

MARKET COMMENTARY – APRIL 1, 2016

Many a small thing has been made large by the right kind of advertising. ~Mark Twain

Nothing if not cynical, Mark Twain is one of the most oft-quoted American literary figures of the 19th Century. His words are capable of bringing a wry grin or an uncomfortable smirk to the reader. More often than not, however, they carry a fair bit of truth that we appreciate more greatly as we accumulate life experience – that is, get old.

For instance, how many times have we relied on the picture in an advertisement, only to be disappointed when the product is removed from the box? We have been told, though certainly never witnessed such a thing, that some ladies are prone to making their mole-hills seem mountains with extra padding. Gentlemen, too, we are told, are guilty of similar crimes, though it seems lewd to even contemplate below-the-waist locales where such fellas may pack additional stuffing.

The point is that advertising and hype are as much a part of American culture as Mark Twain himself! Wall Street and business news agencies owe their very survival to making the small seem large. Take the recently ended first quarter of 2016 for example. The first two weeks of trading in the New Year were easily the worst of any first two weeks in recorded history. We know this for certain because many breathless commentators told us (In truth, we don't really know this to be fact since we never bothered to dig into the numbers and verify it for ourselves).

“China’s imploding!” EEK! “The dollar is rocketing!” OH NO! “Low oil is crushing our economy!” THAT’S AWFUL, wait, we thought high oil crushed our economy... These and several other mantras were shouted from media rooftops in January and early February, driving the S&P down around 10% by February 11. But, you guessed it, while shades of truth initially fueled these stories, the reality was not nearly as somber. The bipolar market roared back.

China’s initial and forceful weakening of their currency in January was not a harbinger of more (and worse) moves to come. The finance ministers have since explained their plan in a way the market has come to appreciate. China has also begun to shift their long-term focus from a completely export-based economy to one that is better balanced

between exports and consumption. Furthermore, they have instituted supply-side reforms and are using their sound financial footing to begin stimulus programs. Economic growth in China should still be around 6.5% for 2016, a rate that would make every U.S. politician crow for years.

Oil has rallied of late, but even if it had not, readers of our musings know that we believe the lower prices were never going to completely derail our domestic economic growth. In fact, as net consumers of oil, our nation's and the world's economies would have benefitted overall. The recent increase in oil will have the positive effect of stabilizing margins for oil patch companies and alleviate some of the fear over energy-related lending.

Looking into 2Q 2016 we believe earnings will be better than decent. Pressure from the strengthening dollar of late 2014 has abated. The dollar has remained range-bound year-over-year. This will not help improve U.S. earnings, but will not hurt either. Profit margins will likely have a difficult time achieving the record-breaking amounts from '14, but should generally improve from the preceding quarter.

Most importantly for earnings and stock prices, analysts and investors became heavily pessimistic in the prior two quarters. As such, earnings estimates were ratcheted downward. We think many companies will easily beat these lower expectations when they report over the coming weeks, building the possibility for a continuation of the February-March rally.

Finally, and in the spirit of the aforementioned analysts, who rage from pessimism to optimism and back with lightning speed, we'll share another cynical, sharp, but telling quotation from our old friend Mark Twain. "There is no sadder sight than a young pessimist, except an old optimist."

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
Jason Born, CFA
President