Late Fall 2015 Commentary

Tumultuous Year Sees Scant Progress in the Investment Markets

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We are nearing the end of a tumultuous year in the investment markets. Just last week, every trading day saw triple digit moves in the Dow Jones Industrial Average. Arguably the biggest concern of the year, one that seems likely to be resolved at this week's Federal Reserve Board meeting, has been uncertainty about the timing of the long awaited interest rate hike - the first since 2006. The Fed typically increases interest rates to cool off a hot economy, so raising rates in an environment where the economy may be improving, but is far from ebullient, is entering uncharted waters. On the other hand, the argument for a tightening is the belief that interest rates should be reflective of a growing economy. The extraordinary zero interest rate measures required in 2008 and 2009 seem no longer to be necessary.

Surprise drop in oil prices. One matter that will remain unresolved as we enter the New Year is the effect on the investment markets of oil prices which just reached a seven-year low. While consumer pocketbooks benefit from low energy prices (although this doesn't seem to be stimulating overly robust holiday sales), the prices of stocks and bonds directly or indirectly tied to oil prices have plummeted.

2016 outlook. The outlook for next year is modest economic growth, continuing the weakest expansion in decades, although recent weakness in manufacturing could impair even a modest growth forecast. The U.S. remains the world's strongest economy, although the strong dollar and weak foreign economies combine to hamper the sales and profits of U.S. multinationals. As always, events as yet unknown will likely influence the direction of the stock and bond markets next year, exacerbated by continued volatility in the markets that is likely to persist as the Fed gradually increases interest rates.

A look back at stock market declines. Speaking of volatility, the constant fear is a stock market correction (a drop in stock values of 10% or more) or worse, a bear market (a decline of at least 20%). We've been through agonizing downturns in the past (most recently in August of this year) and these corrections will no doubt arise with some regularity in the future. This is a natural part of the investing process, although it scares the daylights out of most investors. The following table, prepared by our friends at Capital Research and Management Company, shows just how often these unhappy events arise.

A History of Declines in the Dow Jones Industrial Average (1900 – 2015)

Severity of Decline	Average Frequency
5%	Three times a year
10%	Once a year
15%	Once every two years
20%	Once every 3½ years

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That's the bad news. The good news is that in the great majority of instances, the stock market recovers the entirety of the loss and then some over a period of time that is typically shorter than it took for the loss to arise.

> *History has shown the biggest risk is not being in the market when it drops, but being out of the market when it rises.*
>
> Jim Jorgensen

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