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summaries

SIGMA INVESTMENT COUNSELORS

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Opportunities Abound

When sound factors at play align, creating stimuli, an opportunity is presented. Time is then the factor we use to measure results. The current market, economic, and political environment appear to be presenting a compelling thesis that could benefit America and its citizens in an opportunistic and significant way.

Let's start with the broad market. We have experienced positive returns in the S&P 500 over the last seven calendar years as we have been recovering from The Great Recession. While we recognize that positive equity returns cannot continue on forever, strong corporate fundamentals, excess liquidity, and the low cost of capital provide some confidence that the market is on solid ground. Yet, the market seems to forget about the bigger picture with all the short term volatility underway.

This near term market volatility has been driven by the drastic fall in commodity and metal prices. Most 5-year price charts for metals, minerals, and materials show a steep downward slope. The price of a barrel of crude oil (WTI) fell over 70% from July of 2014 to today. A diversified basket of energy stocks has lost almost half its value over this same time period. Many would say this is nearing a doomsday scenario for these industries.

The energy and metals/mining industry as well as its investors are well known for dealing with large price swings as they tend to be more volatile and carry a higher beta than other sectors. However, this has proven to be one of the most difficult of times. Currently, there is a survival mentality taking place as many companies are focusing on remaining solvent. The strong, adaptable companies will survive and thrive into the future as markets recalibrate, and the overall economy will benefit from lower energy prices and input costs.

This brings us to the economy. The US is a consumer driven economy in which roughly 70% of GDP comes from personal expenditures. The consumer has proven to be resilient over long periods and through extremes. These lower energy costs benefit consumers and businesses in a major way. How and where the capital will be reallocated will shed light into the future.

Thinking back to The Great Recession, many pundits did not believe the consumer would be able to get us out of the depths. Fortunately, we have a very diverse economy that has allowed us to continue to be the global leader and the US consumer has led the way from the peak and the trough of the last recession that we all recall so vividly.

As a matter of fact, below are the sector results from the prior market peak (10/9/2007) and prior market bottom (3/9/2008) through year end 2015:

	10/9/07 - 12/31/15	3/9/08 - 12/31/15
Consumer Discretionary	137.6%	449.9%
Health Care	133.8%	276.9%
Consumer Staple	126.3%	217.3%
Information Technology	89.2%	296.4%
Industrials	48.5%	308.3%
Utilities	46.5%	156.4%
Materials	22.3%	191.3%
Energy	-7.8%	68.9%
Financials	-20.9%	332.0%

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Whether the consumer will continue their leadership going forward will only tell with time. We do know that the current market environment appears to place the consumer as a probable beneficiary.

This brings us to the political aspect. While the media has been inundated with campaign coverage and debates, it seems as though nothing and nobody is standing out. Regardless of your political view, the US government is the biggest business in the world. Many factors come into play when assessing leadership; and investment nears the top of the list for many. Investment strategies and rebalancing is predicated on managing the peaks and the valleys.

While every investment begins with an entry point, it oftentimes carries too much weight from a measuring standpoint. In the instance of the US economy, as an allocator of resources, the current distressed pricing in the energy and metals/mining industries could look appealing from an entry or rebalancing standpoint. As of December 31, 2015, the S&P 500 sector weighting to energy was 6.5% and materials was 2.8%. On December 31, 1980, these same weightings were 28.2% and 9.7% respectively. We have seen drastic changes to the world over this time period and the next 35 years could look completely different.

According to the American Society of Civil Engineers, America's infrastructure received a D+ on its 2013 report card. Infrastructure is a broad category including water and electrical. The majority of our infrastructure was built over 80 years ago as a part of the New Deal of 1933 in response to the Great Depression.

If we look at where we are today as a nation, we continue to see tremendous advances in science, technology, and human knowledge. We continue to be the global leader the world looks to for guidance. The challenges we are faced with are real and the confidence to approach them as opportunities is what will continue to set us apart as a nation. More so, over the long term, market prices will succeed in the efficient allocation of capital.

The world presents endless opportunities and our instinct influences our choices. There are some things we choose to let happen, and other things we choose to make happen. Current market opportunities will continue to advance our economy and influence policy decisions now and long into the future.

The investment strategies we develop and manage for all our clients are predicated on achieving a future goal by having a long term vision of the future while understanding the past, and having a diversified portfolio to participate in all market forces while having a discipline around rebalancing.

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