Courier Capital Corporation

Market Review & Update

SUMMER 2014

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Jason Stronz

Steve Gattuso

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

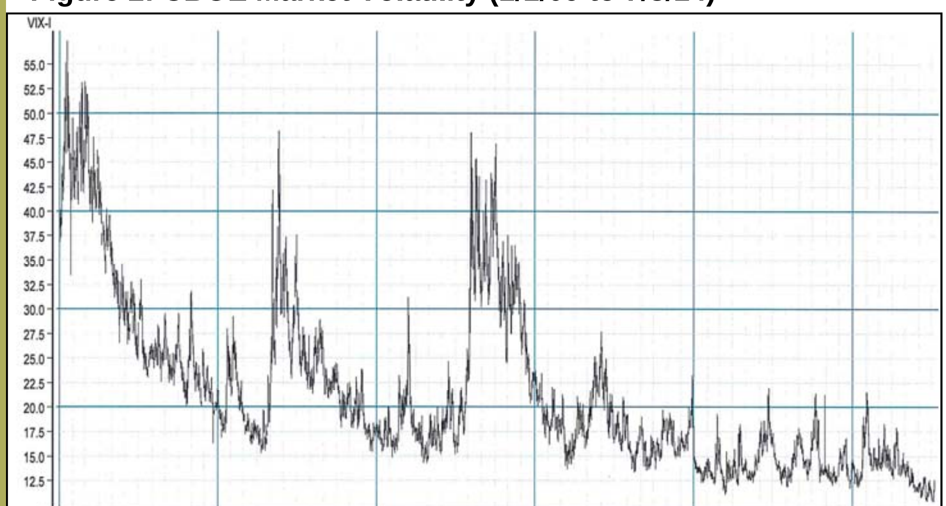
214 West Fifth Street
Jamestown, NY 14701
Phone: (716) 484-2402
Toll Free: 1-877-484-2402

Crossing into the 2nd half of 2014 finds the Dow at a numerically significant 17,000 with broader markets up more than 7%; both new all time highs. The 10 year Treasury is at 2.6%, with Spain and Greece at 2.7% and 5.8% respectively. Global central banks remained strongly aligned in their quest to re-stimulate via asset inflation. But really?!?! 10 basis points in risk differential twixt Spain and the US?! That's an anomaly waiting on the tracks for the train to come… It would not be a surprise to hear "sovereign debt" become an increasing concern.

Figure 1: Mispriced Risk?

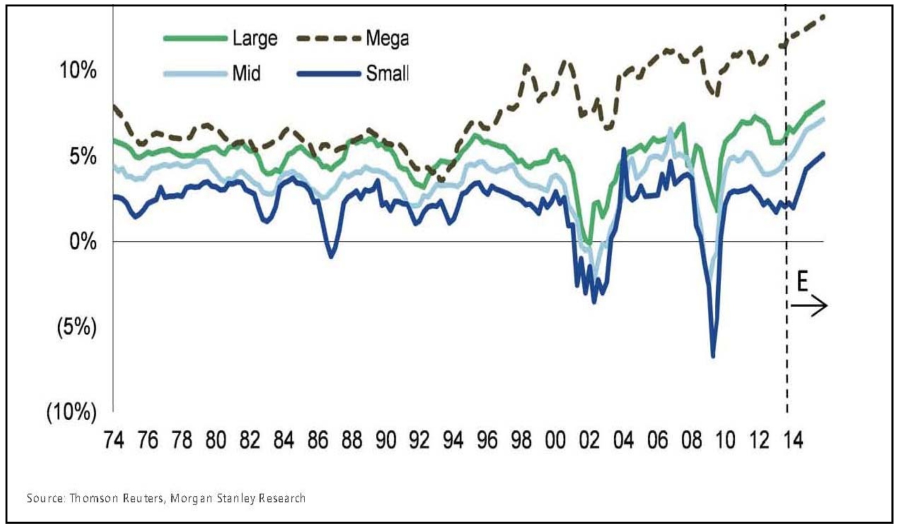
The markets have been yawning in the face of global conflicts and our mini deep freeze Q1 recession of -2.9% non-growth. The especially frigid weather was the national excuse for virtually every top line shortfall. Improved near term metrics point toward a rebound, yet the full year numbers will inevitably have a frostbite scar. The Vix, or volatility index (see Figure 2) which measures the market's perturbations has been on a virtual flatline. No "sell in May and go away", nothing but a continuation of the steady slog forward that has been manifest in this recovery. As the famed Icelandic economic observer Bjork Guomundsotti noted, "It's Oh So Quiet"… The current placidity is very reminiscent of similar summers often referred to as the "dog days" that were so common in the 80's and 90's. As we've said before, some increased volatility should neither surprise nor concern, but rather be viewed as the unwelcome but inevitable guest on the market's journey forward.

Figure 2: CBOE Market Volatility (1/1/09 to 7/8/14)



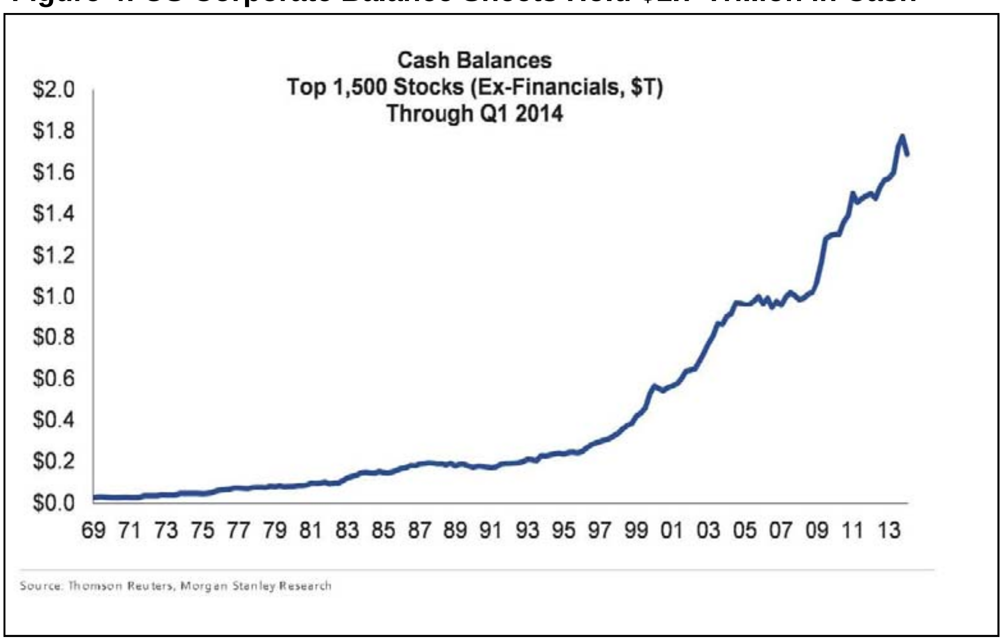
Key amongst those recently improving metrics has been job gains. Monthly job gains averaged 215,000 through April. If this pace remains constant, the annual total of 2.5 million jobs would place 2014 gains well ahead of any period since 1999. The mix of job quality is still far from what we would like to see. Too great a percentage of the mix still reflects hiring in the lower wage service sectors, but the mix has improved a bit. For this to have occurred when GDP growth receded under the aforementioned deep freeze may be an early indication that businesses are begrudgingly beginning to prepare for a consumption trend that will result in that circular process of increasing purchasing, followed by increasing production, initiating added employment, and so on. Expect these trends to reshape in an incremental fashion, rather than anything startling. We have often cited that earnings have been the true driver to this recovery, and the incremental "a bit better than the day before" pattern of growth is unlikely to morph materially, absent exogenous influencers.

Figure 3: Top 1500: Net Margins by Capitalization, Through 2015E



S&P earnings now hover at an annualized rate of about $120 (yes, another sleepy record high) and are projected to rise by an additional 8-11% in 2015. We will keep a watchful eye on the earnings cycle just beginning. Of equal, if not greater importance to the quantitative aspects of these releases will be the qualitative metrics that really define the strength of this ongoing growth trend. As you can see in Figure 3, most market cap sectors are generating margins at pretty average levels. Margin expansion has been moderate with the exception of mega cap companies. The direction for earnings and for underlying margins are the key barometer as we move forward. Sir Isaac Newton's law of inertia seems to have the S&P by the scruff of the neck. An object at rest of in motion will continue its state until acted upon by an outside force. And that's where this will get more interesting. We can assemble an exhaustive list of sources of that potential energy, but the elephant in the room remains that huge pile of corporate cash, of which 70% of the nearly $3 trillion in cash and short terms rests overseas where it was earned. (see Figure 4) It is almost encouraging that Felix Unger and Oscar Madison, oops, I meant Harry Reid and Rand Paul have jointly introduced an initiative to allow for repatriated corporate earnings to be taxed at 10%, in lieu of the confiscatory current rate of 30-40%. Please keep in mind that the US is the only country on the planet to assess a tax on repatriated foreign earnings. That latter hurdle has caused much investment to be made overseas, not here. To date, it is understandable that we then see most cash spent on dividend increases and share buybacks. Both are nice for investors, but repatriation of capital for capital expenditures begets hiring, which begets consumption that begets a rising GDP & P/E ratios. That seems like a much more pleasurable form of begetting than we have come to expect from our elected representatives. However, I would not expect to see any movement on this issue prior to the elections, as so many candidates will continue to run on an anti-big business platform.

Figure 4: US Corporate Balance Sheets Hold $1.7 Trillion in Cash



Higher earnings, moderate valuations and supportive central banks have manifested an inertia that is likely to benefit investors for the foreseeable future. Changes, for the positive or the negative, will depend on the application of that aforementioned force. Happy belated Independence Day!

We'll talk to you soon…