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What, Me Worry!

Words of wisdom from Alfred E. Neuman seem appropriate right now. After all, this market looks like it's being scripted by the editors of Mad Magazine. Interest rates lowest in history, earnings rising, energy prices low, economy expanding and unemployment falling – and stocks drop! Well, we didn't say the market was perfect! Emotions can overtake reason very easily when money is involved. For those of you who sold in late September, remember what happened in October and November?

Some of you may think we're crazy (the others know!), but many large financial organizations think the market will be up close to 10% this year (NOT a misprint). Simply put, when all the craziness subsides, the markets will do what they always do – revert to the mean. And right now the market is oversold. We have a P/E ratio of 14 something, when the historical average (past 50 years) is 16 something. Corporate earnings will rise fairly well this year. Plus, the P/E ratio expansion should be good for a nice tail wind. If you add in the dollar falling from its current levels, you could add another 4 – 5% to the levels.

I understand many are concerned about China. Yes, their earnings will fall from 6.9% to 6.1% (some say close to 5%) this year. But since only 1% of our total exports go to China, why panic? And interest rates may rise, going all the way from .25% to .75% this year. Not exactly a reason to jump off the bridge for.

For 2015, we had a few headwinds. Rumors of rising interest rates, stronger dollar, China weakening, energy prices falling, etc. But excuse me, but aren't all these negatives reflected into the market now??? Will any of this "surprise" investors this year? We will most likely have an economic surprise this year. Maybe something not even on the radar right now. But I can see an increase in technology, financial, consumer products, healthcare and telecommunication. Where energy goes is anybody's guess. Most "experts" see a return to $40 – 45 by next year. Here is something interesting – oil production is 95.5 million barrels per day. Oil consumption is 94.6 million barrels per day. A 1% move can change a surplus to a deficit. In 2013, the difference was only 0.3 million barrels per day, and we had $80 oil. Just saying.

I see Goldman Sachs is looking for an 11% gain this year. So, if the market is down 9%, that's 20%. Hmmm. I leave you with this, buy low and sell high. You heard it here first (almost!).

If you would like to discuss the market and/or your account(s), please call me at 713.428.2050, x2 or via email to josborn@houcap.com.

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