Courier Capital, LLC

Market Review & Update

SPRING 2016

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Jason Stronz

Steve Gattuso

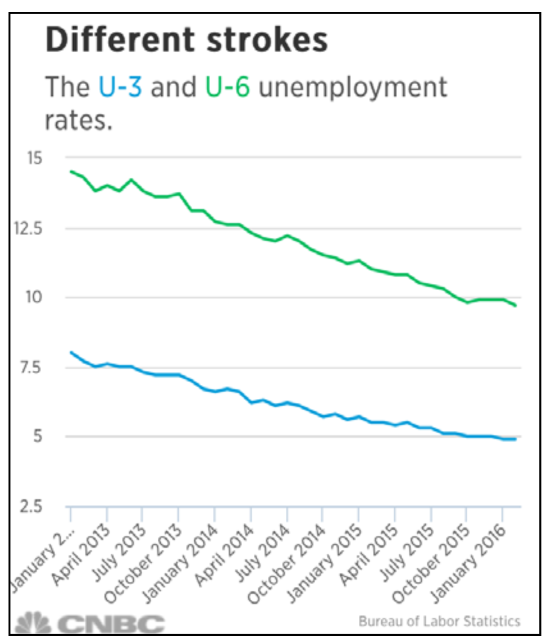
And the award goes to….

You! The US consumer, for best performance in a comedy or drama (you get to choose that one…).

Accounting for 70% of domestic GDP, the US consumer continues to be the support for ongoing growth in the US. This drama began to unfold in August of 2015 as the markets began to react to histrionics of the highest order. From the doom manifesting in China to the terror of cheap oil, in an environment lacking a flow of meaningful data, emotions ruled the day. Late fall, earnings arrived and sobered things up for a bit, but once again in January of this year the process was determined to repeat. Interest rates dropped to near term lows and stocks declined double digits as rising fears of a recession that would most assuredly be thrust upon us by the savaged Chinese economy, a struggling Euro zone and cheap oil. As we mentioned in our last writing, absolutely none of this made sense! Metrics that monitor investor sentiment showed greater panic in the investing community than in the early part of 2009!

We thought about that and were incredulous that the environment we were standing in was being viewed as worse than the '09, that had just seen the markets decline 60%, massive housing foreclosures, and a virtual unavailability of corporate credit as well as the earnings that manifest, there from. A good example, General Electric, one of the most secure companies in the US issued two year paper and had to pay an interest rate of 6% to find buyers. Today that same paper would yield a buyer less than one percent. Then, we saw no auto sales, so a cash for clunkers" program was initiated to try to encourage buyers. While today, auto sales are at record levels, a more than doubling since that time. There are limitless examples of this silliness. We were convinced that we were massively oversold. Then some data began to arrive.

Q4 GDP was revised upward. Jobs continued to grow (yes, still more slowly than we would like). The unemployment rate remained steady, but as you'll recall we have previously referred to the U6 unemployment rate that includes those who are underemployed and those totally withdrawn from the labor market. The U6 rate is where the decline took place, now to 9.7%, the lowest level since 2005. Wages, too, evidenced a rise, but don't get too excited as much of that impact came from well publicized efforts to target minimum wage increases across the country, in a sense, that rise can fall under the category of artificial. In short, most recent economic data is contrary to recession. One strategist coined it well, we will see "Lower and slower for longer…" Lower in terms of inflation, slower in terms of subdued GDP growth, and longer in terms of the duration of this recovery, because, as we have said many times if you use up the fuel available to power a recovery more slowly, the available fuel to power that recovery simply lasts longer. In this case the fuel is corporate and household cash (both at record highs) and human resources available for more and better employment in the future (as manifested in that 9.7% U6 unemployment metric). Not great, but certainly a fair distance from bad. Lower, slower, for longer…we'll take it!



1114 Delaware Avenue
Buffalo, NY 14209
Phone (716) 883-9595
Toll Free: 1-800-783-1086

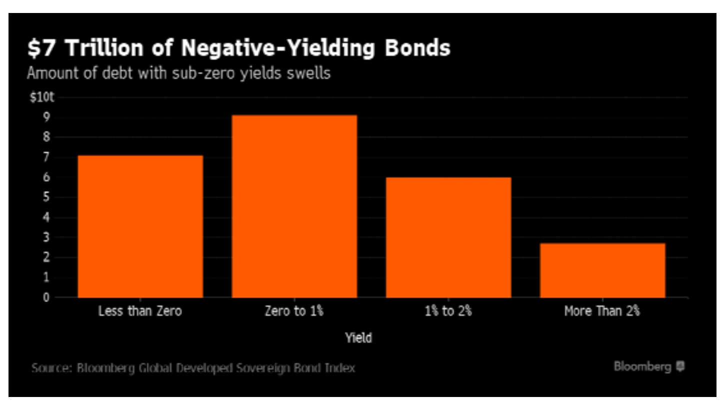
214 West Fifth Street
Jamestown, NY 14701
Phone: (716) 484-2402
Toll Free: 1-877-484-2402

Oil was certainly in the news a great deal during this period as well and was more correlated to the price of stocks than can be recalled in some time. At the height of panic, oil sank to about $27 per barrel. And just to prove that the laws of supply, demand and gravity have not been repealed, US producers reduced the machinery of output significantly, while at the same time OPEC members and others discussed their concerns at the low level of oil prices effecting their economic fortunes and low and behold, oil began a disciplined retracement back to $37 a barrel. And on the consumption side, those aforementioned auto sales have a lot to do with consumers saving even more money every time they pull up to a gas pump. We feel similarly about the oil market and the equity markets. The trajectory may still evidence a good deal of volatility, but the volatility is in an upward tracing path. Typical projections a year out carry a $40-$50 handle.

We've taken you down this path to get you to this point, the aforementioned irrational pattern of volatility began to ease as better economic data arrived on the scene. GDP data ultimately flows from corporate earnings and we have just completed the first releases of 2016. 2015 showed an overall drop in earnings, which most certainly were part of the volatility stew, but investors need to look within those earnings to not fall prey to the error of aggregation (in schoolyard terms blaming all the kids for the actions of a few). 2015 earnings were up 7% if you didn't include energy and other commodities. This first earnings release during 2016 showed earnings up 4%, even when you include the damning effects of the weak energy sector. Once again, not bad, we'll take it! You should by now know what's coming next. The decline in fear, occasioned by the realities of data, pushed oil higher and caught investors by surprise (it should not have been a surprise) and saw markets quickly rebound by double digits for the strongest period in years. This recovery is still underway, and while it will not be completely linear, the bumpy path should follow the economic metrics on that "lower and slower for longer" path upwards.

We'd be remiss if we didn't for a moment include the comedy category (or drama-insert perspective here). The political season is likely to have an impact of an unforeseeable nature. But an impact nevertheless. In spite of what positions they are all willing to publicly espouse during the primaries, it would not be a surprise to see more realism as we move toward the general election, which you do not win without appealing to the center majority. Not that we're insinuating that any politician would pander to gain primary advantage… From data gathered outside of the primary season, nearly every candidate in both parties has previously espoused some reforms that are viewed as constructively pro-business, in terms of both tax & regulatory reform. (shh, they don't want anyone to know)

So, we begin the year with decent data from the economy and the markets. ZIRP and NIRP are the overseas acronyms du jour, as central bankers continue to stimulate with Zero Interest Rate and, the bold, Negative Interest Rate policies; the latter a very heavy handed tax on behavior. While odd these policies are certainly pointed in a pro-growth direction. China too, has indicated a willingness to be stimulus supportive of their burgeoning consumer led economy. All in all, not bad; we'll take it!



We'll talk with you soon…