

"Cup of Joe"

It's almost Christmas, and the markets still look like "The GRINCH!". From our last email blast to today, not much has changed with respect to the causes of the current stock market correction. No, corrections are not fun to experience. And they usually last, on average, 3-4 months. So, what's the best advice when the market is down? Don't panic and take comfort in the strong underlying fundamentals. Unless you have an extremely short time horizon for liquidity purposes, one must think of these market corrections as normal and focus on the big picture or, as they say, "the long haul".

First, we think we are in a secular bull market. Here is the official definition:

A secular market is a market driven by forces that could be in place for many years, causing the price of a particular investment or asset class to rise or fall over a long period of time. In a secular bull market, positive conditions such as low interest rates and strong corporate earnings push stocks prices higher.
Our bullish case is simple -

1. **Consumer purchases**: Make up roughly 70% of the GDP or "Gross Domestic Product". That would make you and I the major drivers of the economy! So, let's evaluate how all of us, "the consumers", are doing. The first positive is obviously gasoline prices. In 2007, gas prices were outrageous, reaching $4.00+ per gallon. Today, gas prices are $2.42 as a national average. I cannot overstate how positive this is for the economy. Consumers now have extra money (an extra $250 per person) to spend on goods and services (e.g. Black Friday and Cyber Monday were huge this year).
2. **Interest Rates**: We have good reason to believe that interest rates may be reaching "neutral". That means the FED won't raise them much more after December. And even better, we are only around 3%. If you remember back, one thing I always harp on is the premium the market is paying in growth and dividends over what bonds are paying. If I have to lock up my money in bonds for 10 years to get a 3% return, while inflation is at 2%, that only gives me a 1% net return! I'm almost forced to stay with stocks to get a required return needed for my longer-term goals, say retirement. When rates reach around 4.5% to 5%, it starts to give the average investor another option. "Hey, why stick my neck out in the stock market when I can get 4.5% on my money?" But, let me re-emphasize, we are only at 3% and looking for the FED to hit the pause button on raising rates in the near future. That means the market still looks attractive. And, it means that the cost of borrowing is still very low. Here is a quick example of how that affects the

consumer: Let's say I want to fix up my house. I go to the bank and ask what it would cost for a home equity loan. If my rate is 3% to borrow money vs. let's say 6%, I'm much more inclined to move forward with the project. (I go buy the things I need for my renovation.) When rates start to creep higher, it becomes a deterrent and often times makes it too expensive for the consumer to complete these projects, affecting the economy negatively.

3. **Taxes**: Finally, let's make it the big 3 and talk about taxes. Not only are your personal taxes lower this year giving you more money in your pocket, but the taxes corporations are paying are way lower than in the past. If you remember back in January, the corporate tax rates were cut from 38.9 percent to 25.7 percent. Which means, rather than hand their profits to the Government, companies get to keep them and either pay higher dividends to their stock holders (us), buy back stock, or invest in new factories. That alone is a big positive for the stock market, which we think was the driver of the big market returns last year. (Remember, markets look forward)

Having mentioned these big 3 secular drivers of economic growth, don't forget we also have full employment and rising wages, which means more people working and making more money to buy things! Throw in very little inflation and that becomes a very compelling story.

Why the pullback?: Now you ask, why is the market going down if all of these positive fundamentals exist? Always remember, markets are NOT perfect. Over history, the market produced a return of around 6% on average. Last year, it was up 21%, which we feel was an anomalous move having deviated from the norm by a large margin. This year, it is correcting and or reverting back towards that average. All are considered the normal workings of a bull market.

And finally, I'll leave you with my opinion that many experts have missed. The big question is: when did this secular bull market start? Many say it started in 2008 after the big crash. I disagree, because the market itself didn't break even until March of 2013! You don't begin the next leg up in the market until you have reached the point of recovery. That would mean that this bull market is only 5 years old, beginning in March of 2013. And with the fundamentals present to support future growth, this does not look anywhere near over.

Moving forward, in the short run we see volatility continuing until stories like China tariffs and interest rate hikes are cleared up. We do not view this recent move as recessionary. And we believe this bull market is not dead, but taking a nap after such a steep climb upward last year. So, don't miss the opportunity to buy low and fund your accounts ASAP!

We at Chapel Hill wish all of our clients have a very Merry Christmas and a Happy Hanukah.

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. Also, feel free to check out the interesting articles below!

*Disclosure: Chapel Hill Investment Analysts Inc. is long AAPL.

-Joe, Ryan, and the Chapel Hill Investment Team

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