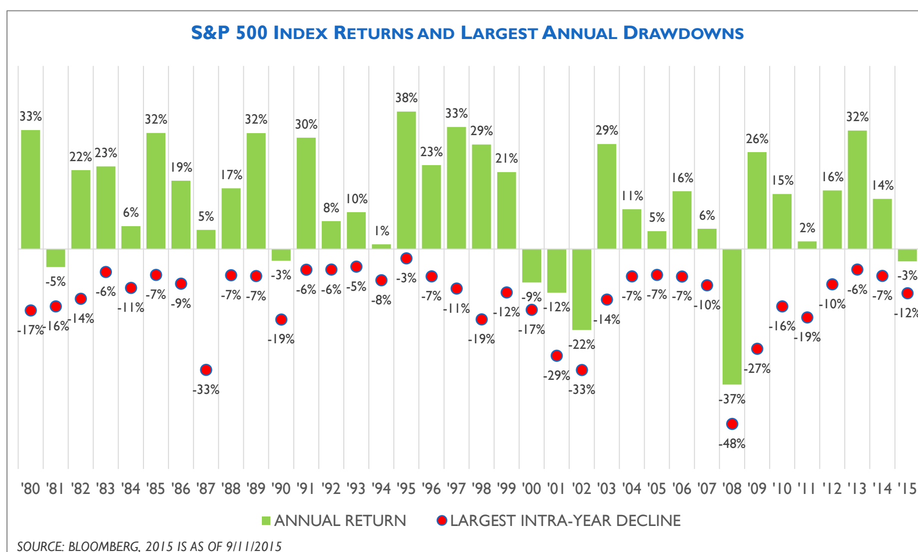
Angeles
WEALTH MANAGEMENT

A Secular Bull Market is generally defined as a long-term bullish trend consisting of larger bull markets and smaller bear markets or corrections. In a secular bull market, the corrections are often rapid and scary, but generally make higher lows than the previous correction, followed by extended periods of advance. Recorded Secular Bull Markets have generally lasted between 5-25 years.

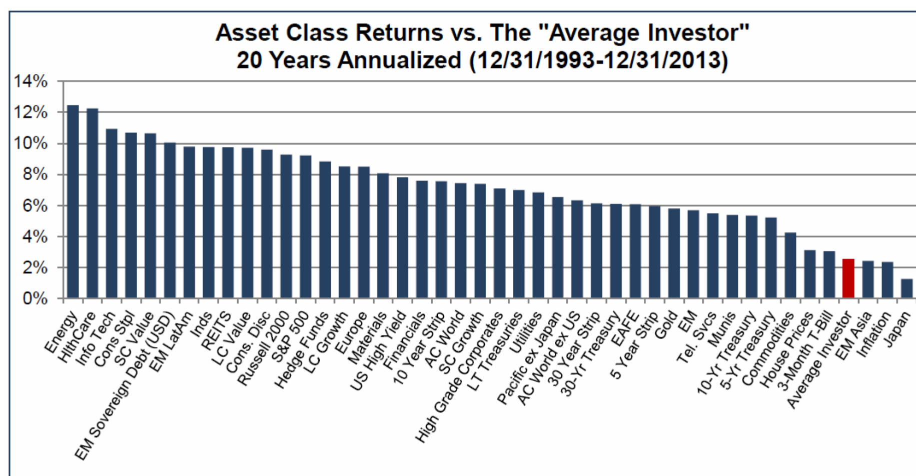
We strongly believe that the current down cycle in equity markets is a correction, and not the end of this Secular Bull Market. We also believe that maintaining a strategic asset allocation, not trying to time the market, is the most successful strategy. We have attached some interesting data points that we believe help to make our case.

MARKET "DRAWDOWNS" ARE A REGULAR OCCURENCE



As you can see in the chart, even the best of years have certain periods of significant decline. This is regular, healthy market activity.

THE AVERAGE SELF-DIRECTED INVESTOR



Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.
Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

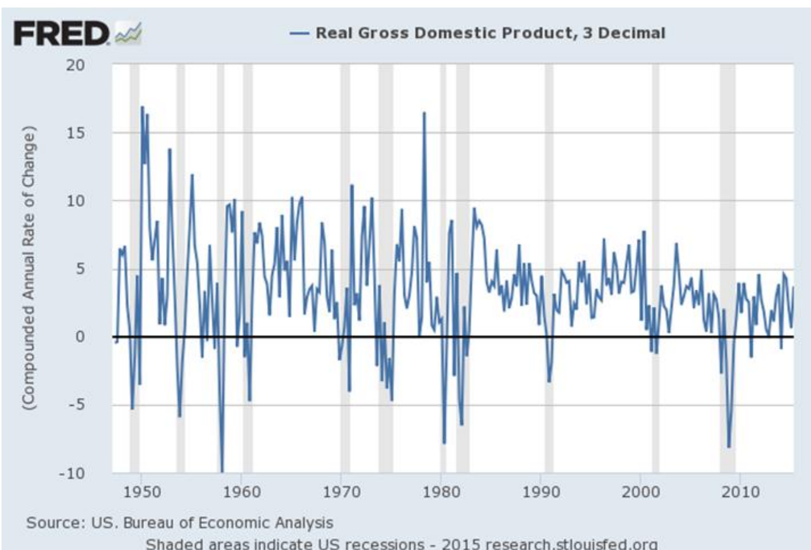
We believe the chart shows that average investors, making their own decisions, make questionable purchases and sales. No investor can participate directly in an index, and fees reduce the investor (and not index) returns, but we believe self-directed investors let emotion play a part in their trading, which can result in poor performance.

A RECENT EXAMPLE SHOWS EVEN IF YOU BUY AT THE TOP OF A MARKET CYCYLE, REMAINING INVESTED DURING MARKET DOWNTURNS CAN PAY OFF.

This chart, originally produced by Vanguard, is quite interesting. This shows a 50% stock/50% bond portfolio bought at the top of the market peak of 2007, and held all the way through March 2014, versus selling this portfolio to buy 100% bonds or 100% cash at the market low point. In short, "staying the course" performed materially better.

US ECONOMIC DATA IS POSITIVE & GENERALLY IMPROVING

In his August 28th blog post, my partner and CIO Michael Rosen, wrote the following:



By Michael Rosen on August 28, 2015 at 2:52 pm

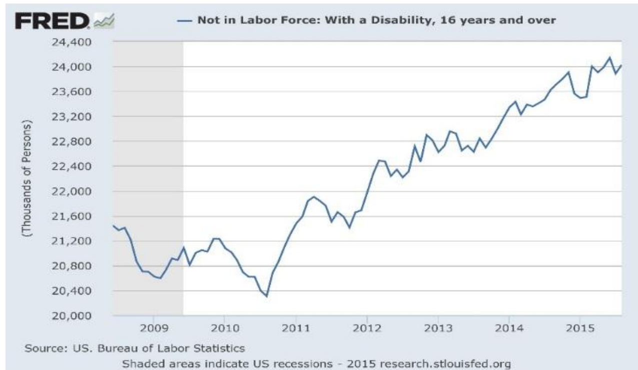
Lost amidst the market turmoil this week were a number of reports of a strengthening US economy. Consumer confidence soared last month, as did new home sales. Durable goods orders surprised with a 2% jump in July, and personal incomes rose, and are up 4.3% over the past twelve months. 2Q GDP was revised sharply higher, from a 2.3% annual growth rate to 3.7%. This pace is above the 3.2% quarterly average over the past 65 years (see Graph).

All major components of GDP were revised higher, indicating broad strength in the economy, with business investment particularly strong. In contrast, the European economy crept just 0.4% higher last quarter, while Japan's actually contracted by 1.6%. China grew at a 7% pace in the second quarter, or so they say.

While there is a lot to worry about in the world, that's really always true. The risk of a recession in the US is very low, and I just don't see a collapse in equity prices. Volatility, to be sure, but the US economy is growing and monetary remains accommodative. So we stay the course.

US JOBS DATA IS VERY BULLISH

Here again, I refer to an excellent blog post from Michael Rosen on September 4th:



By Michael Rosen on September 4, 2015 at 10:28 am

Markets have taken today's employment release as evidence of a weakening jobs market. A mere 173,000 net new jobs were added in August, below the consensus figure of 217,000. But, coincidentally, 44,000 more jobs were added to previous months' figures. So, you could say we were right on expectations. Clearly, today the markets disagree.

The unemployment rate fell to 5.1%, from 5.3%, and the labor participation rate remained at 62.6%, the lowest level since 1977. Baby Boomer retirements (structural) and rising disability rolls policy (see Graph - yes, that's 24 million people) probably account for the bulk of the low participation rate.

So, I'm making the case that the headline numbers are not as bad as the market seems to think, and the news is encouraging even as we look a little deeper. Over the past twelve months, the economy has added more than 2.9 million net new jobs, well in excess of population growth, much less labor force growth. This growth has occurred even as part-time employment has fallen by 765,000.

Average hourly earnings are up 2.2% from a year ago, a little ahead of inflation, but hours worked are up 2.7%, so workers' cash earnings are up 4.9%. Looking even deeper, there is reason to be optimistic about future wage growth, particularly as we see the "quit rate," the percentage of workers switching jobs, move higher. There is a very strong correlation (0.9) between the quit rate and wage growth (see Graph). Markets will be volatile (to paraphrase J.P. Morgan), but the employment picture remains encouraging.

I hope you find this all interesting, and I invite your comments. More thoughts to come soon!

Jon Foster
September 11, 2015

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