

# WHITENER

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## CAPITAL MANAGEMENT, INC.

*Registered Investment Advisors*

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It is human nature to be startled by a loud noise. Our heart rate jumps, muscles tense, pupils dilate and the fight or flight mentality kicks into overdrive. Much of what we saw and heard in the news this past year was noise and at times it was loud while other times it was a dull roar but all of it seemed to trigger physical and emotional responses from investors. As investors, we should be focused on the economy and the business environment as a whole. It is tempting to try to tie everything that goes on in the world to the United States' economy. You could probably make an argument that most of it is valid but many of the strings used to make the connections will get dreadfully thin.

The S&P 500 and the Dow Jones Industrial Average started 2015 very close to fair value, as measured by their price to earnings and other comparative metrics. We won't know what the 2015 year-end earnings are for a couple of weeks but if estimates hold true, earnings should grow 10%-12% from 2014-2015. When investors buy a company, they are buying a share of future earnings. The market from 2014 to 2015 ended virtually flat yet earnings grew a little more than 10%. If we were talking about beach houses, cars or vacations, most of us would jump at the discount and be amazed at the bargain that we are getting. When we examine the stock market through the same prism, many investors automatically assume that times are tough and things are bad. Far too many investors only want to buy when everything is up and the news is glowing. That mentality can be cooked down into a simple phrase, "Buy high." Disciplined investors find solid companies with seasoned management and take ownership. Building a properly diversified portfolio with these types of companies doesn't absolve yourself of volatility but it should instill confidence in your long-term plan.

Valuation Measure	Description	Latest 12/31/2015	25 year average
P/E	Price to Earnings	16.1x	16.0x
P/B	Price to Book	2.6	2.9
P/CF	Price to Cash Flow	11.4	11.4
Div./Price	Dividend Yield	2.3%	2.0%

\*Data as of 12/31/2015 - Current price divided by consensus analyst estimates of earnings, book, cash flow, sales and earnings growth for the next 12 months. Data provided by J.P. Morgan Asset Management

### Equity

The equity markets finished flat. The returns as measured by price appreciation were down less than 1% and the dividend yield was around 2.2% resulting in a net return of 1.4% for the year. S&P 500 companies are still holding onto piles of cash which means that they can withstand

economic volatility but it also means that there is less reinvestment and capital spending. Meaningful job growth and sales growth cannot exist in a world where companies are sitting on their cash in perpetuity.

### **Fixed Income**

The Federal Reserve Board finally raised rates. The Fed Funds Rate has been raised from .25% to .5% and the Federal Discount Rate was raised from 0% to .25%. The level of rates isn't shocking but the fact that they finally took action is notable. The fixed-income market has been in a bubble for years. Rates have been artificially suppressed and it looks like we may start to see some sort of normalization in the fixed-income market. Hopefully this will be a gradual event but we will need to monitor the situation closely and make changes as needed.

### **Economic Overview**

The United States Gross Domestic Product(GDP) continues to grind along. The GDP grew a little more than 2.0%. It is still below the historical average and showing no sign of normalizing in the next 12-24 months. Oil production has become a much larger part of the U.S. economy in the last few years. There was a time when lower gas prices would add to corporate earnings and GDP growth but in 2015 the drop in crude oil prices reduced S&P 500 earnings, employment and economic growth. The economy as a whole is still stable and growing but I expect 2.0%-2.2% growth through 2016.

China is growing at a fast pace but their growth rate has fallen from double digits, year over year, to the mid single digits. The fact that China does not publish dependable data and the fact that they are not above changing the rules on how their data is calculated is frustrating. We will continue to monitor China and make changes to our portfolio allocations as needed.

### **Conclusion**

2015 is over and as far as the markets go, I'm happy to put it behind us. The markets have seen a strong recovery since 2009 but the underlying economy has only been trudging along. As investors, we are hung in limbo. The equity markets still offer the best option in building long-term wealth but investor's expectations need to realign with the markets. Investors that are able to control their "flight response" and tune out the noise will be the winners. The second half of 2016 could offer additional growth if commodities and global economies can stabilize. Slow and steady will be the mantra for the next few quarters.