

as we  see it

Holiday 2018

## THOUGHTS FROM OUR CHAIRMAN

This has been an interesting year, one in which the US economy has once again begun to grow at a reasonable rate. The US and its trading partners are reassessing and renegotiating their agreements, many of which have been in place for decades. Anti-globalist sentiments appear to have a significant influence on the direction of these negotiations. In this, our holiday issue, Sam Hallowell shares our thoughts about the economy and the markets.

From all of us at Van Liew Trust Company, we wish you a safe and happy holiday season.

*Alfred B. Van Liew*

## Mama Said

*Samuel H. Hallowell, Jr.*

“Mama said there’ll be days like this,  
There’ll be days like this my Mama said”

- Song lyrics from Mama Said from the record album “The Shirelles Sing to Trumpets & Strings”, Scepter Music, (1961)

As this is written, equity markets around the world are reeling from increased price volatility. Worry is back with a vengeance despite good economic fundamentals. Domestic corporate earnings, revenue and employment numbers remain strong, consumer confidence is at an historic high and analytical sources we follow do not forecast a recession in the foreseeable future. Why then the burst of investor angst at this point?

In simple terms, the month of October always seems to elevate investor skittishness. Memories still linger in the minds of many investors about Black Monday, October 19, 1987, when the Dow Jones and S&P 500 Indexes both fell over 20% in value in a day. Program trading was widely acknowledged the villain although

talk of a possible Bear Market was already in the air. This time around, despite strong fundamentals and low inflation, the talk of a Bear Market on the horizon is relatively quiet with the investing community principally focused on rising interest rates and a possible trade war with China.

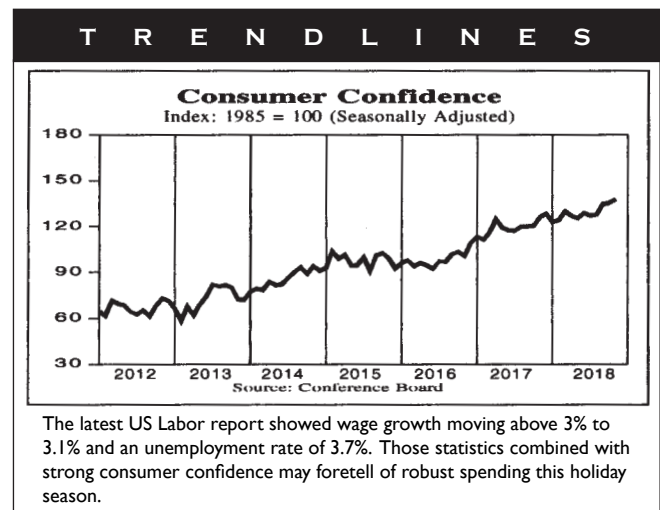
The current S&P 500 price to 12 month earnings multiple is slightly expensive. The 10 year historical average is 14.5X versus 15.5X today according to FactSet Research Systems, Inc. We believe the premium is justified based on our continued robust recovery from the 2008 financial crisis. Foreign stock markets do, by and large, sport lower multiples but their growth rates have trailed ours. We do see indications of a gradual economic slowdown in 2019, but nothing that would precipitate an earnings meltdown causing an extreme fall in equity prices. To the contrary, we believe that S&P 500 earnings could broadly expand at high single or double-digit rates even with the weakening influence of this year’s

corporate tax cut. Given this positive backdrop we believe the current fireworks are more emblematic of a periodic short-term pullback in an ongoing bull market rather than a long-term contraction.

To illustrate this point we turn to the work of Yardeni Research, Inc. Dr. Ed Yardeni is a well-known global strategist and he and his firm periodically produce a report entitled Market Briefing: S&P 500 Bull & Bear Markets and Corrections. In the latest edition dated October 12, 2018, they chart the closing prices of the S&P 500 Index from 1929 to 10/12/18 showing the amounts and durations of stock market declines of 10% or more from 1929 to 2009 and 5% or more from 2009 to 10/12/18. The report defines a market correction as a drop of 10-20% and a Bear Market as a drop of 20% or more. During the last 47 years (1971 to present) there have been 19 significant market declines. The average depth and duration for the corrections were -14.5% (lasting 104 days) and for the 5 Bear Markets -42.99% (lasting 559 days). The bottom line is that corrections occur far more frequently than Bear Markets, roughly every two

years, and their recovery time is relatively short. Bear Markets occur roughly at 3-5 year intervals often signaling an on-coming recession. The last we experienced was in 2007-2009 caused by the financial meltdown. We do not see the indicators of economic activity pointing in the direction of a severe slowdown nor is our nation on the brink of a financial crisis. That is why we see the market's current condition as a market correction and advise customers to stay the course.

The last line of the song Mama Said went on to say "Hey don't you worry now, Mama said, Mama said". We believe investors should listen to Mama.



*We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.*

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Ask for James Powell

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