THE VIEW FROM PRINCETON

Market Commentary* ♦ *June 2015

IT IS DIFFICULT TO FASHION AN ATTRACTIVE OR USEFUL GARMENT OUT OF INDECISIVENESS AND EQUIVOCATION

SUMMARY: Scanning the landscape — north, east, south, and west as now from standing on the heights attained by indices for general market changes — reveals so much concern and cause for worry from circumstances beyond America's borders. There is evidence also of spreading verdant grass in America and of abundant vigor and strength among large enterprises, and of new opportunities created from innovation. From it all, there seems to be increased provocation toward analytical verbiage that begin with personal indecisiveness and agglomerates into a general market attitude that seems (if markets could be personalized) to be diffident, distrustful and dubious. This characterization helps describe some of the market's flatness (the go-no-where) in the forepart of 2015, along with those troublesome extreme aberrations in the weather, and translation of foreign earnings into a much increased relative value of the dollar.

It would also be a mischaracterization to describe, as one often hears, with the trite comment that our market needs a rest after so much advance in valuations during the preceding six years. This market is not at all resting; restive with very high energy would be a better description. The most distinguishing aspect and formative force now derives from spreading industrial activity in the United States (understated perennially in government figures) and a stock market that preferentially attracts inflowing funds sourced beyond America's borders.

Mergers and acquisitions have been extraordinarily voluminous and a large incremental driving force in the market for equities. So many major enterprises have accumulated cash to an enormous scale, increasing their degrees of freedom in terms of capturing opportunities. Not only has such a scale of mergers and acquisitions swelled the inflows of monies into the capital market, the large premiums paid for so many of the acquired companies is further judgmental support to the observations that our "overvalued" market includes many vibrant enterprises that are undervalued. Long-term investors might ease their concerns by recalling that in periods of stalled indecisiveness, or slack in general activity, the strong enterprises get stronger, while the weak get weaker.

Meanwhile, as some see the heights attained by the averages as a sign of concern, others thinking more constructively see this nominal increase in financial wellbeing as a major supportive influence toward further expansion of the American economy. Contemporaneously, this is the late-stage fulfillment flowering of a generous monetary policy.

Opinions and reality seem to have been disparately wide apart, seemingly forming offsetting neutralization of opposing attitudes and physical forces. Readers might recall that President Truman lamented in public remarks that he ever hopes for a one-armed unequivalent economist who would be indisposed to say "on the one hand, and on the other hand." Even a two-armed economist should find it easier today with such a dispersion in the array of distinctive choices as formed by: (1) the transformations from lowered costs of fuels and of petroleum feed stocks for companies that process an upgrading into many end products of much greater value, (2) the looming massive upgrading of transportation infrastructure, and (3) attractive valuations among shares of the grandest of enterprises.

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As our clients and other readers of *The View* know, a course of action typically begins with valuations and orients to the probabilities that social factors exogenous to enterprises and the probabilities that factors endogenous to enterprises will synergistically converge. We hope our occasional interpretative commentaries might have a useful relevance to contemporary circumstances, and to formative factors and events. Assuming the reader has a familiarity with the real events and circumstances, we typically comment on the consequences of recent or new developments in terms of an investor's seemingly appropriate course of action

Indecision ever brings to mind, from early schooling, the legendary story of *Buridan's Ass*. You perhaps can recall that Buridan before a voyage had tethered his donkey equal distances from two identical bundles of nice hay. With nothing to differentiate the hay on the left from the hay on the right, the donkey was immobilized. Buridan should not have left his donkey in such a perplexed state, for when he returned, the donkey was emaciated beyond recovery. Thus, the world's vast body of behavioral literature was ever endowed with yet another lesson pertaining to the peril when deliberation morphs into indecisiveness. Alas, Buridan, having lost his ass, had no recourse. Sadly, the reputation for the acumen of donkeys was ever sullied.

Even a quick cursory scan would reveal the pervasive beneficial effects of lowered fuel costs (now having endured the first-phase effects of the drop in oil prices that reduced activity among enterprises sourcing fuels). Also, in the not-so-many months away, there is the hugest of public works in rebuilding transport facilities for travel by air, vehicles, and rail. The effects will be enormous.

Our course of action takes, as its primary bearings, valuation, valuation, valuation.

VALUATION:	Vis-à-vis alternatives in marketable securities from which one can choose
VALUATION:	Vis-à-vis the customarily used metrics
VALUATION:	Vis-à-vis prospective revenues which must be sooner or later sufficient to support the contemporary market capitalization for the total worth of the enterprise

These are the primary finite, specific, and clearly discernible basic foundations for a course of action. The vast array of choices provide pathways to risk minimizations, and to gain opportunities. The array of choice from the American market exceeds (and has exceeded for many decades) the variety of choice of any other capital market. As something also distinct about today's American capital market, the big, beautiful blue chips are uncommonly cheap (this includes household names of companies that have been here for decades and are sometimes thought too big to be interesting). It is quite unusual for such leading companies to be so evidently the center of the market and the fundamentals from which risk in all other choices must be reconciled.

By way of illustration, the listing on the following page herein uses the 36 largest ownership positions our clients have in marketable shares. Meanwhile, from a turbulent decade, these companies' revenues advanced well, the accumulation of cash advanced mightily, and the general strength and prosperity of such comparable large enterprises combined reveals a leadership of worldwide import. This is an extraordinary aspect to today's market valuations in that the big, beautiful, prosperous blue chips are capitalizing so little of ten years of growth of prosperity.

Thirty-Six Largest Ownership Positions

Amazon.com Inc.	FEI Co.
America Movil, S.A.B	General Electric Co.
American Airlines Group	Google Inc. Cl A
American Tower REIT	Intel
Apple Inc.	Martin Marietta Materials Inc.
AT&T Inc.	Merck & Co. Inc.
Bayer, ADR	Microsoft Corp.
Boeing Co.	Morphosys AG
Bristol-Myers Squibb Co.	Qualcomm Inc.
Canadian Pacific Railway	Sanofi-Aventis, ADR
Caterpillar	Union Pacific Corp.
Cisco Systems Inc.	Unisys Corp.
Corning Inc.	United Continental Holdings
Cree Inc.	United Parcel Service Inc.
Crown Castle International Co.	Universal Display Corp.
Deere & Co.	Universal Electronics Inc.
DuPont De Nemours & Co.	Verizon Communications
Faro Technologies Inc.	Vertex Pharmaceuticals

The top 36 securities listed above have been selected as our largest holdings and on an objective and non-performance based criteria. One should not assume that an investment in any of the listed securities was or will be profitable.

For Verizon, revenues advanced on the order of 70%, and for AT&T (including a major acquisition), about threefold. Earnings rose above 30% for Verizon, and by more than double for AT&T. Dividend yields for both increased above 4%. Share prices capitalized very little of such endemic growth. Corning, Microsoft, and Cisco doubled their revenues, and Boeing is up 50%. Caterpillar, having experienced a reduction in activity in mining construction, gained a 30% increment in its revenues, and is now positioned best of all competitors for the rebuilding of transportation infrastructure. For newer companies, Amazon gained 50%, Apple more than tenfold, and Google up tenfold.

Demonstrably, this is no tired and "mature" game. Interestingly, this provokes the questions: could such gains have been attainable had not the American economy been growing faster than government figures showed? Conversely, could the economy have grown so well had there not been such strength and vigor in major enterprises?

The peripheral activities in the market have elevated many Internet-based shares to extraordinary valuations. The biotech field is something of an awesome fireworks display — puffery and fluff in the periphery seem unreal and hazardous. The mass of market capitalization accounted for by the big mighty blues is unduly cheap. It is this strong center of the marketplace that is the driving force for societies here and in the rest of the world that support our constructive orientation. It is the base from which risk should be measured because of the availability to invest at lowered risk in such companies and to receive as never before security, growth, and dividend income for each enterprise. We have rarely seen all three of those virtues obtainable from the same company. Usually it is from an either-or and a mix. In this instance, these enterprises have such satisfactory product pricing that they create more cash flow than these companies have been deploying. In all, their vigor that is so well imbedded comprises a forward-moving body which seems likely to be the base from which other equities must be reconciled.

GENERAL COMMENTARY

In preceding paragraphs, we focused on the endogenous aspects of enterprises one-by-one. These endogenous characteristics are finite and subject to analysis because of the specificities that allow analysis to support assurances. These are attractive because of their vigor, their strategies, and their abilities to proceed on their strategies very well.

Vision blurs when the focus shifts beyond the endogenous forces in enterprises to the exogenous forces in the societal world to include all things under the sun that are interactive in the marketplaces for enterprises of all sorts. As always, it is a challenge of indeterminate analysis as to how these multiplicities of activities interrelate. Risk has often been characterized as all things that might happen in addition to what will happen.

Among these forces external to enterprises, several most unusual considerations protrude. First, there is the great influence universally in the drop in the price of fossil fuels in past months. As this is working its way through the system now, requiring further time, odds are the prices will move lower, as economic analysis prevails over the preceding boosting of prices by political directives.

Of still greater scale of importance for the benefit of share prices, and beyond anything before in the lifetimes of the living, there is a necessitous issue of rebuilding infrastructure. The scale is enormous, and employment is intensive, so that payrolls for Americans will be much increased and unemployment much decreased. These influences of this rebuilding extend, not simply through the labor force nor simply through consulting services, but include the materials suppliers of stone, gravel, cement, steel, and cutting and forming tools. Especially to equipment that can move large quantities of earth and can lay down concrete and asphalt in quantities that are beyond any scale seen before. Caterpillar clearly is the one with the largest and most privileged position.

Rebuilding transportation infrastructure will not boost imports very much, relatively speaking. This is a domestic show. Transport of stone and gravel cannot be very far – it is too high in bulk, in weight, and low in value. Cement, after gaining value from pulverization, drying, and protective containers, can be transported over salt water and provided in barges through the Mississippi systems. So cements have wider markets that can be intrusive, especially to America from Mexico's Cemex. Large steel forms are typically fabricated not too far from the site of installation, because the forms are so massive and transportation intermodally is not accommodative. Indeed, much of the transport will have to find back roads just to get under the underpasses already in place.

In tying one's investments to infrastructure spending, which will include many providers (and if America is not as foolish as it sometimes is), the materials will be sourced in America for the most part. This is assured by the heavier weight to value and because of the difficulty in transporting large pre-cast members or large steel support members. This expenditure will be the largest and the most domestically oriented of government cooperating at federal, state and local levels bringing more convenience and reducing costs. In truth, this should be easy to finance through guarantees of debt from federal, state, and other jurisdictions, and with tolls from usage. The probability that this will happen is very, very high, and it will be an enormous benefit throughout the American society.

Thus, as we survey the landscape, there are sights we have never seen before in terms of the sponsorship of activity and for the beneficial influences to enterprise earnings. First, there is the price of fuels being reduced, which includes the price of feed stocks to the chemical industry and to many others who convert the hydrocarbon molecule of the barrel into higher-valuated products. Secondly, no one living has ever experienced anything so grand as the rebuilding of infrastructure in terms of its total influence. Third, the American stock market, that is preferentially chosen among other stock markets, brings inflows into our market, sustaining the dollar's recently acquired strength.

The course of action based on valuations is responsive to the two major influences with the highest of probability. Such an investment reliance upon these considerations is also minimization of risk as a corollary effect. Risk minimization is always an objective in its own right, and a value-added product in its own right, which draws primarily from valuations and now orients to high probabilities of economic boosters in activity.

As interest rates soon begin their rise in "normalization," as surely this will happen, expect this to be gentle. This should have only minor effects on equities, while offsetting effects of greater impact will stem from the corollary expansion in economic activity.

As always, with appreciation for your trust in us,
and for the pleasures endemic in our efforts to serve your objectives,

Alfred R. Berkeley	James Fitzpatrick	Hugh Fitzpatrick	Steve Reynolds	Ken Berents