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On the Way to “Normal”?

Global Markets and Regions

	3rd QTR	2014 YTD
US	0.9%	8.2%
Developed Europe	-7.0%	-1.4%
Asia	-1.8%	1.9%
Emerging Markets	-3.4%	2.7%

US Markets

	3rd QTR	2014 YTD
Dow 30	1.9%	4.6%
Large Cap Cos.	0.6%	8.3%
Mid. Cap Cos.	-2.0%	3.2%
Small Cap Cos.	-8.0%	-3.7%
Bonds	0.32%	4.1%

Are we on the way back to normal? Do we even know what should be considered normal? A quick tour of the world around us presents a world that appears in chaos. The Middle East is the Middle East, Russia is Russia and Europe continues to be mired in economic malaise. Japan can't seem to restart their economy, though they've been trying to for almost 20 years, and there are threats of global health pandemics. At least this year there has not been a major weather or disaster. Wars, rumors of wars, disasters and plagues seem to be what's normal.

The first fifty years of the last century saw two immensely destructive world wars sandwiched around a global pandemic (The 1918 Flu) and The Great Depression with several natural disasters thrown in for good measure; The Galveston Hurricane and The Great Mississippi Flood for the history buffs. We should hope that will not be the template for the rest of this century. We've already had a Great Recession, a flood (Katrina) and an earthquake (Japan). Are wars and plagues up next?

The markets appear calm. US stocks are barely delivering a positive return this year, but have not corrected more than 5% over the last two years. The sense of the New Normal of slower economic growth, persistently higher unemployment, more variability and the need for Federal Reserve intervention persists. Maybe we just don't recognize normal.

Continued economic growth is still generally perceived as normal. It's what delivers the bounties of modern life. It's also an essential condition to servicing debt, which there seems to be an abundance of. Over the last several decades growth rates have ranged from a high of 8% a year to low of around 2% a year. There have been periodic recessions and negative growth, which the markets don't like by the

way, but growth is considered normal. The proximity of the last recession and the below average recovery have been a source of market angst. Corporate Earnings have historically grown at rates averaging between 10-15% a year, of course interrupted by periodic recessions and negative earnings growth. Markets don't like that either. Earnings growth is perceived as normal and we are presently experiencing solid, but not spectacular earnings growth, which is at the low end of what's considered normal.

The normal that investors and Wall Street seem to be obsessed with is the return to normal interest rates from the era of Quantitative Easing and suppressed interest rates. This is a policy development that arguably has kept the US and the World economies and financial systems from collapsing and has helped facilitate the below average recovery. It is not perceived as normal policy, but as a policy that needs to be unwound. The concerns range from igniting inflation to creating distortions in the market; "bubbles" that will eventually burst. Bursting bubbles are another thing that markets don't like.

So all eyes are on the Fed and Chairman Janet Yellen and her Board of Governors to get us back to normal without precipitating a recession, igniting inflation or bursting the many bubbles; real or perceived. You would think there would be assistance from the fiscal authorities. That would be our elected Congress and President. That is still perceived as normal, but sadly, that hasn't been the case.

The good news is that the domestic economic backdrop is positive and trending toward more positive. The US is different than most of the world in that our economy is still roughly 90% domestic demand oriented. There is also still a vigorous entrepreneurial culture in the US, but we appear to just be shuffling along, which is still not widely accepted as normal. Recently the markets have been offering their opinions in the form of increased volatility. Maybe we're just getting back to normal.

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