INFLATION OBSESSION

March was a tug-of-war, pitting optimism about a generally healthy economy and cash-rich, well-positioned companies against a headwind of rate hikes and slower earnings growth. We have experienced the high for the year and low for the year in the span of three weeks. Neither the bulls nor the bears are giving up much ground. On the contrary, both sides have been aggressively making their voices heard.

We receive economic data on a regular basis that is being used to point to a positive or negative view on inflationary expectations. As data is released, economists quickly jump to an inflationary perspective clouding the rational analysis of the data. Unfortunately, any data can be twisted to fit the already determined stance on the current economy. Two analysts can look at the exact same data as proof that their bullish or bearish stance is justified.

INTEREST RATES

The Federal Reserve continues to raise interest rates at quarter point clips. A steady rise gives those consumers living off home refinancing a soft landing by giving them plenty of warning to lock into fixed rates. Remember the Federal Reserve raises rates to stave off inflation brought about by a strong economy.

Because strong consumer spending resulted in the most recent recession to be shallow and the recovery quick, many believe that the rising interest rates will dry up consumer spending through home loans and bring the economy to a halt.

OIL PRICES

Oil prices show no signs of slowing down. Bears continue to see the spike in gas prices as a major indication that inflation is out of control. Bulls point to the fact that the high prices have not caused consumer spending to slow and therefore the Federal Reserve need not be aggressive in there rate hikes because inflation is non-threatening.

SLOWER CORPORATE EARNINGS

Earnings expectations have been slowly coming down in recent quarters. Bears point to this as a reason for concern. To keep the earnings expectations high, companies may need to raise the revenue by charging the consumer more per items (hiking inflation). Bulls, however, note that cash levels on corporate balance sheets are at their highest level in history. The S&P 500 Companies currently average 18% cash position. This extremely powerful amount points to CEO's being reluctance to spend (or hire) just for the sake of spending.

EMPLOYMENT DATA

U.S. employers added 110,000 jobs in March. Although this shows continued growth in the labor force, the number was lower than expected. Bears correlate a weak job market to a weak economy, which would be put in a recession with minimal inflation. Bulls see companies that are leaner, more competitive, and are returning surplus cash to stockholders in the form of dividends and share buybacks not increase labor costs. Bulls also cite that unemployment rate continue to drop, currently 5.2% from 5.4% last month.

INFLATION OBSESSION (continued)

OUR STANCE

The result of the recent positive vs. negative sparring could result in a clear cut winner giving the market a clear direction. We experienced this last year with the election causing the market to break out to the upside. We continue to see the positives of the current economic and corporate environment outweighing the negatives. The reward of being invested in high quality companies far outweighs the downside risk.

We continue to focus on each economic indicator as a separate data piece that needs its own perspective in which to be judged. Human nature is to seek patterns and trends and thus allowing opinion to override fact. In analyzing the financial statements of companies, we are able to obtain an unbiased look at that company - free of outside opinions or rhetoric. Although it is time consuming to focus on the numbers and not someone else’s opinion of the numbers, we are able to analyze companies on their own merit and grade them using our scale. We are focused on the companies we own or looking to buy, not the opinions of anchor people and guests paying to be on CNBC.