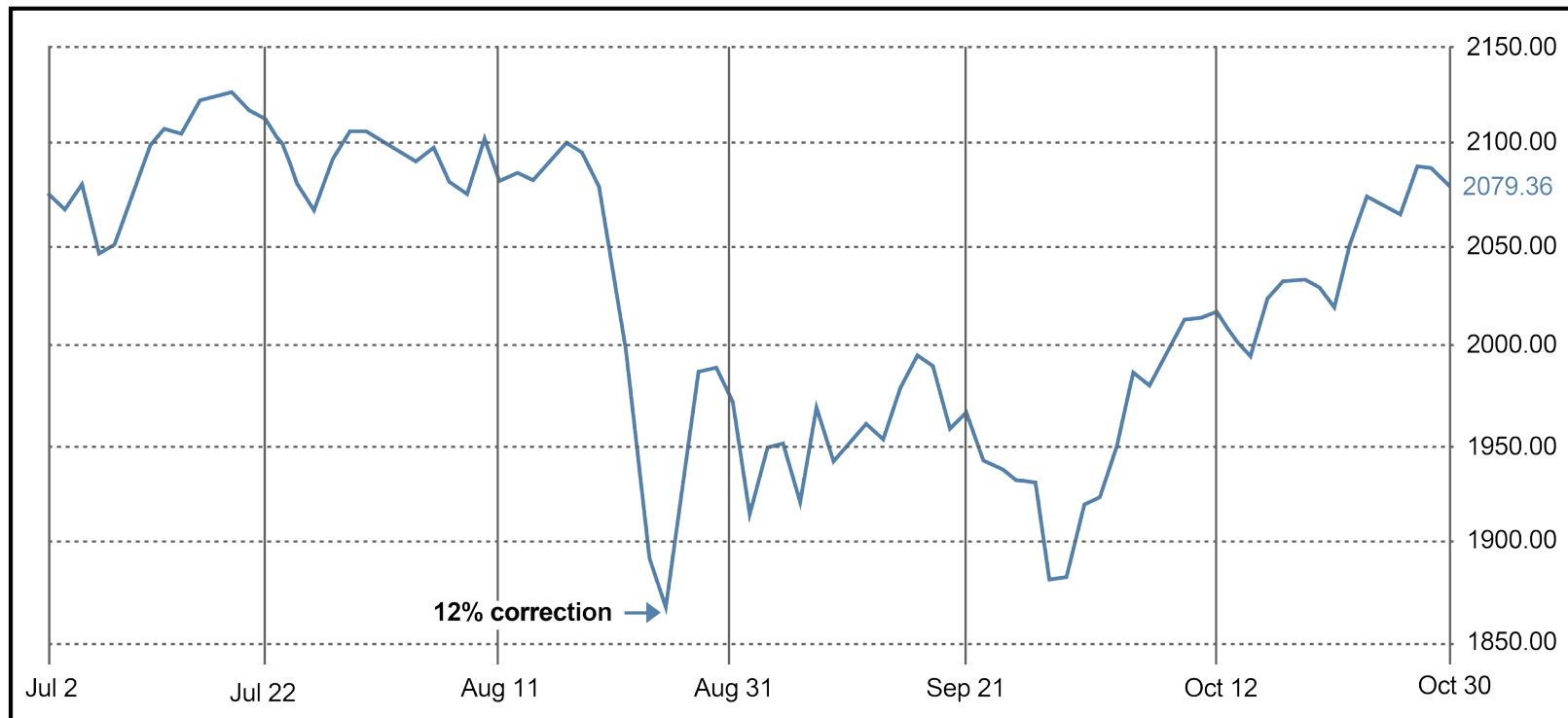


- NOVEMBER 2015 -

MARKET OBSERVER

We've been waiting for two events to happen this year. The first one occurred in August – the market experienced a 12% correction. We like to see a 10% correction now and again. It's been four years since the last one, so the market has been waiting a long time. The good news: as of this writing, the market has recovered most of those losses.

S&P 500 – July 1 to October 30, 2015



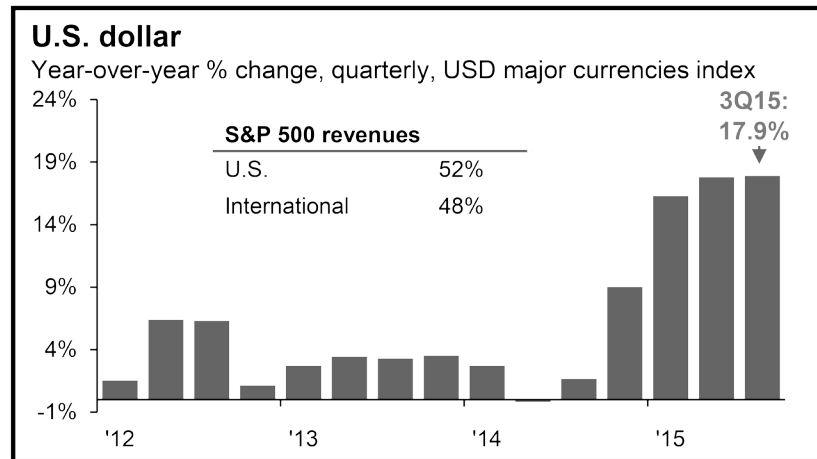
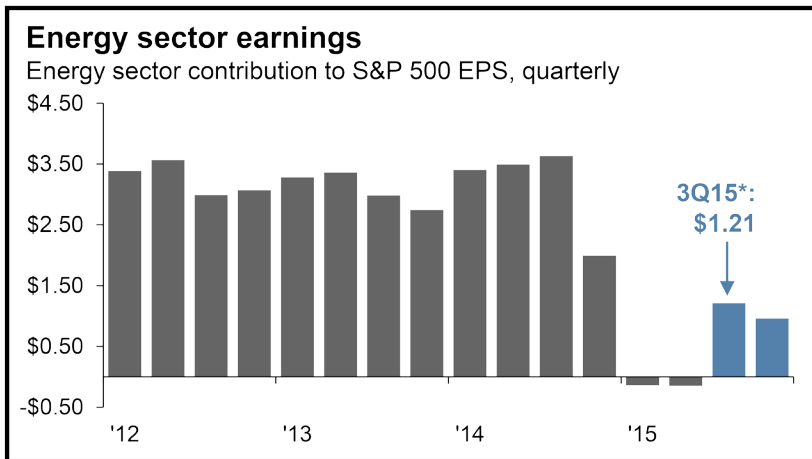
Source: <http://finance.yahoo.com/echarts>

The second event hasn't occurred yet - the Federal Reserve has not yet raised interest rates. While the odds that they will raise rates in December have been increasing lately, it won't be a surprise if they maintain the status quo. As any Chicago Cubs fan is used to saying, we may have to "Wait 'til next year."

CORPORATE EARNINGS

Earnings for the S&P 500 look like they will end the year at around the \$117 per share amount from last year. There were two key factors holding back the earnings number: (1) lack of profits from energy companies (because of cheap oil) and (2) the strong US Dollar. As the first chart below shows, energy sector earnings fell off completely in the first half of the year but are expected to partially rebound for the rest of the year.

Corporate Profits



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management, Federal Reserve, S&P 500 individual company 10k filings, S&P Index Alert. JP Morgan Guide to the Markets - U.S. Data are as of September 30, 2015.

Coming into 2015 and continuing through the year, the US Dollar has appreciated substantially relative to other currencies. While this makes it cheaper to buy goods overseas, it creates a big headwind for corporate profits of US companies with overseas revenues.

With energy earnings improving and the future impact of a strong US dollar leveling off, 2016 earnings growth is expected to get back on track. They are currently projected at \$128 per share.

CONCENTRATION VERSUS DIVERSIFICATION

While the stock recovery in October and early November has been solid, its strength has come from the safe mega-cap stocks. Each area of the market will have periods of underperformance and outperformance. Right now it is mega-caps; in the late 1990s, it was tech stocks.

If you were concentrated at the time, it looked great; then it didn't. At the bottom of that tech bubble the place to really be was in the areas that were most undervalued - emerging markets and developed international.

So why have diversification? It's not so much because you're trying to hit a home run as it is that you want to have some dry powder to buffer your losses in a down market. When you have a narrow rally, like in just mega-cap stocks, that's when people forget the lessons of a full market cycles.



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