumption, but this has not happened this time.

A recent Gallup poll reports that 65% of Americans state that they prefer saving money to spending, while 35% prefer to spend over save. This is the widest gap ever reported. During this 7 ½ year bull market, not one net new dollar has been added into the market. So instead of using low interest rates to use leverage or to invest in the stock market, Americans are keeping 1/3 of their income in savings with very little interest. The amount of money in cash (as measured by the M2 Money Supply) is at an all-time high percentage of GDP, despite interest rates earned on that cash being at all-time low levels.



The two biggest themes American investors seem to be most concerned about at the moment are:

- When and by how much will the Feds finally decide to raise interest rates?
- Who will win the 2016 Presidential election?

We believe an interest rate hike is overdue. Because of Americans' shift over the past 7 ½ years toward saving more and paying down more debt, there are far more dollars that stand to benefit from higher interest rates than there are dollars that will be harmed by higher interest rates. While we may see a negative knee jerk reaction in the market when the Feds do finally inch the rate up, it will ultimately be a sign that our economy no longer needs to be treated like a patient in the Trauma room, but can begin to actually stand on its own two feet.

This Presidential election will go down in history as having the least popular presidential candidates in modern history. Most analysts concur that what happens in Congress will be more important this election than which party wins the Presidency. Schwab predicts that the least unsettling scenario (from the stock market perspective) will be if Hillary Clinton wins the Presidency and Congress continues with a Republican majority party. This is also the most highly predicted scenario.

We believe our economy is strong enough to withstand higher interest rates. And we believe our economy will continue to recover and expand regardless of who wins the title of the next President of the United States of America. While we are not in the midst of a booming economy, our economy is a solid one and is continuing to improve since the aftermath of the Great Recession. And in the stock market, whether an economy is getting better or worse is more important that whether it is good or bad. If investors wait until they feel good about the economy, they will have missed out on all of the best gains.

As always, we recommend putting together a long term plan for your portfolio. Instead of seeing these market pullbacks as reason to sell, we should be viewing them as times to hold current quality positions or add into the market. As Liz Ann Sonders recently stated, successful investors must use an investment "process over time rather than gambling on one moment in time".

McBrearty Capital Management
8901 Sony Lane,
Knoxville, TN 37923

*JP Morgan Asset Management Guide to the Markets. August 31,2016. Retrieved from https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

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