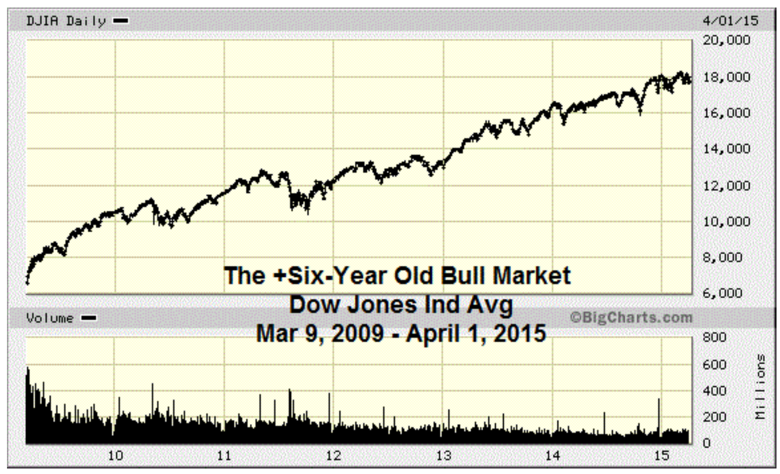
American Heritage Financial

April Update **April2, 2015**

A Question of Age?

Age Equals Grumpy: The bull market celebrated its sixth birthday early last month (March 9), making this bull market one of the four longest bull runs in history. Two of the other three in this class of four made it to a seventh birthday (June 1949 - August 1956 and October 1990 - March 2000). The longest bull market on record was the 9 and a half year run ending in 2000.



Since its sixth birthday, the stock market has been net negative and the Dow lost 2.0% for the full month of March. A 2.0% slide is not remotely earth-shattering but the real story has been ***volatility!*** Of the 23 trading days in March, 18 saw swings of over 100 points in the Dow. Three "down" days were in the 300 point range and four "up" days were in the 250 point range. There have been frequent air pockets mixed in with plenty of upward surges, but little net change. The net drop of 2.0% is not unusual but March brought a surge in trading volatility that has been accelerating over the past four months. This contrasts to a market that had been producing unusually steady and consistent gains since early 2013. It seems the market is growing a bit grumpy in its old age.

Investors have to be asking if the "grumpiness" of this "mature" bull market is a sign that it is failing or is it simply a show of its resilience as it rests-up for another advance. A combination of factors is contributing to the volatility and each are issues which could have major long-term impact on stock prices but, far and away, the most important factor is the same thing which has long driven stock prices higher: **interest rates.** Low interest rates, excessive liquidity and the lack of alternatives outside the stock market have been the biggest drivers of this great bull market. The interest rate effect is not just a phenomenon of recent years, market historians can tell you there has long been a strong correlation of low interest rates with rising stock prices and that restrictive monetary policy is often associated with poor stock market performance.

The interest rate question is hotly debated in financial circles and, based on their comments, even members of the Federal Reserve have widely differing views on if, when and how much rates should increase. Statements from the Fed provide fodder for all arguments (i.e. remain accommodative or begin tightening by raising interest rates) but the official policy has been to continuously kick the can down the road. Initially, a rebound in economic growth was the Fed goal. Then they focused on job growth—which has occurred but not sufficiently, at least relative to Chairwoman Yellen's goals for job growth. More recently, the Fed has pointed to low and declining inflation and the impact of the strong dollar as reasons to hold off on rate increases. Of course the stubborn economy, which can't seem to sustain much above 2% GDP growth, is another reason for Fed caution. The Fed has stated it is possible that interest rates could be increased as soon as June but our guess is that they will once again delay any meaningful tightening due some combination of the aforementioned concerns.

Another factor driving the daily volatility is **global economic growth**. The slowdown in growth in China has been a dramatic wildcard for the past few years. A few years back, China was the world's biggest growth machine. Corporations and investors were salivating over opportunities to sell to billions of new Chinese consumers. China was the biggest reason commodity prices spiked in the first decade of the new millennium—and the slowdown in China has been a contributing factor to the long slide in commodity prices. China has recently taken steps to reinvigorate its economy and the natural economic cycle also appears to be turning positive—but then, how reliable are Chinese economic statistics? The Eurozone is a similar influence. Europe has been an economic basket case for years with off and on crises including Spain, Italy, and Greece. Recently, it appears aggressive, U.S. type QE stimulus is beginning to take hold but, just as in the U.S., it has been uneven, uncertain progress.

The **strong dollar** and **collapsing price of oil** are two other factors affecting daily volatility. Although the move in the dollar and oil are symptoms resulting from central bank stimulus and global growth and/or weakness, these two economic barometers have undergone dramatic moves; to the extent that they are a double edge sword, driving stock prices in one way, then another. The strong dollar is generally positive in that it reflects the relative attractiveness of the U.S. over the alternatives. But the dollar has appreciated so much it is driving down those profits that U.S. global corporations generate from foreign markets and stressing countries that hold large amounts of dollar denominated debt. The 50% drop in the price of oil has been a windfall for strapped U.S. consumers and should act as a tax break, spurring spending and boosting consumer confidence—but that has yet to translate into a surge in retail sales or housing, as one would expect.

And, of course we have to mention **stock market valuation**, the most critical factor for long term investing success. Unfortunately, current uncertainties relating to market valuation are also contributing to the volatility. Stocks are no longer "cheap," especially compared to where valuations were just a few years back. As mentioned, the six year anniversary of the bull market makes it "long in the tooth" by historical standards. Yet, the resilient and slowly improving U.S. economy, potential bottoms in global economic cycles and widespread monetary stimulus are reasons to expect more gains. Specifically to valuations, according to S&P strategist Sam Stovall, the S&P is currently trading at 17.3 times 2014 earnings and five bull markets ended at higher price-earnings ratios higher than 17.3 and one ended at 17.2. The highest was 2002 when the P/E ratio reached 27.0.

All-in-all, the ***"wall of worry"*** is still there—a factor necessary for a healthy bull market. Concerns and uncertainty are contributing to the increased daily volatility but there has been no clear sign that this aged bull market is about die. There are always unknowns and surprises which can influence markets in both directions. We manage it by controlling investment allocations and ensuring allocations match long-term goals, not short-term uncertainties. It is all part of staying healthy and happy in old age!

Best regards,

Ted Ingraham

EGI Financial, Inc.
American Heritage Securities, Inc.

Questions or comments?
Email us at: ahs@egifinancial.com or call 330-535-0881. Visit us atwww.EGIFinancial.com