# Does It Get Much Better Than This?

## Strategic Insight - Summer 2017

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

Economist Milton Friedman observed in economics what scientists have known for ages – stability breeds instability. Brushing aside worry closets of concerns, stocks and bonds – particularly those in the U.S. – have soared past their 2007 peaks. Stocks have done their two steps forward, one step back dance for over eight years now, the back step getting scary only twice (in 2011 and in 2016). Bonds roared ahead, aided by a friendly central bank (the Federal Reserve Bank). Interest rates dropped from about 5% to just over 1% (the 10-Year Treasury bond) from 2007 to 2016. Adding to the cheer is the broadening out of the advance to most international markets beginning late in 2016. This said, the wheels are in motion for all the good times investors have had to endure an autumn, followed by a winter before seeing another spring, so to speak.

Ten of the last thirteen recessions have been precipitated by the Federal Reserve going too far with interest rate increases and the Fed has been raising rates for well over a year. We are not at the danger level yet, but if history is a guide they will take rates above what our aging and indebted society can afford. Recessions are important to stock and bond investors because they usually begin after a nice period of market gains which bring stocks to pretty lofty levels of valuation. To answer the question posed in the title, it can get better, but we don't know for how long.

This said, those of you making contributions should welcome recessions and "bear markets" as they allow you to buy more cheaply (your dollars go farther when stocks and bonds are cheap). Those of you not contributing can still feel sanguine in that we have seen this rise and fall business before, having lived through the "Big Bear" of 2008-2009. If we are near the end of a long rising market, we will likely see euphoria among investors (currently mostly absent) and sharply rising prices accompanied by sharply falling prices (volatility) – the tremors of a potential end to the long bull run we have enjoyed. Even in the depths of recession, most of your holdings will continue to pour out income in the form of cash dividends, making the drop less uncomfortable. Also, the bonds you hold usually go up in value during recessions and bear markets, further cushioning your fall. Enjoy the coming months, and perhaps years, as the answer to our title question plays out.