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A FORK IN THE ROAD

Dear Valued Client,

One of the great philosophers of our day, the late Yogi Berra, once said, “When you come to a fork in the road, take it.” While we may chuckle at such an odd comment, Yogi’s saying offers insightful wisdom. Often interpreted as a point in life where you need to make a pivotal decision, a fork in the road is also conundrum that stock markets frequently face. After the pull back of late August, the market is now deciding which branch of the road to take: to move higher, perhaps back to all-time highs; or to pullback.

Market corrections are a normal part of any bull market cycle. Since 1971, they have occurred about ever 2 ½ years on average. The key concern with any correction is what it may be signaling, be it simply a growth scare or, perhaps, something more sinister, like a U.S., or even a global recession. While other minor corrections have taken place during this bull market, including the pullback in October 2014 or even the fiscal cliff correction in late 2012, the late August drawdown was different.

A Different Kind of Pullback

Leading up to the correction, there were many characteristics present that differentiated this market downturn from those earlier in the bull market run. The market had been moving in a sideways pattern, generating modest returns while stock prices became more fully valued. As the market bided its time, the level of economic uncertainty grew, with sluggish global growth, a rising dollar and even fears of a hard landing in China negatively impacting the corporate profit outlook. Policy uncertainty at the Federal Reserve (Fed), with their decision on interest rates also served to increase volatility in developing markets as many participants saw the Fed’s inaction as a sign of overall global economic weakness. Finally, they increased interest rates 0.25% on December 16th.

After any pullback, the U.S. equity market traditionally enters a bit of a holding pattern. But, like the Fed, the stock market is becoming very data dependent, monitoring global macro developments before deciding which direction it will head. The typical resolution is for markets to eventually push higher because this downturn caused the market to fall to levels that have historically represented good value. This is an important fact, as it affords “value” managers the opportunity to buy stocks that offer attractive appreciation potential from current prices, and thus provides strong support in the wake of the market weakness.

The recent pullback actually served to reset investors' views on risk and return. What feels like the worst time to invest – or stay invested – has often been the best. History shows that the stock market has demonstrated strength in the face of challenges and long-term investors have been rewarded for staying invested. From a low in March 2009, the S&P rallied over 206% on a cumulative total return basis thru December 15, 2015 according to *The Wall Street Journal*.

What is the Outlook for 2016

I do not see any recession. The economy continues to grow and expand – but slowly. Economic conditions seem good enough that the bull market in U.S. stocks could continue for an eighth year. Interest rates after the recent 0.25% raise will likely go up slowly, not enough to hamper growth of the economy. Consumer sentiment is strong...unemployment is the lowest it has been in seven years…and housing prices continue to rise. Investors should look past this year's market volatility and wide-spread pessimism to 2016. I expect the stock market to do well next year. Both the Dow Jones Industrial Average and S&P 500 stock index will likely go up 5% to 7% in 2016. However, somewhere along the way, another 10% market pullback or several smaller dips will probably occur. These temporary setbacks should present opportunities to invest.

Once again, thank you for your business. With great sincerity I wish you and your family a happy, healthy and prosperous New Year.

Sincerely,

Harold G. Nahigian
Financial Consultant

P.S. – As you may already know, my son Steven Nahigian and I have a website, www.NahigianFinancialNetwork.com, with market commentary and financial tools.