Leigh Baldwin & Co.

Investment Brokerage

Still Waters Run Deep

Based on the market returns through the first half of 2015, it appears as if all is calm, if not productive. The S&P is up just under 3% and the Dow is up just about the same percentage, 1.5%, which corporate bonds are down. It seems as if there is nothing to report here. Yet, this placidity may conceal a more passionate nature. The question now becomes, will this seemingly quiet period yield a tsunami of increased earnings and a desire to own stocks at higher prices, or like the coastline off of North Carolina, are there sharks in the water like the Chinese economy, Greece et al, and/or higher interest rates, etc.?

As we gaze out over the horizon and into the future, we can anticipate some possible outcomes. While Greece has been a headline grabber, as it has been on and off for the past four years, we do not think that their severe economic problems will be what sinks the ship. Other hot spots, most notably Puerto Rico, are also concerning, but may not be the trigger to a major worldwide collapse. Slowing growth and bubble like trading in China may be another story. As commodity prices free fall around the world, that could predict bad things to come. All eyes should be to the West.

For US stocks there remains individual, unique opportunities as corporate coffers remain heavy with cash and innovations in healthcare and technology continue to amaze and thrill Wall Street. While the historical PE levels remain on the high end, we do need to understand the role of the energy companies in that figure. While representing only about 10% or so of the S&P 500, as the crash in energy prices continues, the historical high PE ratios of these companies does in fact inflate the level for all. Ultimately, it is a stock pickers market.

For fixed income, we are fairly confident that the Fed will raise rates in December of this year, and if not, it is only a matter of time. Interest rate sensitive issues have struggled this year and while we believe there is a place for fixed income in almost every portfolio, the positive advantages are not what they used to be.

Going forward, we believe investors should be long, if not aggressively, stocks, wary of bond funds and utilities, mindful of China, and looking at individual stock ideas as opposed to all index funds all the time. For now, the water may be still, but we can recognize that there could be bad things below. The odds of getting attacked and killed by a shark are 1 in 3,748,067 (by comparison, you are 30 times more likely to get killed by lightning), so for now, we will take the odds. Enjoy the summer and as always we appreciate your confidence and your business.

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