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Dow Jones Industrial Avg.	**17,776.12**	**Standard and Poor's 500**	**2067.89**
2015(YTD) - 0.26 %	1st Qtr. - 0.26 %	2015(YTD) + 0.44%	1st Qtr. + 0.44%

Time to Reflect – "Nothing sedates rationality like large doses of effortless money." - Warren Buffett

A Force of Nature – Prepare to do some mountain climbing. Nepal, a very small Asian country, has recently attracted considerable attention due to a series of highly destructive earthquakes that have befallen the country. The most serious of these tremors caused widespread devastation, especially in the capital city of Kathmandu. It was followed by a number of destructive aftershocks. This was not a total surprise. Geologic experts have known about the potential for such an occurrence in the region for some time due to the tectonic plate formations that exist there. More than 8,000 deaths were recorded, including a number of climbers who were trying to conquer Mount Everest. Will the United States provide some much needed aid as is our custom? Let us hope so. The moral of this vignette is there are risks we cannot control and Mother Nature is one of them.

Another Government Black Hole – There is a lofty peak of another kind and it is the mountain comprised of student debt. Yes, the government has found another way to add to the $17 trillion national debt, and it is by providing guarantees for much of the $1.25 trillion in loans for higher education. Students and parents borrow too much; find the loan payments too burdensome; and default too often. They can afford to be blasé about their obligations because the government is all too willing to pass the burden on to taxpayers. Further evidence of the disconnect in Washington is the proposal by the President to simply forgive the debt for some of the less well-off. When borrowers know they will not have to honor their obligations, what will be the likely outcome? Correct; more borrowing. It seems like all pleasure and no pain for the lucky few, the rest of us will face the day of reckoning when interest rates rise or the debt comes due. This is an example of things we can control, but will not.

… then there is the stock market. - Just as there are peaks and valleys in geography and government financing, there are highs and lows in investing. Headlines tell us the stock market has been hitting new high marks with some regularity this year, especially since the end of the first quarter. Leading the way is the NASDAQ, which is ahead 7.5% so far this year. The Standard & Poor's 500 and the Dow Jones Industrials are modestly ahead 2.4% and 1.1% respectively. When certain technical patterns are present, experienced investors prepare themselves for an eventual correction. Since the bear market of 2008-09, stocks have enjoyed a six year advance. Bull markets of more than six years are extremely rare. Some caution seems advisable. The moral is investors can select their own degree of risk exposure and now is an appropriate time for such a reassessment.

Although there is no imminent threat to the extended market advance, prudent investors are wise to consider defensive positioning before an avalanche hits and knocks them from their peak. There is no ideal way of accomplishing this. Some options will provide a modicum of protection; others will exact an unwelcomed penalty. To some a cash reserve is the ideal hedge; to others, it is idle capital. Any market decline is lessened by a heftier cash position, conversely any gains will be diminished by this approach. Two other tactics employed by cautious investors are: first, to favor more defensive industries, such as consumer non-durables (e.g., food, drink, disposable paper products, etc.), healthcare, and utilities; or second, to employ wider diversification by employing asset categories well beyond stocks and bonds. This will provide some comfort to the cautious or even bearish investors because they now are aware of some different ways to reduce their exposure to stocks specifically or the market in general.

Boost from Economy? – Will this economy ever attain cruising speed? A more basic question is: "Does two percent growth even qualify as a recovery?" If media commentators and reporters were more familiar with basic economics and understood their responsibility to educate and inform the public, their work might engender a robust, productive debate identifying policies capable of generating a satisfactory rate of growth. Instead as the Presidential candidates begin to jockey for position and the political rhetoric intensifies, the focus of the debate will shift to the widening gap of income disparity. The result is predictable. Liberals will assert government edicts (including a higher national minimum wage) and regulation are the best way to narrow the gap, while conservatives see a growing economy as the optimal path. Both sides acknowledge the private sector requires some degree of regulatory and tax relief targeted specifically at small and medium sized businesses, which are the primary generators of new jobs.

The FED and Modern Day Robber Barons - As has been stated in earlier commentaries, the Federal Reserve (i.e., the FED) must reverse policy and terminate Quantitative Easing (i.e., Q.E.) soon. Through Q.E., the FED has pushed interest rates down to historically low levels and kept them there for a prolonged period of time. Savers have been penalized long enough. Yet whenever the topic resurfaces the FED decides the time is not right. Their theory is that by retaining low interest rates, more borrowing will occur and economic growth will accelerate. Whatever the initial benefit of this policy, the impact now is considerably diminished. Today's popular "cause celebre" is the $15 minimum wage, however if you calculate the amount denied to savers particularly senior citizens over the past six years, it dwarfs the future earnings benefit to the minimum wage cadre.

Even more egregious are the benefits accruing to large corporations, corporate activists, and hedge funds stemming from Q.E. Their risk filter is distorted because they are able to borrow large sums for next-to-nothing, so instead of investing to create growth in the economy they invest to enrich themselves. Corporations are pressured not to reinvest in their businesses, but to resort to various forms of financial engineering. Some manifestations of this trend are stock buybacks; spin-offs; and debt-funded acquisitions. Is it any wonder corporate growth has slowed to a crawl?

What level of growth is predicted for the balance of the year? The first quarter yielded little economic growth due largely to the weather. Two other inhibiting factors were the strength of the dollar and the continued decline in energy prices through most of the quarter. Earnings of large multinational corporations saw the greatest negative impact as a result of strength in the dollar. Companies in the energy sector were severely impacted by the dramatic plunge in energy prices that began last fall. As a consequence, the majority of experts lowered their expectations for the current quarter. Two to three percent growth is where the consensus lies. The majority of experts expect the second half of the year to be much better than the first with growth averaging 3-4 %.

Slim "Pick'ins" – For the past few years, the stock market has been regarded as "the only game in town." This meant it has been regarded as the best place to earn a decent return on your money. Money market accounts and bank C.D.s have provided scant returns (0-1%). Bond yields are slightly higher, but to earn more than 3% it is necessary to take some additional risks (e.g. longer maturity or lower quality). Stocks have provided good risk-adjusted returns since the drastic drop in 2008-09. Now valuations are above average and dividend yields are much less attractive than they have been. The wild card is earnings expectations, which are rather pedestrian. If interested in a contrarian idea, European stocks are more attractively priced than the U.S. and growth in that region appears to be on an upward swing. The obvious caveat is Greece. Although it comprises only a tiny percentage in the European Union (i.e., E.U.), it is flirting with bankruptcy. If it is unable to placate its creditors, there might be a domino effect throughout the region.

In the U. S. investors are advised to focus on medium to large corporations with a heavy reliance on domestic markets and with the ability to generate consistent revenue growth. An experienced, shareholder-friendly management team is a big plus. Such companies should also have healthy balance sheets (moderate debt) with a reasonable, yet growing dividend. The moral is selectivity rules.

Enjoy your summer. JML-05/30/15