



## April 2015 Thoughts and Insights

The stock markets started 2015 off with lots of movement, but ended the quarter with no real gains. The Dow fell nearly 3.7% in January, surged 5.6% in February, and was down near 2% in March to end the quarter slightly down, while the S & P 500 was up less than one half percent. At DTIM we expected the markets to be bumpy and thanks to our tireless commitment to diversified investments, our portfolios performed well. Our conservative approach has always allowed us to protect and grow your investments, even during volatile times.

The main drivers behind the volatility were a frigid February, a west coast port strike, the consequences of a higher US dollar, falling oil prices and uncertainty regarding future Fed rate hikes.

The unusually cold temperatures in February kept shoppers and workers at home. Retailers also suffered because their goods were stuck in containers in Long Beach due to the port strike. Now that the strike has ended, the backlog it created is somewhat unclogged, and warmer weather is around the corner, consumer related industries should recover. We look forward to the cheap gas and cheaper imported goods helping consumer related investments. We continue to hold our positions in the consumer sectors and regional banks.

Some investors worry that the strong dollar will derail the US economy. We believe that angst about the strong US dollar is overdone. In the short-run, overseas earnings for US multi-nationals may suffer, however, positive long-term effects include boosting consumer spending due to increased imports as mentioned above. Looking to Europe, the weakened Euro, thanks to the ECB's QE, has boosted their growth. In March, we took a position in Germany's equities to boost our exposure to this area of growth.

The sharp move lower in oil has also caused some concern among investors. Although most, including us, think the fall in energy prices will be a net positive for the economy, it has resulted in a reduction in jobs, capital spending plans, and profits in the energy sector. As mentioned, retail sales have not yet benefited from the drop in prices as it appears that consumers have been more interested in saving or paying off debt, at least in the initial stages of the drop in oil. History has shown that it often takes a sustainable period of lower prices before consumers adjust their spending habits upward. We believe that oil below \$50/barrel is oversold and the natural supply/demand equilibrium price should be between \$60-\$80/barrel, which is still positive for consumers. The reports of reduced drilling efforts are just noise because this only affects supply in 2017 and beyond, so the near term trend is up for current prices. To profit from this temporary mispricing we also took a position in OIL, and we expect to sell in one year with returns greater than 20%.

Investors are most concerned about the pending start of the Federal Reserve's rate hike cycle. While the start of rate hikes will likely cause some temporary turbulence in financial markets, the fundamental backdrop should still be reflationary and bring rates back to normal levels. The goal is not to prevent a surge in the Consumer Price Index over the next year or two, but to unwind an unprecedented monetary experiment. In other words, the Fed will not be raising rates to combat inflation, but rather as a reflection of the fact that the economy is strong enough that it no longer needs an emergency, zero-rate policy.

We expect volatility to remain elevated in the coming months as the Fed debates when to start raising rates, and until the earnings outlook improves. The Fed's rate hike cycle should be gradual, which means that we should not see rates rise too fast causing bond prices to rapidly decline. To protect against possible fixed income losses, we continue to focus on buying bonds with fixed maturities and high dividend/interest payments. We also remain committed to our selected equity exposures, as we do not expect the rate hikes to create a roadblock to growth for the foreseeable future.

As always, we remain dedicated to you, your money and your investments. We welcome phone calls and visits to talk further about any of our thoughts, ideas, and strategies, as well as any questions or comments you might have.

Michelle