



Market Commentary

1ST QUARTER 2015

We get asked frequently, “What’s the outlook for the market?” In reality, it’s a guessing game. I get a kick out of those financial prognosticators who say and do such & such “because of the current uncertainty,” or “these are uncertain times.” Tell me, please, when are times ever certain? The answer is never, because the future is unknown and unknowable to us mortals. And no one can outguess the near-term swings in the stock market. I always say, “If anyone tells you they know the near-term direction of stock prices, they are very naïve, or they think you are.”

So here’s a thought: Stocks generally seem fully priced, but that doesn’t mean they won’t go a lot higher. Earnings may catch up to what seems like elevated share prices. In the short term, we don’t know where stock

prices are headed. It is our view that in the long run, the direction is up. In addition, we feel that the issues in our portfolios are of only two types: high quality and very high quality. The internal economic progress that these companies are making is exciting. That makes the long-term price appreciation of their shares a likely eventuality.

Acquisitions have been very much in the news lately with Royal Dutch Shell’s recent mammoth \$70 billion bid for BG Group being the latest. Aided by near zero interest rates, corporate merger and acquisition activity has become a tsunami of deals totaling more than \$5 trillion over the past 12 months. Indeed, companies are loaded with cash and increasing share buybacks and dividends, which surged 31% in the first quarter of 2015 over last year’s first quarter. We like companies that pay dividends. But what we really like are the companies that pay a rising stream of dividends year after year. It’s reflective of a growing enterprise with sound financials, as well as managements with good capital allocation policies.

The U.S. real economic growth rate has been stuck in the 1 1/2 – 2% range for six years. This pitiful recovery from the financial collapse of 2008 has largely been the result of poor policies emanating from Washington. Typical post-WWII recoveries have been in the 4 – 5% range of annual real growth in GDP. Taxes and regulations have retarded job-creating growth. With the government continuing to place its foot on the neck



of capitalism, one is hesitant to be too optimistic about near-term economic expansion. However, globally there are some positive signs of growth in the economy. Our macro research sources indicate that between the U.S. and the Eurozone, which account for about two-thirds of the world's economic output, things are decidedly looking up. With inflation practically non-existent and central banks around the world stimulating, a synchronized global economic expansion is slowly developing. This has favorable ramifications for trade and U.S. corporations, especially exporters who have been recently hurt by the strong dollar. If this trend continues, U.S. corporate profits could get a real boost over the next year or two. Stay tuned!

George P. Schwartz, CFA
Chairman & CEO



Past performance does not guarantee future results.

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