The Investment House LLC

The Investment House Quarterly: December, 2014

Index %	Q4 2014	2014	2013
S&P 500	+4.93	+ 13.69	+32.39
Barclays US 20+ Yr Treasury	+9.35	+27.48	-13.88

Source: Morningstar

"The Good Times Are Over"
Or
Let's Make A Deal

As the new year began, one of the financial media's most frequently quoted talking heads – bond investor Bill Gross – opined that, due to the dampening effects of zero interest rates, and their cumulative negative effects on asset returns as supply of productive assets is so easily financed, "at some future Ides of March or May or November 2015, asset returns in many categories may turn negative…The time for risk taking has passed."

On the other hand, as Barron's pointed out a week later (Jan 12, 2015 issue), data compiled by Wharton Professor Jeremy Siegel suggests 5 year average returns which fall into the negative are exceedingly rare, with the worst such period having encompassed the Great Depression, and virtually no 15 year periods having shown a loss. The persistence of such five year returns is remarkably invariant to yearly economic growth, with median five year equity returns averaging 9.5% since 1871.

One of the things which is so frustrating about such conflicting data and opinions is that, often, on the surface, both propositions seem quite plausible. In such cases, it is often best to ask, "can they both be true?" as well as "are either of them meaningful, or consequential to my investments?"

A good example can be found within just the past 6 years, when we have witnessed BOTH a large 30+% decline in the S&P 500 – during the Great Recession of 2008 - as well as a large 30% increase in 2013, along with many other positive years in between. For this six year period, encompassing BOTH a decline and a rise more than 3 times the average, what, after all, was the consequence? An average annual compound return for the period of 7.27%.

S&P 500

2014	2013	2012	2011	2010	2009	2008	2008-14 Annualized
13.6%	32.3%	16.0%	2.1%	15.0%	26.4%	-37.0%	7.2%

Source Morningstar

In other words, Bill Gross's dire outlook for asset class returns, could, in fact be correct, but over longer periods of time, matter very little to investment returns.

For our part, we think of the current outlook as more of a "Let's Make a Deal" environment rather than an "end of the world" single view outlook.

Behind Door Number One, we have the continuing tug of war between incipient growth in the U.S, and mildly recessionary conditions outside of it.

Door Number Two has the rest of the world eventually ignited by the growth of the U.S. and the continuing development of the middle class in the developing world.

Door Number Three has the rest of the world's difficulties eventually moderating our own growth.

Which of these do we think will occur?

We don't know. And neither does *anyone* else.

What we are trying to do is to have an investment program, which, *in the long term* is successful without being dependent on any one particular short term economic scenario, and history would suggest that, by sticking to our knitting and finding great companies in growth areas of the economy, we will be able to do just that. Such an outlook does not deny the possibility of down years or periods: *on the contrary we know such periods are inevitable, and we welcome them as opportunities to buy great businesses at better prices.*