Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

January 2015 Market Commentary

(Note: Please see our previous Annual Forecasts and our Blogs
for considerable background on our forecasts)

2014 Review and 2015 Forecasts

I am going to keep the review short and sweet:

Stocks - The Dow Jones Industrial Average was up 7.5% to an all time high!
Most U.S. stock indices were up similarly into the end of 2014

Bonds - The U.S. Treasury 30 Year Yield shot down to a record low (prices up)
And took out its previous all-time-record-low of June 2012.
The U.S. Treasury 10 Year also rallied but did not take out its
All-time-record low yield of June 2012
High Yield Taxable Bonds ("JNK") dropped 5% in price

Commodities - The CRB index was down 25% for the year
The CRB index is still down 54% from its 2008 top
The CRB index is still down 43% from its 2011 top
Prices of most commodities have performed similarly

Real Estate – Of course, real estate is regional but some generalities can be made.
The market moved up for the year (4.4% according to Case Shiller through 11-2014)
but has fallen off for the last several months (through November)

Discussion and Forecasts

So, the big moves in 2014 were in commodities, and they moved down swiftly and hard as shown above. Coincidentally, oil dropped 55% from June 2014 until now – a huge move. Just so we know it was not just oil and gasoline that dropped precipitously (gasoline in my area is down over 50% over the past few years, mostly over the last six months), copper has dropped 42% since its 2011 top and 25% over the last seven months – the same size drop as the CRB Index of Commodities, overall. These are big moves.

Importantly, while we seen some of the benefits of commodity prices plummeting, we believe we have only begun to see the fallout of those plummeting prices at least in the U.S. There will likely be many investors, lenders (banks), hedge funds, and employers and employees that will be negatively affected. We expect a big ripple and, of course, it is a leader in our forecast for an economic downturn and outright deflation.

The current problem is that deflation is sweeping the rest of the world. Many countries are now in recession (or depression), are experiencing negative interest rates, and/or are experiencing outright deflation of credit/debt and prices of goods and services.

As a result, in a "shock announcement" on January 15, 2015, the Swiss National Bank reversed its stated policy and would no longer defend its currency peg to the Euro. In reaction to the announcement, the Swiss Franc skyrocketed up 41% relative to the Euro. The Swiss stock market fell 9% that same day. So you can see, big moves are happening.

Interest Rates – While the U.S. Thirty year yield took out its all-time-record yield bottom, the U.S. Ten year has not. We see this divergence as normal behavior during changes in direction. Utilities, which we used very well as a proxy to forecast the top of the bond market in 1993 (see our Press Clippings for 1994) has seen a parabolic rise in price from 2012 through the end of 2014. Normally parabolic rises are unsustainable. A break of the parabolic uptrend will be a confirmation of rising interest rates. We have not seen that break yet; however, if and when it occurs, we would not be surprised to see a full & swift retracement of that parabolic rise (which would be a drop of 32% in price).

Municipal Finance – The big event in the Municipal Bond market to us was how the bondholders were treated in two large municipal bankruptcies. The General Obligation (G.O.) debt received a "haircut" – that is cents on the principal dollar – while the pension plan promises both funded and unfunded remained largely whole. While that is not entirely surprising at this juncture in our forecasted downturn, the rating agencies took no action based on this precedent - - in other words, the rating agencies did not downgrade any other G.O. municipal debt based on these rulings even though now all G.O. debt should have lower outcomes under worst case scenarios.

Forecasts

We believe interest rates will rise, especially at the lower quality end of the spectrum.

We believe commodity prices will likely take a breather (from their recent huge drops) – have a rally or go sideways while other asset prices catch up (to the downside).

We believe yields of municipal bonds, in general, will rise (prices down).

We believe stocks very likely put in their final highs at the end of 2014.

We believe the downside possibility for risky assets is huge.

We are still looking for dramatic lows of prices of risky assets a few of years hence with dramatic downs and ups (which we have seen in commodity prices) on the way to the bottom.

Of course, we will see, but the upside potential seems trivial to the downside possibility.

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As mentioned previously, please review our previous Annual Forecasts and Blogs if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

Since 2001, "Safety" was our watchword for the 2000-2009 decade. Unfortunately, "Safety" is still our watchword until we get to the final bottom, which we believe is still much lower.

(Posted January 30, 2015)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite's monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite's quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client's returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard

Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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