Uncommon INSIGHT

SYM FINANCIAL ADVISORS NEWSLETTER

SUMMER 2014

SYM Financial Advisors

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Good News, An Unloved Bull Market is in Progress

"Money managers are unhappy because 70% of them are lagging the S&P 500 and see the end of another quarter approaching. Economists are unhappy because they do not know what to believe: this month's forecast of a strong economy or last month's forecast of a weak economy. Technicians are unhappy because the market refuses to correct and gets more and more extended. Foreigners are unhappy because due to their underinvested status in the U.S., they have missed the biggest double-play (a big currency move plus a big stock market move) in decades. The public is unhappy because they just plain missed out on the party after being scared into cash after the crash. It almost seems ungrateful for so many to be unhappy about a market that has done so well. ... Unhappy people would prefer the market to correct to allow them to buy and feel happy, which is just the reason for a further rise. Frustrating the majority is the market's primary goal."

Bob Farrell, a strategist for Merrill Lynch, wrote this comment in September 1989, two years after the crash in October 1987 and, as we know now, just before the bull market of the 1990's. The bull market of that era started in 1982 after a difficult decade of the 1970's. During the 1980's we witnessed the closure of over 1,000 savings and loan associations. Today, we have recovered from the crash of 2008-2009 where again we witnessed the failure and restructuring of many of our banks. And we endured a difficult decade of the 2000's that some call the "lost decade" for investors.

Mark Twain wrote "History does not repeat itself, but it does rhyme."

There is no denying that stock prices have advanced considerably from the depths that

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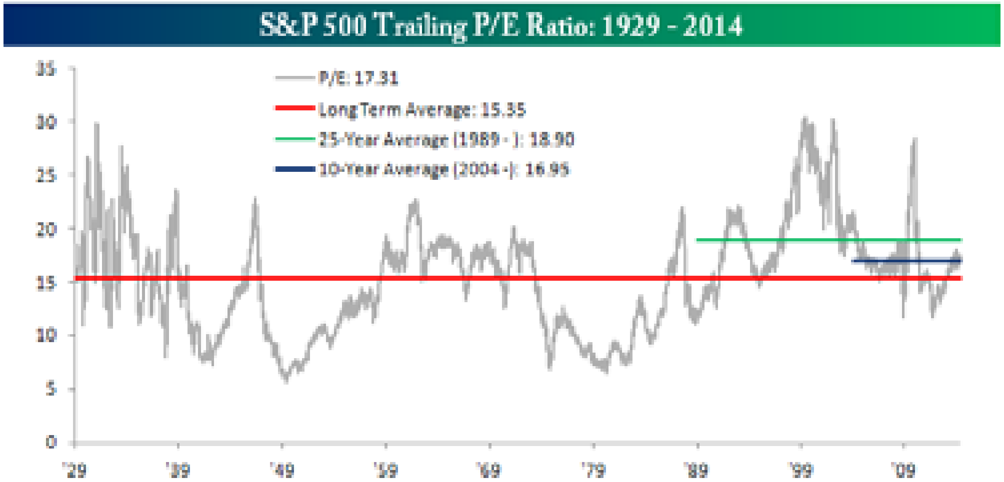

were reached in March 2009. Last year the S&P 500 rose 32%. After a few months of no progress in 2014, the S&P 500 is up 7.14%. The market is at all-time highs. While exciting, these levels can also be unnerving because the next bear market will emerge from one of them. We just don't know which one. Bull markets are known to make new all-time highs over and over again.

Some market watchers worry about the impact of the Federal Reserve tapering and the prospect of higher interest rates. Others point to a possible slowdown in China or a less than robust European economy. Still others focus on a tepid jobs market in the U.S.. There is always something to point to if you want to concern yourself about an impending fall. Even with all this "noise", we must not lose sight of the fact that corporate earnings, one of the key underpinnings of stock values, have advanced right along with prices (arguably causing the price increases). Profit margins are higher than ever, and good businesses *should* grow in value.

At the same time, markets experience corrections from time to time, but the question is, should we try to do anything about it? The studied answer is decidedly, No! As long-term investors, we are focused on long-term opportunities as new industries evolve and new avenues for growth develop. All too often investors focus on daily volatility (day to day changes in prices established by traders not investors), recent headlines (typically biased to the negative), and corrections of the past. There is no shortage of expensive investment products that promise to eliminate or diminish volatility while providing long-term gains. By attempting to avoid market downturns, market- timers seek the objective of these institutional investment products. Even a correct forecast can turn into a losing investment strategy when one tries to guess the timing of a correction's onset. The next correction is no more predictable than the last, and investors consistently rob themselves of returns if they try to time the markets.

<u>Is the market overvalued</u>? We can look at the current price to earnings (P/E) levels versus the historical averages to observe how expensive stocks are per dollar of earnings compared to a "typical" value. The long-term average (highlighted in red in the chart above), from 1929 to the present has been a P/E ratio of 15.35. The period includes several long stretches where stocks traded at a huge discount -- some of the post-crash 1930s, most of the 1940s, all of the 1950s, all of the 1970s and the early 1980s.

The P/E ratios of the past 25 years provide a different perspective. The average, at 18.90, is much higher. Almost the entire period shows a P/E ratio above the long-term 85-year average. This is really no surprise considering it includes the mayhem of the dot-com era as well as the no earnings/low earnings of the 2008-2009 financial crisis.

Lastly, consider the past decade. Since 2004, the P/E ratio split the difference between the other two historical periods, averaging about 16.95. Stocks are cheaper than they were over the prior 25 years, but more expensive than they were over the prior 85 years. Stocks are currently trading at the 10-year average P/E level.

<u>Are there no investors left to buy stocks</u>? In the early 1980s, the average investor had equity exposure of just 45%. In the late 1990s, the average allocation rose to 75% and higher. In 2012, after the market crash of 2009, equity exposure was just 37%. A move back to 60% could have a significant long-term impact on the continuation of this bull market, as heavy buying activity lifts prices.

<u>Putting it together</u>

We see no data that would support an exodus from stocks based on overly positive market sentiment today. Indeed, most of the data suggest that a large number of individual investors have yet to return. If history holds, the "top" will not be formed until these individuals belatedly come running back to equities.

There is no future in the past and there is no reason for long-term investors to limit their future with irrational pessimism. Stay focused on the big picture with a well-diversified portfolio that fits with your individual planning circumstances and ignore the day-to-day changes in equity prices.

- SYM Investment Committee

2014 Bond Market: Let's Get The Rates Up

If we had to identify and rank some common themes of questions posed to us during the second quarter, the topic of interest rates and their future direction would be near the top. Broadly, our belief is that rates will rise during the balance of the year as a stronger economy becomes more evident. Because rates have not begun their predicted ascent, it makes sense to review what has occurred in the bond market year to date and highlight a few key reasons that have contributed to lower rates in 2014. First, there aren't too many bonds floating around as overall issuance is down. Second, interest rates were affected by negative GDP growth in Q1. Third, going into 2014, there was a drag caused by a huge short position in the U.S. Treasury market. Finally, the geo-political challenges of Russia and Ukraine and the alarming movement of ISIS across Syria and Iraq have caused both a concern of economic slow-down and a flight to safety within U.S. Treasuries. The consensus of Q2 GDP forecasts equals 3.4%, which would make the average for the first two quarters equal approximately 1.5%.

So what is the case for a stronger economy and a rise in interest rates during the second half of 2014?

- As stated in previous writings, we do not line up our thinking exclusively on Fed policy. However, we do suggest the following: The Federal Reserve ended a two-day policy meeting on June 18th and showed a hint of optimism about the economy. After a contraction in the first quarter, the Fed now expects GDP growth of 2.2% in 2014, indicating a pickup during the second half of the year.
- The Fed's short-term interest rate, called the federal funds rate, is projected to rise to 1.2% by the end of 2015 and 2.5% by the end of 2016. This would not be the case if more growth weren't expected. If we combine this forecast with a program of quantitative easing - that continues to be tapered and is expected to end in the fourth quarter of this year - we see that the easy money the Fed has provided for the economy is also slowly being shut off.
- Despite what appears as a slow GDP growth rate for 2014 there are other measures of economic activity which suggest a higher growth economy. Many of these indicators have seen acceleration and therefore a positive growth trajectory since early 2013. According to a lead economist at Goldman Sachs, we are on the fastest growth pace since the crisis of 2007/2008. Some of these positive growth metrics are:
  - Payroll numbers
  - Jobless claims
  - Manufacturing surveys
  - Recovery in capital spending growth
  - Housing
  - Wage inflation due to lack of qualified workers

Housing has been quite weak over the last couple of quarters. Residential investment (total home building in the GDP report) was down in both the fourth quarter of last year and the first quarter of this year. We attribute that slowness to the increase in mortgage rates that we saw in the middle of 2013, and to some extent, the weather. When mortgage rates increase, it takes a number of quarters to work their way through the system. If that is the case then we would expect for activity to pick up once again. We also think that there are some longer-term fundamental forces that will help us on the housing side. In particular, there is a sizable group of young adults who, after most recently living with their parents, want to move out on their own. The share of 18 to 34 year olds who are living with their parents is at a very high level relative to where it was in the mid-2000s. As the job market continues to improve, we see that level being reduced. Too, we continue to view low-mortgage rates as an inducement for activity.

Housing starts continue to be one of the more highly discussed metrics on Wall Street. One of our celebrated bond portfolio managers, Jeff Gundlach, feels that student debt, job security and availability of employment, difficult mortgage lending standards and interest rate expectations based from experience will hold down housing starts and thus negatively affect economic growth.

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Announcing!

Jay Dunnuck Joins SYM Fort Wayne Team

SYM Financial Advisors is pleased to announce that Jay Dunnuck will be working out of our Fort Wayne office. Jay has 10 years experience with SYM and has the unique perspective of working with clients from Winona Lake, Midland and now Fort Wayne.

Jay is a CFP® Practioner and also holds the MPAS℠ designation (Master Planner Advanced Studies). He obtained a Bachelor of Science Degree in Business Management/Finance from Purdue University, West Lafayette, IN and also a Master of Science Degree in Personal Financial Planning from the College for Financial Planning, Denver, CO.

Jay has a passion for community development efforts in Latin America. He and his family spent a large part of 2013 living in Mexico experiencing Hispanic culture, learning Spanish, and participating in neighborhood development needs in Latin America.

Jay, his wife Julianne, and their four children reside in Fort Wayne, IN. He enjoys spending time with his family, practicing Spanish with native speakers, and involvement in church activities.

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US Treasury Bonds				
Maturity	Yield	Yesterday	Last Week	Last Month
3 Month	0.01	0.00	0.01	0.02
6 Month	0.04	0.03	0.03	0.04
2 Year	0.46	0.45	0.45	0.34
3 Year	0.82	0.83	0.90	0.77
5 Year	1.61	1.62	1.70	1.52
10 Year	2.52	2.53	2.62	2.48
30 Year	3.35	3.37	3.45	3.33

In conclusion, it has been quite apparent since 2008 that the risk to global markets has been deflation and not inflation. The Fed will do anything to reverse any indication of deflation and, in fact, it would be surprising if the FOMC deviates from its usual objective of low, stable inflation. Many have argued that asset price inflation has been created by the Fed's expanded balance sheet. We would argue that, to the extent that is true, then that has been a good thing. As corporate and private balance sheets have improved because of the monetary policies, equity has been created that has no parallel liability. It has long been our thinking that asset price reflation is reasonable, and perhaps the only way out of excessive debt levels as long as they are accompanied by reasonable tax and fiscal policy reforms. It is not lost on us that the other side of easy monetary policy (financial repression) has also caused stress on the economy. Savers, retirees and workers have all had to alter their thinking and plans of work, spending and investment. While economic purists might not agree with the Fed policies that brought us to this place, consideration should be given to the "what if" had actions not been taken.

Tracey Yeager Memorial 5K Run/Walk ... Update

724 registered runners, along with hundreds of spectators, gathered to remember loved ones and fallen countrymen at the 3rd Annual Tracey Yeager Memorial 5K in Winona Lake on Monday.

The event raised more than $37,000 for the Tracey's Trails Fund at the Kosciusko Community Foundation.

After the race, Steve expressed his gratitude to the participants, 75 volunteers, and sponsors: "We couldn't have been happier with the incredible turnout for this community event. The weather was perfect and the atmosphere was the kind that makes you incredibly thankful to live in such a great community."

In an innocent testament to our privileged way of life, many racers in the two-to-eight year old category identified "throwing water cups like a pro" as their favorite part of the race.

This event is becoming Memorial Day tradition for many in the Kosciusko County area and next year will be held on May 25th.

Tracey graduated from the United States Naval Academy in 1990 and served as a Naval officer flying CH-46 helicopters. She earned the rank of Lieutenant, and resigned in 1999 to proudly pursue her calling as the mother of three young children and the wife of Steve Yeager, also a USNA graduate. Throughout her struggle with cancer, Tracey was a model of faith, strength, and courage. She positively inspired everyone who came into contact with her. She passed away on Memorial Day of 2010.

THE SYM DIFFERENCE

If you have any questions about the management of your portfolio, please don't hesitate to contact your advisor and/or team.

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