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RING MY BELL

-Murray Sawyer

Do you know Gary Hides? He's the Chairman and Managing Member of The Delaware Bay Company, LLC, a Fifth Avenue Wall Street money management firm which invests only in the securities of publicly traded bankrupt and distressed companies. Hides has more than 30 years of experience managing distressed investments. He does it extremely well.

At times his quests have a bit of Don Quixote to them, seeming more than a bit quixotic. Exhibit A: He is currently involved in litigation in federal district court in Wilmington suing the U.S. Treasury seeking the return of profits from Fannie Mae and Freddie Mac for its private investors. You'll remember the Treasury placed those entities under government conservatorship after the financial crisis of 2008 and has since directed nearly all the profits generated by them back to the Treasury. Fannie and Freddie have sent almost \$240 billion to the Treasury since that time which significantly exceeds the \$187.5 billion bailout taxpayers provided. Will he be successful in this longshot gamble? I think he's got a potentially winning legal argument but no winning political argument, and yes, after 40 years practicing law, I think judges act as political creatures at times, especially when the might and right of the U.S. government is challenged. I don't know that he'll win this quest but he has a history of success in such endeavors in the past so I, for one, wouldn't bet against him.

In the 1960s and '70s, when idealism was a guiding light for young adults who had seen the evil of Watergate brought to light by Woodward and Bernstein, and who had lived through the assassinations of JFK, Robert F. Kennedy and Martin Luther King, Jr politics, journalism and the law were thought noble paths for the advancement of the nation's commonweal. Gary and I each chose two; he journalism and politics, I law and politics.

Hindes and I had parallel but non-crossing paths. He was an award winning investigative reporter and editor of the *Delaware State News*, while I served the public as a prosecutor in Delaware's Attorney General's office. He became press secretary to the Democratic New Castle County Delaware Executive from 1976-78, and later assistant to the Speaker of the House in the Delaware General Assembly. I served as the Campaign Treasurer for the successful Republican Candidate for Attorney General in 1978 and two years later, running as a Republican, won a position as a councilman for New Castle County, serving 70,000 Delaware constituents.

Realizing I had three young children to raise and an active law practice to run, I retired from politics after one term while Hindes continued along the political path, ultimately becoming Chairman of the Democratic Party in Delaware, then running for the Lieutenant Governor's office and along the way becoming a close advisor to Joe Biden, which he remains to this day.

While he was involved in politics he also began his career in finance, initially working for various brokerage houses, including Paine, Webber, Kidder Peabody and Morgan Stanley, all the while specializing in research involving the securities of such distressed or bankrupt companies like the Pennsylvania Railroad, Chrysler Corporation, and Continental Illinois National Bank. In 1986 he formed Fallen Angels Fund, L.P., a private partnership investing in distressed securities as well as The Delaware Bay Company, Inc., a brokerage firm specializing in distressed securities.

Why do I tell you this? Because crazy as it may seem in this polarized political time there are occasions when a Democrat and a Republican can agree (just as was common in days past); there can be common agreement on the direction of markets between one who finds success stalking the unloved and unappreciated fallen angel companies and another who generally rides the elephants of the equity world.

The indices are off to a very rough start this year. The slowdown in China, coupled with the recession in the commodities sector, oil in particular, have been the largest headline negatives. In addition, the average S&P 500 stock is down more than 20% from its 52-week high. Only the so-called "Fangs" -- Facebook, Amazon, Google (Alphabet) and Netflix -- and a few outliers have held up. Earnings have moderated. In a poll for the week ending January 20th, almost half (48.7%) of retail investors were "bearish",

which is the highest percentage in almost three years.

On January 20th the Dow precipitously fell 565 points during the day before it came quickly back, trimming its loss for the day to 249 points to 15,767.

In that environment, on the very day the market tanked the most, and eerily almost at the very instant the market would hit its bottom for the day, Hinds sent out an email. (I get his newsletters and emails; he gets mine. He teases me for sending mine out on old-fashioned legal-style letterhead rather than on some trendy internet dippy do masthead. Hard to wring the lawyer out of me after so many years). As Gary wrote the Dow Jones Industrial Average sat at 15,487 down 528 for the day. Remember it would hit an intraday low down 565).

I thought his message was spot on, and with his permission will quote liberally from it. It was titled "They Don't Ring a Bell at the Bottom . . . "

This is what he said:

"Folks, this is the seventh major market correction of my 36-year career and just like the previous six, it ain't no fun. But it's important to put things in perspective. In all cases, the situation recovered and things got better. Take a look at any long-term chart of the stock market and you will find that it mirrors the long-term chart of humankind itself: it goes UP. From left to right, it goes UP. To be sure the arc of progress – whether it be human progress or stock market progress – has a lot of zigs and zags along the way, but it is still PROGRESS. I have no doubt that history will once again repeat itself . . . and the march of progress - higher prices – will resume before too much longer."

He attached the December 1990 magazine cover of ***Institutional Investor***. At that time everyone thought the markets were going to bust apart as the Dow had fallen to 2,644. If you can't click on the link it shows a person's face, eyes bulging, forehead scrunched, frightened out of his mind, with a byline saying "Fear stalks the Street".

Of course we know how that 1990 story has played out to date: even with these past recent machinations the Dow is over 16,000. I think Hinds has it right. And he may even have signaled the bottom with his timely email.

We have had a seven consecutive years of positive returns, dividends included, for the S&P 500. Everything that grows needs a breather. 2016, so far, has been just that. The market pros call it a “correction.” You know our Westover thesis. We believe we are in a secular bull market which will have run, when ended, for 15 to 20 years. Nothing goes up in a straight line. Even the Golden State Warriors, Carolina Panthers and UNC Tar Heels (sorry for that one; couldn’t resist) lose once in a while. In the words of that famous ‘70s band, The Eagles, you just have to “Get Over It.”

The Fed raised interest rates in December for the first time in almost a decade. That change in monetary policy coupled with a changing political order in the White House has added to the destabilization of the markets today. The Fed has “come to the rescue” of investors for seven years now, and so it has created a sense of moral hazard whereby investors have been conditioned to expect that the Fed will respond to each of every stock market correction.

But remember, notwithstanding two ugly bear markets when first the tech bubble and then financial crisis hit, we have still seen a total return for the S&P 500 of over 8% annually for the past 20 years. I’ll take that any day. Remember also that investing for investors is a marathon, not a sprint. In the long run fundamentals, especially corporate earnings, have an enormous influence on stock prices; while in the short run macro events and uncertainty drive those numbers. That’s why we never elected to become traders. I don’t know what flyspeck will get into my stock portfolio or eye tomorrow, but I know that it will ultimately be washed out of both and my eyesight will be cleared. Yours should be too.

Save the Date

If you are a regular reader of our newsletter, you know that we hold a spring seminar where we invite a national speaker to address Westover clients and guests on a subject of national interest. Several years ago, Westover was honored to present Greg Valliere.

Greg returns to Wilmington to the Wilmington Country Club on Tuesday April 19th at 4 o’clock this year. Greg is the chief political strategist for the Potomac Research Group, and has an incredible insight into the workings of Washington. I thought he would be perfect to address us this year, given the

Presidential race. As I pen this newsletter I don't know the outcome of the Iowa caucuses, but that is sure to be the starting point of his presentation. Where he predicts these races to end come next November, or even who the candidates might be, and the consequences of those events for us as investors is not to be missed.

You might even find Gary Hindes comes down from New York to hear what Greg has to say. I hope you will accept your invitation when it arrives. We should have a sold out venue.

Listen to the Music

In 1979 a disco song by Anita Ward hit number one on the disco charts, the *Billboard* Hot 100, the U.K. singles and the Soul Singles charts. Its title? The same as this newsletter's, "Ring My Bell." Alas, it was the only number one hit for Ms. Ward. Has the bell been rung signaling the stock market bottom on January 20th? Stay tuned; let's see.

That same year the Eagles released a long-awaited album, coming after their 1976 *Hotel California* blockbuster album. The '79 album turned out to be the last studio album the group would produce before they broke up a year later. It debuted at number 2 on *Billboard*'s Pop Albums charts in November and soon made it to number one where it stood for eight weeks, at the same time disco fever, as evidenced by Ms. Ward, was ablaze. If disco and pop could co-exist, surely Rs and Ds can do the same, can't we?

The album had three top ten songs. And one of those songs garnered them a Grammy. Glen Frey, who tragically and unexpectedly passed away this month at 67, co-wrote all three songs the Eagles sang.

You know the contest and its rules by now. Identify the three songs which came from that album from this list with no outside help and you'll potentially win a \$25 gift card. You don't have to be a Westover client to play. You just have to enjoy music and want to have some fun. Past winners may display their chops once more.

Songs from 1979-80 era:
Against the Wind;
Heartache Tonight;
Hold the Line;

I Can't Tell You Why;
It's Still Rock and Roll to Me;
Love You Inside Out;
Mama Can't Buy You Love;
Ride Like the Wind;
The Gambler;
The Long Run;
Too Much Heaven;
What a Fool Believes;
Y.M.C.A.

We'll give four gift cards out and will pick from a hat if necessary. Good luck and hope to see you in April.

January 28, 2016