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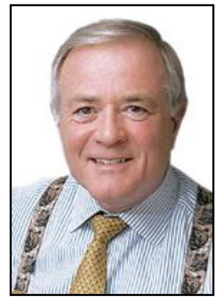

William Rutherford

Can anybody here play this game?

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Way back in what now seems like the dark ages, the world experienced a financial crisis. The crisis slammed every portion of the globe, and it persisted. From governments down to the bottom of the socioeconomic structure, both assets and jobs were lost. At about this same time, the Middle East was imploding in revolution. These two events would coalesce at a later date in worldwide turmoil.

The recovery from the economic crisis was slow and uneven. Many people who lost their jobs remained unemployed. The percentage of the workforce actually working stayed low. People at the upper end of the economic spectrum found that their assets recovered, as the Federal Reserve kept interest rates low by historical standards and kept them low for a long time. People out of work noticed the disparity. Those with good jobs and their own homes did not notice so much.

As the Middle East disintegrated, with country after country attempting to throw off repressive dictatorships, vast numbers of refugees were created. Many of these refugees sought new lives in countries with stable governments in Europe and elsewhere. Some countries said they would accept displaced people in a humanitarian gesture, but the numbers of refugees were overwhelming. Europe built walls and obstructions to keep the refugees out, because with high unemployment, it did not have much to offer in the form of jobs or opportunity.

Internally, Europe was forced to reinstitute border controls, which had been abandoned with the adoption of the European Union. This was very expensive to people and to commerce. The controls threatened the breakup of the EU. The U.S. pledged to take refugees, but with a lack of implementation; only a small number have actually come to the U.S.

The combination of a weak economy and the cumulative influx of immigrants over decades into the U.S. led to resentment, especially with those who have lost well-paying manufacturing jobs. As has happened several times before in the U.S. in weak economic times, foreigners were blamed for our problems; Japanese, Chinese, Italians, Irish, Poles, Catholics, Jews and now Muslims were all blamed for our ills.

Populism, with blame of the ruling class, arose. Nationalism, with blame of the immigrants, accompanied populism. Sometimes this combination can lead to war, as happened in Germany in the 1930s. In the recent U.S. election, populist presidential candidates arose on the left and the right, as Bernie Sanders and Donald Trump were different sides of the same coin. To populism, Trump added nationalism and protectionism.

This populist nationalist movement has also been growing in Europe, where far right candidates are mounting a serious challenge to the existing order. Europe is especially vulnerable, because if the EU were to fall apart, as is threatened, then what would replace it? Europe has had its longest period of peace in history, largely because of the EU and Pax Americana – yes, paid for by the U.S. taxpayer. But what price, peace? What price, war?

This year the U.S. equity markets are off to a fast start, which augurs well for the year. As a general rule, when stocks advance in January, that momentum continues for the rest of the year. Also, the first few days of January often predict which way the month will go. This year both readings were positive for the first time in five years. The success rate of "as goes January so goes the year" is close to 90 percent, according to Strategas Research Partners.

The recent jobs report was encouraging. The ISM manufacturing index also increased. Pending home sales were up. But consumer confidence declined, as did construction spending. Notably the Federal Reserve met without much notice. For the last several years, when the Fed has met, all eyes were on the meeting. Not so this time; people barely noticed. The Fed did nothing and was subdued in its prognostications.

The market will continue to experience volatility, and uncertain policies will cause sector losers. But in the meantime, we must continue to invest in those sectors of the economy that still offer opportunity. Historically the market rises 70 percent of the time.

Expectations are that corporate profits will rise somewhat this year. Current estimates are for S&P index profits to be up 8.7 percent this year, which should support an increasing market.

Interest rates are expected to rise somewhat. If interest rates increase, it is because the Federal Reserve believes that the economy is strong. Our goal is to turn these macro trends to our advantage and not get caught up in micro events. Investors can improve their chances of success by being long-term investors. Do not let volatility become a distraction. Do not let emotions overcome a long-term strategy. Save even more. Be diversified.

While we are discovering whether anybody in charge can play this game, it is wise to remember something I learned in the Army, where we had constant surprises and often conflicting direction: "Hang loose, remain flexible and continue the mission." I have returned to this bit of wisdom many times.

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