

"Cup of Joe"

Fall is right around the corner and the bull market remains strong. Earnings have been beating analyst estimates for the most part, stripping out random retailers that have been hurt by Amazon's continued dominance. What has been filling the airwaves is lots of political noise, causing many to lose sight of the sturdy, underlying fundamentals that we have been seeing for quite some time. What we haven't seen are reasons for pessimism. As the old adage goes: "Bull markets don't die of old age". The intent of this email update is to reinforce the notion that, just because the stock market has been on a nice run over the last 10 months or so, a downturn is right around the corner. Remember the 90's…

This bull market is different. What we have seen over the last 8 years has been unprecedented on many fronts. We are coming off the worst financial crisis in history. We have experienced unprecedented monetary stimulus (lowering interest rates to basically zero) by central banks across the world. And we've seen for the first time, OPEC losing their influence on the price of oil, dropping from a high of $147.50/barrel in 2007 all the way down to $26/barrel. These are amazing events and, in our opinion, the underpinnings of why the bull market still has room to run. Why do these matter? Let's explain.

Many are looking at the stock market today and seeing red flags due to valuations. What they aren't bringing into the picture are low interest rates. When the market is returning 6-7% a year and bonds are paying 2%, there is a significant market premium. The market also looks more appetizing when you know that interest rates have only one way to go, and that's up. When interest rates go up, bond prices go down. It's as simple as that. And the great rotation out of bonds has not even started yet. Although, we have some evidence it may be soon. The largest sovereign wealth fund, Norway, has adjusted their portfolio from 60% equities to 70% equities recently. With the fund worth $970 billion, this is a HUGE move. Once the rotation starts, investors will take their money out of bonds and invest this money into equities. Even Alan Greenspan, former fed chairman, agrees, saying that he doesn't see a bubble in stocks but he does see one in bonds. *See article. Bulls 1, Bears 0.

Full Employment. With the consumer making up 70% of GDP (they spend the most money buying products) and 96 people out of every 100 now have jobs (people have jobs and they spend their earnings), this is exactly what makes the economy grow! And, we have just started to see wage growth. Just wait until that picks up. Bulls 2, Bears 0.

Oil prices have dropped from $147/barrel to just under $50/barrel today. When you have a population of over

330 million people (plus the rest of the world) - a lot of them driving cars and using home heating oil - think of the enormous boost this is for the consumer and their discretionary income. You are essentially giving everyone a perpetual raise. And, thanks to the U.S. shale drillers, these low oil/gasoline prices look to be here to stay. Bulls 3, Bears 0.

One thing that I've been pounding the table about in the last couple of email updates has been the psychological impact that the 2008 economic collapse has had on everyone. Instead of becoming "irrationally exuberant", investors these days are constantly looking over their shoulder, remaining weary of the next "crash". And, in our opinion, this psychological malaise is keeping the bull market from overheating. As I've referred to in the past, the study by Reinhart and Rogoff has consumers not coming out of this "2008 fear" for 15 years. Folks, we are in the 8th year of 15. If the consumer looks to stay scared for 7 more years, we don't see things overheating. Recently, Raphael W. Bostic, a Harvard grad and the Atlanta Fed Chairman who just happens to have majored in psychology and economics, backed up this theory on CNBC. Mr. Bostic and his colleagues have been building economic models to study this phenomenon and, with this current level of consumer confidence so high, economic growth should be booming! But, it's not. This supports my theory that the consumer is still scared to spend, choosing to remain conservative with their money. With a subdued consumer comes a lack of spending and a slower growth rate for the global economy. With a much lower chance of overheating comes low inflation (companies can't raise their prices without the strong consumer demand). And, with low inflation comes a dovish Federal Reserve (dovish means they want to continue to help the economy) who is in no rush to raise rates (and if rates remain low, it's cheaper for people to borrow and great for equities). Bulls 4, Bears 0.

From a bearish perspective, let's look at the downside. Markets have been on a nice run for a solid 10 months. If the value of a company's stock gets too expensive, the stock market will sell off and bring the stock prices back in line with the true value of the underlying companies. This is normal. We actually want this to happen! Bulls 4 Bears 1

Political chaos in Washington prevents the administration from getting anything accomplished. On the docket should be tax reform (less taxes means more money for companies and people to spend), infrastructure (roads and bridges put money in the workers pockets) and de-regulation (less rules allows companies to operate freely and make more money). None of these fiscal stimuli we have just discussed are priced into the market, so the expectations of higher stock prices are not currently reflected. If any of these policies are adopted, the market goes higher! I would give this one to the bears since it doesn't look like any of the politicians can come to an agreement. Bulls 4 Bears 2.

The North Korean crisis boils over and conflict breaks out. Yes, I agree this would be a scary set of events on many fronts. But, these political events would be exogenous shocks that can't be predicted. This one goes to the bears. Bulls 4 Bears 3.

In a nutshell, there is a strong foundation of economic fundamentals buried beneath all of the political rhetoric swirling around. Strip out all of the noise and things look pretty darn good. If the market pulls back because valuations become a little pricey, that's OK! These pullbacks help recharge the bull market and bring in new investors that are waiting on the sidelines (the people that got out in 2008/9 and never re-entered). And, who isn't excited to see what Apple's new IPhone 8 is going to look like?! This could be another catalyst for Apple and the broader market to go higher. Even Warren Buffet thinks so, having added to his position in the second quarter of this year (billions!). So, next time you read something negative on the internet or hear stories on TV, think of the underlying strength of the economy first! Businesses are thriving. Global growth is picking up. Wages are rising. Everyone has a job. And until we see signs of a recession, we will remain cautiously optimistic. Bulls 4 Bears 3

We hope everyone is having a great summer and remember, please read the articles we have included on

this email update. We put them there for a reason. Thanks to all of our clients and potential clients for reading. Please note: if you have received this e-mail from a friend and wish to discuss an investment relationship with our firm, please feel free to contact us.

-Joe, Ryan, and the Chapel Hill Investment Team

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