Stirling Bridge
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MARKET COMMENTARY – FEBRUARY 1, 2016

"Have fate without destiny." Chinese Proverb

Yuánfèn is a terrific Chinese phrase that is difficult to translate into English due to cultural differences. Nonetheless, we will hazard our way through a brief definition in order to make a broader point for the markets. The terms revolve around the complexities of serendipitous relationships. For instance, let's say an acquaintance named Susan introduced you to a rare, exotic food that you've come to enjoy. Susan, however, lives elsewhere and you never cross paths. However, over the course of the next two decades, you bump into Susan on the very evenings you are ordering that same exotic food in a restaurant. It could be said that you and Susan have yuánfèn.

So, yuánfèn describes some type of fated or predestined affinity in any relationship. Younger Chinese today use the phrase almost exclusively for romantic relationships, but the term's origins point to a much broader interpretation. The proverb above, "Have fate without destiny," simply means that yuánfèn (fate) brought folks together, but it was not in their destiny to remain so for the longer term.

We believe the current economic and market troubles centered in China and bumping into investors worldwide will prove to be, "Fate without destiny." Here's what we mean, the Chinese growth story is maturing. Its growth rate remains sharply positive, but we cannot expect it to remain double digits forever. This is natural. Also natural, and perhaps an example of yuánfèn, is that the rest of the world seems to get sucked into the story every few months. We may be fated to cross paths every so often, but it doesn't have to be our destiny to suffer long term.

Japan experienced tremendous growth in the 1980s, only to stagnate since. The U.S. was certainly affected by shifts in the Japanese economy, but we implemented policies which unleashed our economic potential and thrived. China has just finished more than a decade of tremendous growth. Given their culture and immigration plans, it is apparent that it is time for a pause. Again, it does not have to be our destiny to plod along long term (of course, we can choose to make it our destiny, but that is a different tale for a different commentary).

If investors watched the news in January, a common belief may be that much in the financial and economic world has changed drastically since year-end 2015. Let's briefly take some of the big stories in turn and see what, if anything, has changed.

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Interest Rates – The Fed may move even slower than they had forecasted. Yet they haven't changed their generally tightening policy. Keep in mind that even if the Fed doesn't expressly raise rates, to the extent foreign central banks (like China or others) decrease rates, that is similar to a de facto increase in the U.S. rate. The point is that nothing has really shifted around rate news.

Strong Dollar – We believe the dollar will remain strong, but stable. It has done so through January - with the exception of its strength compared to the Chinese Renminbi. But we think this is an example of yuánfèn, or fate without destiny, recall.

Oil, Oil, and Oil. Oil, if we forgot to mention it. – Due to a tremendous blossoming of production technology we are in the midst of a longer term glut of oil. Softening demand globally has also served to push energy prices down. Historically, the U.S., as a consumer of oil, has benefited from cheaper oil. However, this time around pundits are calling for a different outcome. They say that since the U.S. is now a significant producer of oil, a drop in oil prices has the net effect of challenging our economy. We DO NOT buy this argument. We certainly produce more oil than in the past. But we do so with advanced technology. Jobs will likely be cut in the energy sector in the coming months/years, but drilling and production only make up a small sliver of our overall employment figures. The fact is that MOST of the country and world are consumers of energy. Lower prices provides a boost other industries. The only "problem" this time is that after going through the two previous market downturns, consumers in the U.S. are saving rather than spending their unspent energy dollars. Long term this is a very good thing!

4Q 2015 Earnings Reports – Most are in. Over 70% have beaten earnings expectations (mostly by cost rationalization). Only about 46% have beaten sales estimates. We expected this general outcome given the slowing in the materials and energy sectors. We continue to believe that earnings (and revenues later in the year) will surprise analysts on the upside.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely
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