

GENERAL MARKET COMMENTARY

The financial markets have been in disarray since the beginning of 2015. Normally, investors adjust their holdings and the year begins with new themes as portfolio managers put the past behind and start over. However, the 500-pound gorilla in the room is the fact that the US stock market has been profitable for the past six years. In addition, as the chart to the right illustrates, another up-year in 2015 would be unprecedented. The average life span of a bull market since 1930 has been just 3.8 years, with this one nearly two years longer than the average. However, bull markets do not die from old age, they die from developing imbalances that cause the monetary climate to deteriorate, or from increasing inflation, or from interest rate hikes by the Federal Reserve. While they have threatened to do just that, the timing is likely to be in 2015.

This second chart shows the performance of the New York Composite Index, which includes all stocks traded on the NYSE. As you can see it has gone nowhere for the past year, and is either in a long consolidation, or a topping formation. With consumer confidence at increasing levels, and leading economic indicators up 9 of the past 10 months, an economic recession is unlikely before the leading economic indicators have turned down for six to eight months. The new QE program announced in Europe is producing record low interest rates in Europe, with negative rates in many countries. We are in uncharted waters financially, yet investors are currently the most bullish ever,

HIGH YIELD BOND DAMAGE

During the last half of last year, the price of crude oil has dropped over 50%. Most people believed that this would be good for consumers and the economy, but there have been other consequences affecting investors. It seems that many of the high yield bonds issued in the past few years were issued by energy companies, which need the price of crude oil to remain high to make a profit to pay interest on the debt. The speed and magnitude of the sell-off caught everyone unprepared for this situation, causing energy-related high yield bonds to drop precipitously. This caused many to throw away even the bonds not invested in energy. Normally, high yield bonds pay little attention to the price of oil, but the chart to the right illustrates an unprecedented correlation of falling energy prices to falling high yield bonds. Normally, the improving economy has the opposite effect on these bonds. Toward the end of last year, it can be seen that oil prices continued to drop, but high yield bonds stabilized, although the yield spread increased. An increasing yield spread usually indicates bad economic times ahead, and then high yield

Since 1871, US Equities Have Never Risen 7 Consecutive Years in a Row...

DoubleLine

■ Number of consecutive years of positive returns on the S&P 500

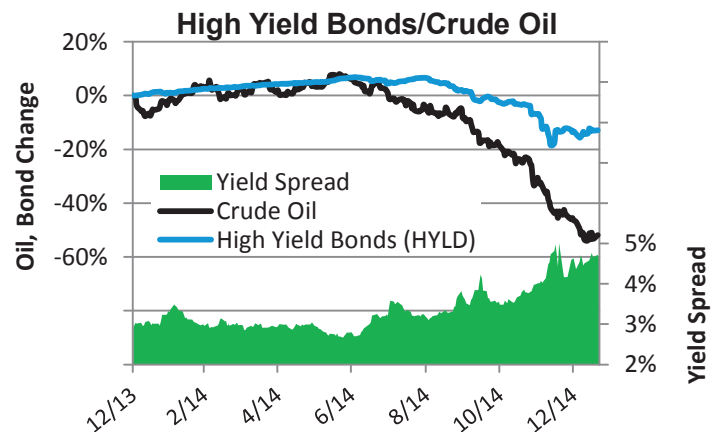


Source: Robert Shiller, Yale University <http://www.econ.yale.edu/~shiller>



and that historically could end quite badly. Investors need to ask themselves if losing half their nest egg would affect the quality of their lifestyle. Maintaining lifestyle is more important than attempting to reach for excessive returns.

bonds should be avoided. We believe that they are now very favorably priced and should begin to outperform for the balance of the year, as many bargains will surface once oil stabilizes. High yield bonds now pay almost 5% more than government bonds (yield spread). A break downward in the uptrending line in green may offer an opportunity for investors to profit from this situation.



PERSONAL PERSPECTIVE by Ralph Doudera
“Sometimes you successful folks can rise up so high reaching for more stuff that you miss knowing God. But you can never stoop low to help somebody and have God miss knowing you.”

One of the most emotional books I have encountered, **Same Kind of Different As Me**, is a true story (and soon to be released as a motion picture) that brings together a homeless, modern day black slave from Texas, without any education, whose life intersects a wealthy art dealer and a woman who’s response to God’s call on her life makes the unpredictable happen. Denver Moore has a lot to say using few words:

“If you really serious ’bout helpin’ somebody, crawl down in the ditch with ’em, bandage up their wounds, and stick with ’em until they is strong enough to crawl up on your back and get out.”

This journey started for me over 20 years ago when I had the opportunity to work beside Mother Teresa in Calcutta and take off my monogrammed custom tailored suit and get my hands dirty in her hospital for the destitute and dying. Why would I want to do that? I lived in a bubble of affluence and privilege. Was I open to experience this opportunity? Am I now? Life seems to throw curves balls at us often times in ways we don’t expect, or want to embrace. And we might

just get connected to people who are very different than we are to help us understand life better.

“Most people want to be circled by safety, not by the unexpected. The unexpected can take you out. But the unexpected can also take you over and change your life. Put a heart in your body where a stone used to be.”

The book is full of truth presented by an uneducated slave who eventually gets his life put together and gives spiritually profound guidance to a lot of rich folk. Like me. I had to take notes, as he was speaking truth to me, and I thought I would share a few of his thoughts with you:

“Our limitation is God’s opportunity. When you get all the way to the end of your rope and there ain’t nothin’ you can do, that’s when God takes over.”

“The Word says God don’t give us credit for lovin’ the folks we want to love anyway. No, He gives us credit for loving the unlovable.”

“I found out everybody’s different – the same kind of different as me. We’re all just regular folks walkin’ down the road God done set in front of us. The truth about it is, whether we is rich or poor or something in between, this earth ain’t no final restin’ place. So in a way, we is all homeless – just workin’ our way toward home.”

Quotes by Denver Moore

“Steady plodding brings prosperity; hasty speculation brings poverty” (Proverbs 21:5, LB)

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