Friday, August 17, 2015

The year 2015 has been a year when market conditions have gone thru a consolidation period, after nine years of recovery economic recovery, and stock market growth. For the coming year, expect the stock market to grow slowly but steadily. Also, expect bond market yields to gradually increase.

Slow and Steady will be the descriptive terms used for the coming months. In fact, this may be a rather long period - perhaps as long as 3 years.

NOTES REGARDING A FOREWARD LOOK AT THE AMERICAN ECONOMY AND THE AMERICAN STOCK MARKET

Here is some interesting information that is worth plugging into your thought process for understanding and predicting economic growth in the American economy. Economic growth is directly related to the growth of money supply, along with other indicators of private sector activities.

Commercial and industrial loans have increased at a rate of about 11.8% (nominal) over the past 12 months.

Commercial paper issuance seems to have stopped contracting and is now beginning to grow again. This says that corporations have increasing needs for operating funds and indirectly says that manufacturing and services components of the economy are recovering and expanding, if slowly.

For the past year, money supply (M2)[**] monthly growth numbers have been adding between 5.75% and 6.5%, year over year. However, the Velocity of money continuously has decreased during that same period, from 1.51 to 1.48. It appears that the Velocity number may have stabilized and is likely to begin growing again. That also predicts a slow but steady return to some degree of normalcy to the numbers, and a forecast of a steadily growing economy.

Our fundamental model is suggesting that the bottom in the equities market is likely to occur in late August, 2015, and predicts perhaps the best opportunity to begin investing money into stock market equities, for perhaps several years (3-5 years) to come.

It appears that the price of energy is going to fall even further than it has to date, with production actually increasing and demand remaining at a growth level that is not able to absorb that production. American technology advances in drilling and production are suggesting production costs as low as $30/barrel of oil and perhaps even less. This means that American producers are going to continue producing until the price of oil reaches that cost level. Other producers are prevented from reducing their production, primarily due to government cash flow budget requirements: Iran, Saudi Arabia, Venezuela, Brazil, Russia and perhaps others.

Because of high corporate debt levels in the case of many companies operating in the Oil and Gas industry, Coal and Iron Ore, there are likely to be more companies filing bankruptcy in order to restructure that debt. Look for this to affect our portfolios sometime in the not too distant future. Expect to see recommendations to sell one or two of our bond holdings.

At this time, we have a considerable amount of client money to invest into equity investments - stocks and mutual funds. Until April 1, 2015, we had been investing monthly on a dollar-cost-averaging basis. At that time, the stock market seemed to be quite vulnerable to a sharp contraction in value. For the last four months, the stock market has consolidated and now is ready to once again benefit from what is a very long term growth pattern, prompted by a continuing growth in the US economy, leading the global economy. We will begin once again investing on a monthly basis, and probably look for about a six month period of dollar-cost-averaging investment, in order to complete the investment process we began last year.

August is usually a very quiet, low volume, market month, for almost all investments - equities and fixed income. This year has been especially quite. It seems that the Federal Reserve Board will at last begin raising interest rates, probably adding 25 basis points (1/4%) to the Fed Funds rate. The market seems to have decided that this is going to happen in September, and the 10 year US Treasury has settled into a rather tight trading range between 2.15% and 2.20%. Inflation is pretty tame.

For the coming year, expect the stock market to grow slowly but steadily. Also, expect bond market yields to gradually increase. Slow and Steady will be the descriptive terms used for the coming months.

[**]Money Supply (M2) - A measure of money supply that includes cash and checking deposits (M1) as well as near money. "Near money" in M2 includes savings deposits, money market mutual funds and other time deposits, which are less liquid and not as suitable as exchange mediums but can be quickly converted into cash or checking deposits.