

Waiting for the Correction

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Cash flow and income-generating investments continue to draw capital, as evidenced by the rally in the bond market and significant outperformance of high-dividend-paying stocks. It only makes sense given the demographics and the increasing number of individuals and pension funds that depend on the income they produce. I'm particularly intrigued by the noticeable increase in interest in tax-exempt bonds due in no small part to the recent tax increases.

Fed tapering, or the reduction of open-market bond buying, appears to be going well. The Fed has reduced open-market purchases from \$85 billion dollars per month to \$45 billion, on the way to zero by year-end. This is a good sign and a good direction as the improving strength in the economy is allowing the Fed to take our country off "life support." Don't ignore the positive message in all of this: Our economy is improving!

One other observation that I will make is that there seems to be an obsession about predicting the next market correction. We've seen it in the bond market (prediction of higher rates) as well as the stock market, with pundits citing the long overdue 10%-15% stock market drop, slowing corporate growth, failure of a housing boom, etc., etc. While I would be foolish to imply that there will not be a correction at some point, because there will be, I'm challenged to find an alternative to equities with a more compelling long-term story, and cash at 0.01% just doesn't translate into a viable long-term investment strategy.

I encourage you to explore The Finlay Group website, www.finlay-group.com. We've posted our letters to clients as well as other assorted missives under the "Things to Consider" section...check them out!

Best regards,

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