STOCKBOY

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2015: A Stealth Down Year; 2016: No Stealth?

2015 in Review

2015 will likely be remembered as a 'flat' year in the stock market, according to the results of the S&P 500. In fact, 2015 was almost unprecedented in its lack of volatility and keeping close to where it started the year. Only a late August sell-off and subsequent recovery in October made headlines.

While the surface looked calm, the waters below were choppy. Some stocks had a good year but many more lagged. In general, investments that did well were 'growth' stocks and those lagging were 'value' stocks. In fact, a tiny group of four stocks kept the market from being down for the year: Facebook, Amazon, Netflix and Google (Alphabet). You may have heard the acronym 'FANG' to describe these stocks. The FANG's were up between 50% and 100% for 2015. Because they're very large companies, the FANG's had an outsized influence on the market-weighted S&P 500 and Nasdaq indices. In contrast, the typical U.S. stock was down 4% for 2015. This latter statistic better reflects how stocks did last year.

2016 -- Off to a Rough Start!

As we moved into the new year, I predicted either a muted rise in the market in 2016 (ultimately to be led by value stocks) or a downdraft, since the market hasn't experienced a down year since 2008. I figured if we did have a down year, it would likely be mild since the market rarely plummets when the majority of investors are already nervous.

Well, the first few weeks of 2016 have broken records for market falls to start a year. Investors are understandably nervous as China's economy is slowing and oil prices keep moving lower at a startling rate.

However, if you pan back your perspective, things start to look a bit less threatening and perhaps the year's bad start is not a precursor of things to come in 2016. China doesn't have a significant direct impact on our economy as we send relatively few goods and services there. Yes, the price of oil is very low and its fall has been swift and surprising. However, as 'experts' begin to predict oil below $20 a barrel, and perhaps as low at $5-$10, we may be seeing an overreaction in the oil industry that could provide opportunities for contrary investors. I believe investors should acknowledge the current state of low priced oil, but also factor in that prices will likely rebound with time, at least if history is any guide (and it usually is). Remember, it was hardly two years ago that gas was about $4.50 a gallon and some 'experts' warned consumers to not expect it to go below $4/gallon again in their lifetime. Overreactions often occur when even experts get in on the speculations.

It's important to factor in the fallibility of so-called experts and to recognize oil prices rise and fall for many reasons and have done so for decades. To think we're in a permanent state of low oil prices now, without a notable change to alternative energy pending, seems very unlikely.

Be Professional!

Recent stock market fears were stoked further when a stock analyst for the Royal Bank of Scotland added gasoline to the fire (cheap as it is, I suppose) by coming out with the pronouncement that investors should 'sell everything'. What??!! How can a professional come out with that severe and sweeping advice? Clearly, he's trying to make a name for himself. But this type of black-and-white recommendation from a so-called 'expert' makes investors understandably nervous.

Can you imagine a dermatologist, paid by a well-regarded medical institution, coming out with a formal statement such as 'no one should ever go out in the sun again'? It's much more reasonable and rational to suggest taking prudent steps to reduce your sun exposure while still enjoying the benefits (and fun) of being outside. Investors should, as always, take a similar course: keep invested, don't take really large risks and plan and think for the long term (money earmarked for the short term shouldn't be in the stock market). Also look to zig when the great majority are 'zagging'.

If you are concerned about a market panic, it's probably wise to remember Abraham Lincoln's words: "man's greatest dreams and worst fears are seldom realized." Recall it was only just over a year ago that Ebola fears (horrible as it was in Africa) had more than a few Americans not wanting to board planes or shake hands in this country. Overreactions tend to dissipate relatively quickly when rational behavior re-establishes itself.

Football on New Year's Eve

Another large, recent 'expert' mistake was the decision to hold the college football semifinal games on New Year's Eve. The games started at 4 p.m. and went until almost the stroke of midnight of the New Year. When I first learned of the plan to broadcast these games on New Year's Eve, I was amazed by how dumb it seemed. Are people going to change their traditional New Year's Eve plans, such as a fancy dinner or party to ring in the New Year to, instead, watch football? Unless you are a big fan of one of the teams playing, it seemed the answer would likely be 'no'. Even a casual observer could tell this was a bad idea from a mile away.

The president of the College Football Playoffs insisted that people would make "new traditions" as a result of the games' broadcast times and viewership would stay strong. Well, ratings fell about 40% from the year before. It appears the CFP dropped the ball with their plan – on New Year's Eve no less.

Flint Water – A Management Lesson

The Flint water crisis is sad and tragic on many levels. Certainly, many mistakes were made. Some were perhaps criminal, but others classic human mistakes and a focus on short term financial gains at the expense of what's best long term. Given this is an investment newsletter, I'll only comment on the financial decisions, which still suggest big mistakes were made.

Too often, organizations make cost-cutting moves that make 'the numbers' look better in the short term but hurt the organization (and its customers) long term. Whenever a large cost-cutting decision is made, it would behoove those involved to give full weight to the possible consequences of their choices because many costs can't be measured, particularly in the short term. Often that cost might be associated with employee turnover or loss of reputation and goodwill –difficult things to measure yet very important and potentially very large. In Flint's case, it appears that long term cost will now include how much it will cost to fix the miles and miles of buried pipes and the long term health effects – particularly of the very young citizens of Flint.

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