Steeplechase Investments

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What is going on with the market? When a market has moved upward like this current one for decent length of time, you get a lot of hyper jitteriness, a lot of doubts, a lot of fears. This past 12 months, we have witnessed 5 corrections of 5% and 2 corrections of 10%. We were having an okay year til the 4th quarter when the market went into a 10% correction, we got bombed. During the correction, I did a lot of buying, but as of yet, it has not paid off. Even though the broad market made a new high we are still in a corrective phase. There have been numerous selloffs in many sectors and they have yet to stabilize. This past January my forecast was for the Dow to reach 18,000 which it did. It wasn't smooth nor was it pretty. It harkens me back to a cartoon in Life magazine many decades ago. A mangy little dog is seen chatting with a hobo who is smoking a cigar butt with a toothpick stuck through the middle of it. The little cur says to the hobo. "If your're so smart, why ain't you rich?" The market has become increasingly hard to read which can only be attributed to the Fed's manipulation, and their constant tinkering. I, for one, do not think it is a healthy exercise whatsoever. The time came a while ago for them to keep their mouths quiet and shut off the spigots of money that has gushed to the market and the economy. It has become the law of diminishing returns. They need to exhibit some kind of patience. This brand of life support stopped working months ago. Yes, the easy money has certainly helped the behemoth corporations which have no problem accepting or shall we say qualifying for this largesse. But the vast amount of easing has yet to help the mainstream economy. Ask the typical person how hard it is to borrow or refinance.

The drop of crude oil has been dramatic, maybe to dramatic! You have read or head about it being a great tax cut for "we poor souls". But, there is a distinct possibility that this dislocation can cause major problems worldwide. Russia's economy is intimately wed to the oil industry. Putin is revered by his people and I don't think it is too farfetched to think he could stir up "the winds of war" with what is going on. He already believes that the drop in oil is due to a conspiracy between the US and Saudi Arabia. Prince Alwaleed Bin Talal, the powerful Saudi billionaire has stated over and over that $100 oil was aberration and we will never see it again. The more he talks the oil down, the more Putin becomes agitated, He has been very bellicose in his speeches directed at the US and Saudi Arabia. It is something we should all pay heed to. I think it is naive to think that a military approach is off the table, given his KGB background.

Generally speaking, when the market exhibits this much volatility, it usually means a change of trend is under way. But, these are not normal times, normal markets we are witnessing with the Fed's incessant tinkering. All this being said, I believe we entered into a cyclical bear market in October. It is under the confines of a secular bull market. A secular market last anywhere from 5 to 20 some years. A cyclical reaction bear moves anywhere from 10 to 12 months. A cyclical bear market gives up around 15% before it's over. As bull markets age, they become narrower and narrower in personality, meaning less and less stocks participate on the move to the upside. This is what has transpired since October. In a topping market, the Indices continue making highs while the individual sectors turn tail and begin to move lower. The last move by the Dow to the 18,000 area was not confirmed by the other key indices. The NASDAQ, the Russell 2000 and the Bank Index failed to confirm, failed to make new highs. Another incipient weakness has been the failure of the Russell 2000 (small cap index) to show much strength at all even with the serious strength of the dollar. Smaller companies should shine because they don't rely on exporting like their big cap brethren. As a market begins to top, it becomes very bifurcated, meaning the soldiers start to fail, but the Generals (blue chips, large caps) hold on are the last to go down. Thus, at tops, the indices mask what is going on underneath.

Our portfolios have been set up to withstand some of the expectant shocks going forward. 17 of the 29 stocks we own pay dividends with an average of 4.2%. Most of the purchases in the last quarter have been bond like investments, bond proxies if you will. With the ten year government bonds paying 1.8%, buying equities that yield healthy dividends is a prudent choice. The bond like equities average around 5.1%. Included in this basket would be names like Caterpillar, Deere, Dow Chemical, Pfzer, Verizon, and Las Vegas Sands.

Lastly, I think the silver and gold markets are overdue for a significant rally. They have, for the most part, gone sideways for the last 18 months with all the talk of deflation. If we get even a whiff of inflation news the metals will rally hard.

You should expect the market to continue with the turbulence for the next few months.

Ed

In the market, yesterday is a memory and tomorrow is a vision. And looking back is a whole lot easier than looking ahead.

—Frankie Joe