



3rd Quarter Market Commentary

September 22, 2015

Dear Clients and Friends,

In light of the Federal Reserve's decision to NOT raise interest rates last week, and in light of the ensuing market action, I would like to share a few thoughts and opinions regarding the state of the financial markets and our economy:

Deflation, not Inflation

It is my opinion that the financial media is obsessed with answering the wrong question: "When will the Fed raise interest rates?" Whether rates go up in December or early next year, they will not likely go up by much. In fact, it is becoming increasingly clear that the world is fighting deflation, not inflation. The next major move in monetary policy is likely to be more stimulus. (Hat tip to Ray Dalio of Bridgewater for opining this nearly a month ago in the press.) I am not saying that such a stimulative move is imminent. Rather, I am saying that any interest rate increase from here is meant to bolster the Fed's credibility and create space for the next "real" move down. It is not meant to fight genuine inflation.

Market Technicals

It looks likely to me that the Dow Jones Industrial Average will test a key support level this week at roughly 16,000, which is not far from the market's current action at roughly 16,250. If breached, the next support level is in the 14,800 to 15,000 range. The S&P 500 may also re-test a key support level at 1,867-ish, which compares to the current action at roughly 1,935.

Please know that these levels were tested almost exactly one year ago in early October. And the market rallied 10%+ from there into the close of 2014. I am not necessarily suggesting that the same thing will happen this time. But it is important to place these pullbacks into context...

When should I get really nervous about the markets?

I believe the single most important phenomenon in the market today is the Narrative of Central Bank Omnipotence. Ben Hunt, of Epsilon Theory fame, coined this phrase and has been preaching about this for some time. His theory states in part that what is important about the markets is what people **think** is true. NOT what actually is true. He calls this "Common Knowledge".

Right now Common Knowledge says that virtually every major world economy is "controlled" by central bankers --- whose populations actually believe they are "in control". Whether they are in control of their economies or not is unimportant --- as long as everyone believes they are.



As you might suspect, I do not believe these central bankers control much of anything in the long term. Consequently, if/when the world decides that central bankers are NOT in control of their respective economies ---- that will be a scary moment in economic and financial market terms. I believe that pivot point will be the beginning of the next major bear market. I believe it is coming --- but don't know when. Best to keep a watchful eye out for cracks in this narrative of Common Knowledge around the idea of Central Bank Omnipotence.

How do I navigate through all of this?

At LWM, we have spent a significant amount of energy building portfolios that hold some investments that don't need the financial markets to go up or down to make money. Our focus will continue to be spent searching for more of the same. However, it is not possible for most investors to be diversified without also holding some standard financial market positions (bonds and stocks). Manage the size of this allocation carefully. Avoid making massive market calls and one-sided "all in" bets.

And as always, call me with questions.

Kind Regards,
Jeremy Boynton