Infomail
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The Lost Year

"This has been one of the most difficult markets in 50 years because usually I have to spend time to figure out what action causes what reaction and how do things fit in, and in the past several weeks it really hasn't fit, sometimes things have gone completely awry"

Art Cashin, NYSE Floor-Trader for 50+ years

Global Markets limped to a disappointing close in 2015. It was an odd year, where both fixed income investments and equities had a tough year. When the final tallies were done, the numbers looked something like this:

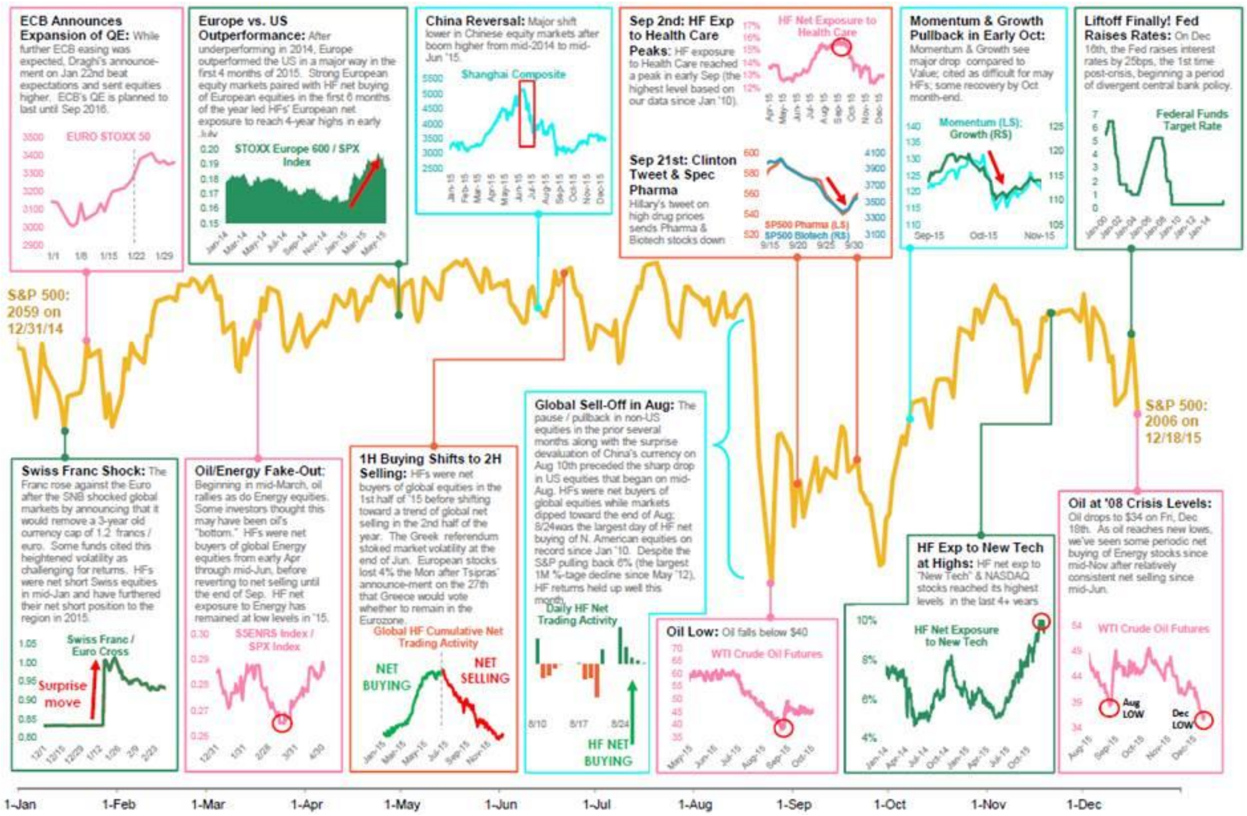
Canada's TSX	-11%
Dow Jones	-2.2%
S&P500	-1%
Nasdaq	+6%

In North America, the only positive index was the tech heavy Nasdaq, and basically you missed it if you weren't in the four "FANG" stocks (Facebook/Amazon/Netflix/Google). In fact, of the largest US names as represented by the S&P500, the top ten accounted for <u>over</u> 100% of the return. It's easy to see why investors are frustrated:

- The average stock in the S&P 500 is down about 14% from its 52-week high
- The average stock in the Russell 2000 (broader index) is down almost 24% from its 52-week high.
- The average S&P500 energy stock is 40% below its 52-week high
- The MSCI Canada ETF (EWC) is down 25.3%
- The MSCI Emerging Markets ETF (EEM) is down 20%
- The MSCI Europe ETF is down 5%

But the action and relative sideways consolidation is normal when one considers it follows five decent years of returns (outside of Canada that is). The markets themselves were very indecisive with the US markets crossing the flat line 26 times in 2015 trying to determine a positive or negative direction.

The following chart from Morgan Stanley reflects the indecisiveness



(Source: Morgan Stanley S&P 500: An Indecisive Market in 2015)

The reasons for the market's (and investor's) confusion are many and well known, but include the following list:

- Strong US Dollar
- A collapse in oil prices
- A collapse in global commodity prices
- Concerns about slow economic growth in the US, China, Europe and the Emerging Markets
- Questions bout the High Yield Market
- Geopolitical risk (Russia, ISIS, Middle East)
- Earnings growth slowing to the point of an earnings recession
- The US Federal Reserve raise rates for the first time since 2006.
- QE measures by Central banks have been less and less effective
- South America economy tanking led by Brazil & Venezuela

The efforts by Central Banks all over the world to generate sustainable growth by printing more money, combined with the failed fiscal policies by mostly left leaning politicians, have simply not worked. The reason the slow growth continues to grind along is because the global economy is suffocating under all of the debt. Recent actions by the newly elected Canadian government (which took a total of 24 hours in power to tell its citizens their budget deficit is going to be much bigger) and the US Congress, which passed a bill in the last two weeks which will conservatively add $1 trillion to the US deficit in short order, just reinforces the point I've been making for years that there is no political will to do the right thing and the prospects of reining in absurd runaway government spending is …….ZERO!

With regards to the markets, even though we've been flat for almost two years now, because of T.I.N.A (ie: There Is No Alternative) markets should fare ok, especially given that there will be a change in the White House no matter what in November 2016, and I think the markers will see that as a positive….regardless of who the eventual party or person will be.

Yes, the markets have been stuck in a very tight trading range for some time, and they've had multiple chances to break down, and haven't. Usually we don't hover this long if we were going lower. With rates staying lower for longer (and going nowhere), I believe volatility will be increased and bring us to a new high early in 2016.

We prefer the USA and Global markets overall, but, for the first time in many years; we think the Canadian market might actually be decent value after being the worst market in advanced economies in 2015. Much is dependent on crude oil prices, but, if they can simply stop falling in the back half of 2016, Canada might actually be ok.

You will be reading and seeing a lot of forecasts for 2016. Bottom line, ignore them. Everyone was wrong last year and no one, and I mean no one, predicted oil going from $100 to $35. Wall Street's outlook on average as reflected in Barron's magazine annual survey, is for an 8.5% expected gain for 2016 (average of all polled). Ironically, that is pretty much the historical result since 2001. The largest two firms, Goldman Sacs and Morgan Stanley, have very limited expectations and contrarians should delight in that.

Ignore the economic forecasts. One old joke is that the function of economists is to make weatherman look good by comparison. If you believed them in 2015, the FED was certain to raise rates in September

2014, March/April of 2015, June 2015 and September 2015. Now they're calling for three or four more hikes in 2016, which I don't believe will happen. In fact, there's a good chance the Fed might <u>cut</u> rates again in 2016.

Some of the supposed "sharpest" minds on Wall Street who manage serious sums of money, had a very tough 2015, so most investors are simply going with the flow. While I believe there will be many issues (and you can read the next issue of Money Never Sleeps" for a more in depth commentary to deal with), we will continue to grind along higher. Investors need to adjust to expectations going forward to 5% to 7% returns (which is all in with dividends), which is not bad in a sub 1% world. If we can luck out and get a double digit year (+10%), here and there, let's consider it a bonus.

Here's to health, happiness and prosperity to all in 2016!!

"Time is against you. Gravity is against you. Genetics are against you- But hey, have a good day"

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Stay tuned,

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