October 13, 2014

MARKET CORRECTION

Dear Investor:

We are currently in the midst of a correction in the stock market. The averages have come down enough to get people's attention. In reality, the SP500 has declined just over 5% from its all-time high of 2011.36 on September 18th of this year. It's not a big deal. Prices have been very "toppy" for quite awhile, and this kind of consolidation can be good for the long run. The third quarter earnings have just started to come out, and they have been good so far. The decline may have further to run, but it's my opinion that plenty of buyers will step in as prices become even more attractive. There's no compelling reason to think that the US recovery has come to an end.

Turning to the economy, there are many positive signs. I will mention a few of them. One of the standouts recently has been jobless claims. The jobless claims data are released every Thursday morning by the Department of Labor. They measure the number of people who filed for unemployment insurance for the first time the previous week. New unemployment claims have been slowly declining for over five years now. They are near a seven-year low, and have essentially returned to the level seen before the Great Recession. This is clearly a good sign and shows us that people are holding on to their jobs. We know Fed Chairwoman Yellen is very focused on the labor market, and this is one of the many indicators she will be watching closely.

Inflation has moderated since I mentioned it in my last letter. It ran in a range of 2.0% - 2.1% for four months, but has now dropped down to a 1.7% rate at the end of August. We know declining energy prices played a role in this, and they are still going down at this time. Many economists consider drops in gasoline and other energy to be the equivalent of a tax cut for the average American. The research has shown that the savings on gas tend to get spent, thus boosting the economy.

We have had a major improvement in the US Budget deficit in the fiscal year just ended. The deficit is down to $483.4 billion, and around 2.8% of GDP. While this is a big change from prior shortfalls in excess of $1 trillion dollars, it's still an enormous amount of money. I firmly believe our leaders should be running the country on a balanced budget, but see no realistic chance of that happening.

The last thing I will mention is a bit more obscure. It's the reflation of home prices. You don't see as much on this, but essentially, the number of homes that are "underwater", meaning the mortgage is greater than the value of the property, has decreased dramatically. This helps these borrowers to become solvent and move to a position where they can buy a new home or refinance if desired, contributing to economic growth.

The US economy is clearly doing much better. We have been on a path of slow and steady recovery for several years now. We have further to go as there are still many qualified people who cannot find jobs and others who are underemployed. While the current market decline is uncomfortable, I don't believe the recovery is ending or we are entering a recession. With that in mind, we need to be patient and stick to our long-term goals.

Please feel free to contact me anytime to discuss your portfolio.

Best Regards,

David Keim

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All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

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