

The Investment House Quarterly: September, 2015

Index %	YTD 2015	2014	2013
S&P 500	-5.29%	+ 13.69	+32.39
Barclays US 20+ Yr Treasury	-0.21%	+27.48	-13.88

Source: Morningstar

El Nino and La Nina

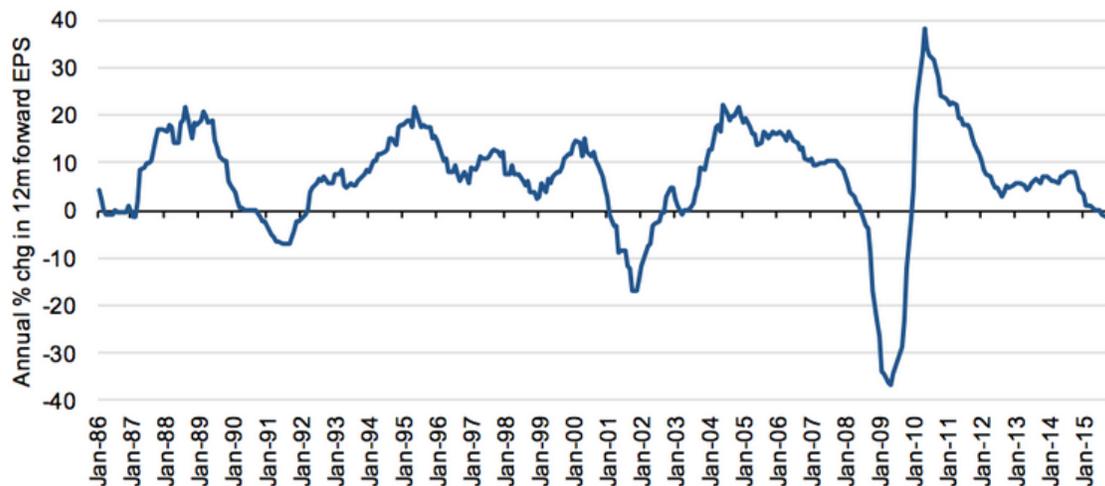
Recent weather patterns in the Northern and Western Hemispheres have given rise to discussions about El Nino, and how the periodic warming of the ocean’s surface can produce extreme climactic conditions thousands of miles away. Its companion effect, La Nina, likewise causes climactic changes with corresponding cooling of the ocean’s surface temperature.

In the past quarter, the violent movement of asset markets – commodities, foreign currencies, and equities, have likewise provoked great discussion as to their sources – Fed policy, China’s slowing growth, what could it possibly be?

While there is no way to answer such questions definitely, it is certainly worth noting that forward profit expectations for the next 12 months have turned down for the first time in 6 years.

US profit recession?

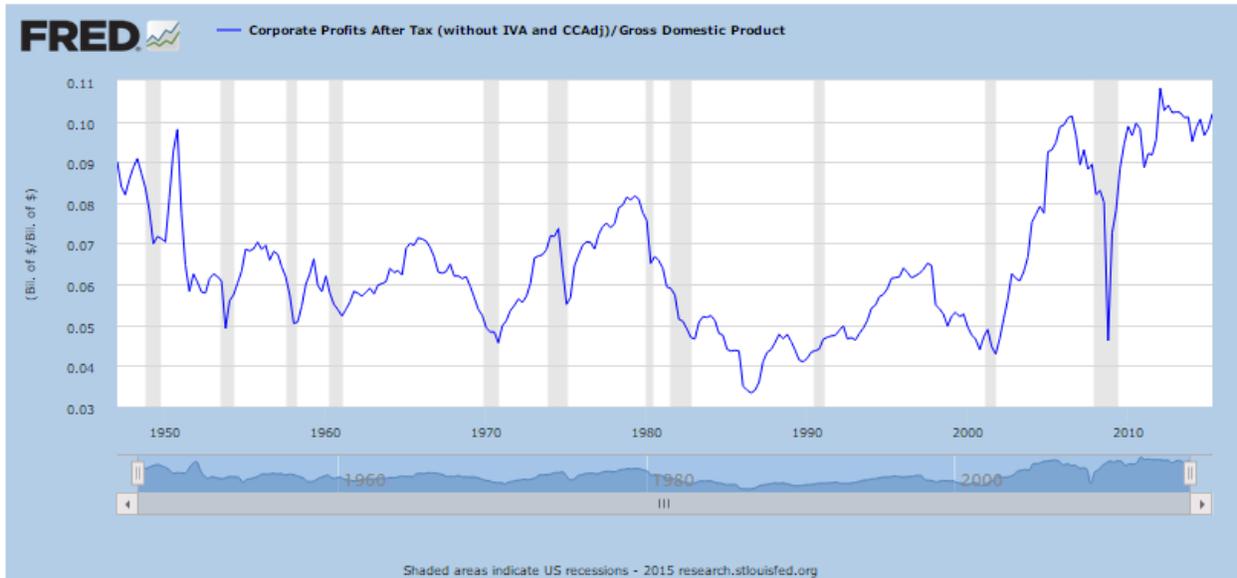
Annual% change in 12m forward EPS expectation turns negative for the first time since 2009



Source: Thomson Reuters Datastream using I/B/E/S

The *Investment* House LLC

Is this a particularly worrisome event? To answer such a question it is important to have some sense of the overall health of corporate profits as a factor in the economy. As the chart below shows, profits as a percentage of GDP have been on an upward climb for many years,



and so, it is hardly surprising that, after a long period of cyclic expansion and aggressive monetary stimulus, the profits ‘waters’ having been ‘heated,’ subsequently ‘cool’ somewhat, causing occasional perturbations and extreme movements in asset prices, just as their climactic counterparts do in our weather patterns. In nature, as in economic life and investment landscapes, such phenomenon can be expected as a natural part of the process of adjustment to long term change, and is neither to be feared, nor controlled, but rather, simply accepted as part of our environment.

When such extreme conditions occasionally produce great bargains in the valuation of great companies, then so much the better for long term investors like us.

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