

MARKET COMMENTARY – MAY 1, 2016

*Mephistopheles: He'd pillage heaven for its brightest star,
And earth for every last delight that's to be found;
Not all that's near nor far
Can satisfy a heart so restless and profound.*

*The Lord: He serves me, but still serves me in confusion;
I will soon lead him into clarity.
A gardener knows, one day this young green tree
Will blossom and bear fruit in rich profusion. ~ Goethe*

And so goes the exchange in Heaven between the Lord and the representative of the Devil in Goethe's famous version of Faust. In German legend, Faust is a highly successful and intelligent scholar yet he is bored with the limits of life. He sells his soul to the Devil in exchange for an opportunity to tame the forces of nature and experience true fulfillment.

We see many modern day versions of Faust in entertainment and in real life. For example, the recent and gripping film, Foxcatcher, could be described as Faustian. But what about companies that we all know and love? Can they ever find themselves accidentally or intentionally in the midst of a "deal with the Devil?"

Within years of Steve Jobs' return to Apple in 1997, the company began cranking out entirely original, category-creating, disruptive (we've run out of adjectives) products. Consumers took note in quick fashion. Investors followed. It became the largest company in the world when measured by market capitalization. Apple had sold its soul, not to the Devil as in the case of Faust, but to the skein of innovation and everything "i" (iPod, iPhone, iPad). We say skein because innovation, while terrific, comes with a curse. Can it continue?

That is what investors are asking themselves. In late April 2016, Apple posted a sales decrease for the first time in thirteen years! Since reporting those fiscal year second quarter earnings, shares have tumbled about 7%. Investors seem to be saying that Apple's days of creating attention-grabbing products are over. It is just a normal company again, albeit, a highly profitable one.

In the centuries-old legend of Faust, the protagonist enjoys years of merriment and excess before being dragged off to the fiery pit of hell when the Devil comes to claim his due. This seems to be the knee-jerk reaction that investors are having to the recent earnings announcement. They are the Devil, sending Apple shares reeling so that the forward PE is perched at a measly 9.

However, Goethe's version of Faust provides a little wrinkle to the age-old allegory. At the end of the tale, when the Devil returns to take charge of Faust's soul, the Lord intervenes with his gratuitous, undeserved grace, snatching Faust's damned soul and leaving Mephistopheles enraged.

We are still early in this battle between innovation and normalness for Apple, between damnation and salvation of its stock price. It is too early to tell whether Goethe's happy version or the more traditional and bleak version of the end-game plays out. What we are willing to suggest is that short of a sea-change in consumer preferences or a truly disruptive new device from a competitor, Apple's current valuation reflects an unlikely implosion of iPhone/iPad/iPod/Apple Watch/Mac sales. Where we currently own Apple, we have no desire to sell at these prices. However, given the true risks, we are also not aggressively accumulating shares. We believe there are better alternatives elsewhere.

A quick pivot will carry us to a close. Stock prices (and even risky bond prices) have rallied from a February trough. We are in the midst of first quarter earnings reports. Apple's pallid forecast aside, overall, the narrative around the calls can be described as constructive, though not brilliant. Oil has helped. The steady to weaker dollar has helped. The tentative Fed has helped. We expect earnings and the economy to remain in modest expansion territory. Without a shot from unexpected earnings, however, stock prices seem a little full at the moment. We suggest clients remain at their long term strategic target allocations, neither over- nor underweight equities.

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

1246 County Road Q, McClure, OH 43534
www.stirlingbridgewealthpartners.com

P: 419-832-1111
F: 419-932-1211