REGISTERED INVESTMENT ADVISOR

DENEWILER

Capital Management Inc.
1600 Stout Street
Suite 1690
Denver, CO 80202

303.832.7475 / 888.808.7475
Fax 303.832.7484
denewiler@msn.com
www.growmydollar.com

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OBSERVATIONS ON THE MARKET

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By Greg Denewiler, CFA

We finished 2015 with an uncommitted investment environment. We started 2016 with the FASTEN SEAT BELT sign blinking and the crew telling us that turbulence is dead ahead. No more three day weekends for me. They tell us it is all China and oil's fault. Everyday oil goes down (which has been almost every day), the stock market follows. Lower oil prices benefit everybody except oil companies, but that seems to be an inconvenient fact at the moment. China happens to be run by a government that doesn't have a track record of sharing anything with anybody, so everything about China is a guess. However, they do have a younger population and are still probably growing faster than us. All of this is happening while the U.S. continues to be a inching towards improvement. Investors know that it is all about what is going to happen, not what has happened.

In the recent quarterly conference call of JP Morgan Chase, to paraphrase Jamie Dimon, Chase's CEO: Large corporation credit condition is as good as it has ever been. Maybe it gets a little worse but the U.S. economy looks pretty good at this point. I'm not sure most of the 143 million Americans who have jobs look at what's going on in the world that much. People are getting adjusted to China slowing down. When commodity prices go down like they have, there are big winners and losers. The oil companies are the losers. Consumers are the benefit. Brazil gets hurt. India benefits. South Korea benefits. Japan benefits. It's not the beginning of something really bad. He goes on to state that the oil companies have been surprising resilient. Oil company bank debts are asset backed loans, a bankruptcy doesn't necessarily mean your loan is bad. There is also a philosophical thing, a bank is supposed to be there for clients in good times and bad. So when we can responsibly support clients, we are going to do it. And if we lose a little bit more money because of it so be it. We did it in 2007, 2008, and 2009. We try to be responsible. If banks just completely pull out of markets every time something gets volatile and scary, you'll be sinking companies left and right. Jamie Dimon's comments are at least worth considering since JP Morgan Chase was the only major bank who didn't need a bailout in 2008.

Earnings for most of the companies in the S&P 500 will all be higher in 2015 as compared to 2014, except two groups; energy and materials. If earnings for the energy sector were at their 2014 level, the market would be trading at 12.6 times earnings, about 20% below the 50 year average. So far, analysts are estimating that earnings will improve to $126 in 2016, from $106 for 2015. This includes a slight improvement in the energy sector. Earnings estimates are notoriously wrong, but that is the current expectation.

It is amazing how everybody is an expert on the future price of oil now, when two years ago nobody thought oil would hit $27 a barrel. When something becomes a one way train on which everybody is riding, something is usually about to change. James Grant, the author of *Grant's Interest Rate Observer*, states that when money was abundant and almost free, energy companies spent freely. "For all intents and purposes nowadays, no debt financing is available to independent oil borrows on any terms; the capital markets are shut to them. For the stricken companies, hardly anything could be more immediately bearish. For the price of oil and gas, hardly anything could be ultimately more bullish."

The media thrive on uncertain times, and always spin it to the negative. They are in the business getting you to watch or read their stuff. In the last 50 years, corrections of between 10% and 20% (the current correction is 15%) the mean recovery time was 107 days. The longest time to recovery was 182 days. If history repeats this will be over before summer, and nothing currently indicates that this time will be any different.