McCullough & Associates LLC
INVESTMENT COUNSEL

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This year has been a whipsaw of contradictory news and information for investors. Fear has taken over the minds of some very rational people as they try to protect themselves from damage that has already been done. This same fear is driving these investors to the fixed income market; even as 10 year treasury rates dip below 2.5%.

While investor sentiment flees to the fixed income market, the most common element of investing 101 is left in the dust. When interest rates move higher, bond prices will move lower. Considering that we are in one of the lower interest rate environments in several decades, it is only logical to assume that at some point soon the rates will move up, depreciating the price of the bonds as their yields become less attractive. Financially strong companies know the drill and are actively taking advantage of these unusually low rates to finance long term debt. They are locking in cheap financing for the life of the bond. Last month Johnson & Johnson sold 10-year bonds at 3.15% which is the lowest rate they have ever paid and lower than the current yield on JNJ stock which is 3.5%. Investors are so eager to put their cash somewhere they consider safe they are ignoring common sense and investing with emotions.

Despite the excessive investment flow of retail investor's money into fixed income markets, related mutual funds, and ETFs, the US market has responded with a steady climb towards recovery as a result of gradual economic improvements and strong corporate earnings. As un-invested funds are put to use, we will see other investments being reevaluated and a further shift back into the equity markets.

September was the best for the US stock market since 1939 with the S&P 500 up +8.9% in the month alone. Corporate profits are recovering at a quick pace as companies accumulate more cash on their balance sheets than they have in some time. The intensity of shareholders pushing the companies to put these funds to work has resulted in record stock repurchases. Some of the largest share buybacks this year so far have come from Hewlett-Packard and PepsiCo with repurchases of $10 billion and $15 billion respectively.

Other companies have utilized their excess cash to make acquisitions. GE has made several purchases this year and has bought more companies in the past 5 years than any other major public corporation in the world, completing 196 acquisitions. Financially strong companies that continue to invest in themselves during challenging markets will be even stronger when the economy heads into expansion.

With these thoughts in mind, we believe the stock market will continue to respond positively to the signs we are seeing. Leading the pack, strong multinational companies are positioned to take advantage of global growth. As always, if you have any questions or would like to learn more about how McCullough can help you, please contact us to set up a meeting.

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