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Q2 2015 – Market Overview Newsletter

Economic Update

What will happen with Greece and the rest of the Eurozone? What is going on with China? Are the U.S. markets overpriced and due for a correction? Is the Federal Reserve going to raise interest rates? Maybe I should just hold cash…

Many of these questions have been a topic of discussion for some time now. To some degree we could just reprint the first quarter letter and call it a day. The second quarter seemed relatively calm, especially compared to the first quarter. That held true until the end of June, when Greece and China were making headlines.

As of June 30th the S&P 500 was relatively flat. Most economists view the market as being fully valued or slightly overvalued. JP Morgan's chief economist, Dr. David Kelly, compared the price of stocks to driving 68 mph in a 65mph speed zone. Hardly cause for alarm.

Although Greece makes a good headline story, it really isn't much of a story. Greece is small and financial troubles are nothing new for them. The GDP of Greece is roughly the size of Detroit. Detroit filed for bankruptcy three years ago and the U.S. survived. There is far more to Europe than Greece and plenty of economic data that points to a strengthening recovery in Europe. People seem to be borrowing, lending and spending. Consumer confidence appears to be on the rise. Quantitative easing has begun in Europe. Could it be reminiscent of the U.S. roughly six years ago?

The markets in China have seen sharp declines followed by strong rallies. The most volatile market, though, has been the "A" share market which is harder to access for U.S. investors. The "H" share market, which is more accessible, has strengthened at a slower pace and still looks attractive[1]. The rally appears to be more about an influx of cash, as the market has opened up to more investors, and less about fundamentals. A decline in the stock market is not necessarily an indication of a change in their economy. China's goal seems to be to become a more respected market over the long term.

Last quarter the economic update focused a lot on the Federal Reserve and what will happen with interest rates. Not much has changed in the second quarter. We still believe that the Federal Reserve will increase rates at some point this year and that rising rates coming from a low base are not detrimental to the stock market so long as they rise slowly.

All investments have some type of risk. Even cash is at risk of losing purchasing power. As always our advice is to invest in a well diversified portfolio that considers your risk tolerance and timeframe and stay the course.

For more market details, see the "Capital Analysts Q2 2015 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries. -LS

Market Timing: More difficult than it sounds.

In theory market timing is simple. Buy low, sell high. Easy right? Hardly. Determining when the markets have reached a high or a low is tougher than it sounds. Even those revered as the best and brightest in the investment world do not claim to be great at market timing.

When trying to time the market you have to be right twice, the best time to sell and the best time to buy. But what if you were wrong? The chart on the second page depicts returns on a $10,000 investment from 1/3/95 through 12/31/14. If you were fully invested over that entire time period your portfolio would have had a 9.85% return. If you missed only the 10 best days of those 20 years it drops to a 6.10% return. Six of the best ten days occurred within two weeks of the ten worst days.

Let's not forget that we are emotional beings as well. When the market is declining and things feel uncertain most investors are not thinking about a great buying opportunity. Generally it is when the economy is doing well and most of the recovery has taken place that people feel good about

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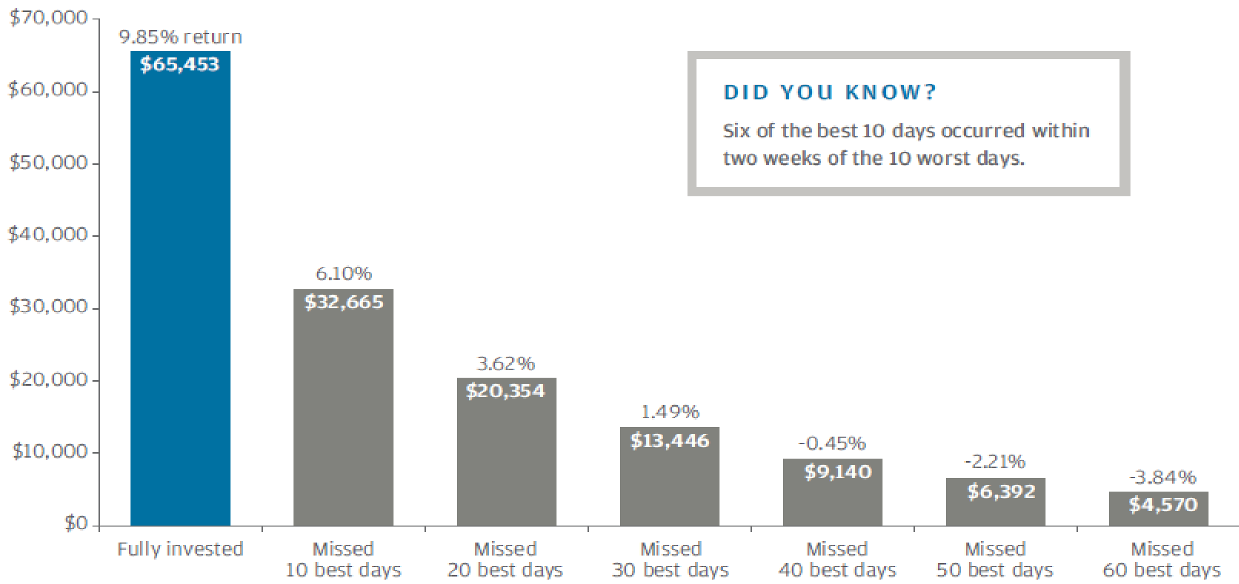
investing in the market again. There is risk in being invested when stocks fall, but the greater risk may be being on the sidelines when they rise. Part of our job as advisors (arguably our most important) is to try and remove emotion from investing. Being that the odds of accurately timing the market are against you, you will likely benefit more from staying invested over the long haul. –LS



Source: J.P. Morgan Asset Management using data from Morningstar Direct. Returns based on the S&P 500 Total Return Index. This chart is for illustrative purposes only and doesn't represent the performance of any investment or group of investments. Past performance is no guarantee of future results.

1. JP Morgan Insights “Financial advisor questions for the third quarter of 2015

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S&P 500 Index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index.

International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. Diversification does not guarantee a profit or protect against a loss.