Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – NOVEMBER 1, 2015

Mullets or Fundamentals?
Trading on Fundamentals – Thankfully.

Never have we claimed to be sycophantic trend followers. Well, there was that brief, puerile time in 1989 when we – like many ill-advised menfolk – sported the cringe-worthy mullet. For those of you who are unfamiliar with the term, picture a close-cropped hair cut on the crown, front, and sides. Now, add in long, dangling locks on the back and you have the mullet. It has been described with tongue-in-cheek as business up front and a party in the back. And, as a matter of further explanation for our wayward actions back then, we did not even know the style had a name. Perhaps, had we understood that the operation we had asked the barber to perform on us was called a mullet—which in actuality is a real word used to describe something unfortunately called a goatfish, we would have demonstrated better judgment. Then again, probably not. Ah, youth.

In the midst of violent August and September price swoons, we elected to look past the negative trend that prevailed and stay focused on fundamentals, keeping portfolios invested at their long-term strategic targets. Thankfully, client portfolios were rewarded as we did not jump on the bandwagon and give them the proverbial mullet. The market has returned to where it started. October brought about a strong global rally in stock prices as the concerns over slumping growth in China and a hand-wringing Federal Reserve faded. In short, prices were bid up because the underlying fundamentals (things like revenues, earnings, and cash flow) in the third quarter turned out to be fairly good when compared to depressed expectations.

As of this writing, roughly two-thirds of S&P 500 companies that have reported 3Q earnings have beaten expectations. As the managements of those companies forecast the coming quarters, their guidance, too, has been better than expected.

With the turning of the calendar page, bringing with it images of Thanksgiving tables and family, the volume of companies reporting earnings slows dramatically – like Uncle Mike snoozing on the couch after his turkey dinner. We expect sales growth to remain elusive in the strong dollar, weak oil environment. However, as we discussed last month, companies continue to run lean and so margins and profits should hold up well as we finish out the year.

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Stock market valuations have snapped back from too low in September to fair in October and November. We have seen commentary suggesting the market is overvalued. But by most conservative measures, the price-to-earnings multiple of the S&P 500 is safely in the typical range. As the effects of low oil and the strong dollar become fully digested by year end, we see no reason that slow revenue growth and decent earnings growth cannot compel stock prices modestly higher.

The late summer sell-off also created select opportunities in fixed income, making high yield bonds and preferred stocks more attractive than they have been in quite some time. Depressed inflation expectations have made inflation-indexed bonds appealing to those forward-looking investors who fear that someday the inflation beast will rear its ugly head.

Low interest rates remain a sticking point for savers. The Federal Reserve made some changes to their language after their most recent meeting, causing Fed Watchers – those sad, lonely individuals, to forecast a December rate increase with lift-off from the long-standing zero interest rate policy. We'll hold off on detailed Fed commentary until next month. More data needs to come in before we venture to pin down and make a prediction around this fickle Fed.

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.

Sincerely

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