

Football and Stock Market Bounces

September 2014

In This Letter

- Expect the unexpected.

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Are you ready for some football? As an avid 49er fan, I have relished in the great 49er Super Bowl victories and agonized through the misfortune spent on rebuilding the program. I celebrated “The Catch” and years of fantastic quarterback play with Joe Montana and Steve Young at the helm. I also commiserated with so many other 49er fans during the first decade of this millennium – eight consecutive seasons without reaching the playoffs. The one common theme to each preseason is the hope that springs eternal- my beloved 49ers bringing a championship back to the Bay Area.

The last two seasons have left many 49er fans pining for more. There was the devastating Super Bowl loss to the Baltimore Ravens to close out the 2012-2013 season. Then last year, we were upstaged by our Division rivals, the eventual 2013-2014 Super Bowl Champions, the Seattle Seahawks. Despite those tough losses to finish the last two seasons, there seems to be reason for optimism again this year. The 2014-15 roster looks loaded. Our younger stars are a little more seasoned and experienced. The new stadium has energized the Bay Area. What could possibly get in the way?

“Surprises can and will happen. Remember - that is what makes a market. My advice is do not try and predict the future.”

The difference between success and struggling can be so slim. We can certainly expect some speed bumps along the way. Not everything will go in our favor. Whether there are issues with team chemistry, injuries, coaching, player suspensions, behavioral concerns, or the way the ball bounces, there will be surprises and unexpected events that will have to be overcome in order for the 49ers to make another appearance in the Super Bowl.

My prediction for this 49er season: Expect the unexpected.

We have 16 more Saturdays until Christmas. As we head into year-end, there are plenty of reasons to remain optimistic for the 2014 economy and stock market even though we are currently experiencing record highs. After the last five years of positive returns, it is natural to contemplate, “How much longer will it last?”

We are certainly not in the 2009 or 2010 valuation. With a price/earnings

ratio of 17, that ratio is near its long term average. This means the market is not as cheap as it was a few years ago. It is hard to see things as undervalued at this point.

Having said that, here are a few reasons to be optimistic:

- 1) Labor market is growing. We have a 6.3% unemployment rate that may trend lower.
- 2) Personal balance sheets are growing. Have you looked up the value of your home or 401k balance lately? A lot of us are better off.
- 3) Core inflation seems muted. The long-term inflation rate has been around 4% and we are around half of that. Good for us.
- 4) Corporate balance sheets look clean and profits are expected to continue to show solid growth.
- 5) Corporate cash will continue to increase dividend payouts, buy back shares, and invest in plant, equipment, and people.

My predictions for the year-end stock market season: Expect the unexpected.

Surprises can and will happen. Remember - that is what makes a market. My advice is do not try and predict the future. Keep saving. Live for today but save for tomorrow. Spend your life wisely. If you always plan on and expect the unexpected you will never get too depressed or thrown off by the bad bounces life sometimes dishes out.

Quick note on the Celebration of Labor Day

We all celebrated Labor Day this week. For centuries, politicians, economists, and philosophers have debated the creation of capital and the redistribution of its wealth. This debate shows up in the media as a battle between business and laborers. Labor Day celebrates labor and the productivity that it provides. In many cases, labor is undervalued compared to the rewards of business and risk taking.

Forget the debate for a minute, and celebrate labor. Labor is what makes the world go round. Without it, all the capital in the world would have no reward. May the partnership between labor and capital both be rewarded richly.

Have a great September. Please give us a call with anything we might be able to do for you.