Summer 2014

The Dow Jones Industrial Average just passed through the 17,000 mark and many, including reputable publications, are urging investors to get off the road they're on and make drastic moves before it's too late. But we're not buying it (or selling it) because we've planned this trip well in advance.

Let's say you live in Los Angeles. You've decided you want to go to NYC and check out Wall Street (the 4-5 hour Grand Tour, which includes a visit inside the Federal Reserve Bank and the World Financial Center, runs $100 per person). While time's tight, you can only set aside 10 days, you decide to drive cross country, see the American landscape, and then fly back. First, you sit down and decide on the route you'll take and what your expenses will be. You've only 10 days, so you opt for the fastest path. In that case, MapQuest tells you, you'll cover 2,793 miles and spend roughly 43 hours on the road. You decide to rent a Chevy Malibu, reliable and fuel-efficient. You factor in the rental cost and the drop-off fee. A little more research reveals it's going to run about $350 to fuel the Malibu from coast to coast. You're ambitious and plan on making the trip in three days, spending the first night around Denver and the second around Chicago. You include the hotel stays in your tally. Lastly, you add

to your budget a little emergency/discretionary money-MapQuest's numbers might be a bit off, traffic might drive the gas price up, maybe you're gonna splurge on a steakhouse in the Chicago area.

The above is a loose metaphor for what OCM does with advisors, clients, and prospective clients when we first meet. Focus on the destination, and how we can most efficiently get there based on the client's unique goals and circumstances. With careful attention to details, we map out current and future earnings and expenses and plan for eventual or current retirement, keeping in mind there will be unexpected bumps in the road.

Now think of the Dow's dramatic rise as the shiny lights of Las Vegas, just six hours or so into your journey. Or Wonder Tower, on I-70, just west of the Kansas border, where you can see Mastodon tusks and a two-headed calf. The Rock and Roll Hall of Fame is just a short jaunt off I-80. Deciding to venture off course *might* have its rewards, but it's going to cost you money and time. In effect, all your planning will have been for not.

Here's a real life example of what we're talking about. Back in 2008-2009 (and really before then with heady markets) many investors lost track of the market as a tool and let short term concerns move them off their paths. When things looked their bleakest in early 2009, many investors left the market altogether, only to re-enter the market several months later (after a precipitous rise gave them renewed confidence). That unfortunate detour, just four short months, found them missing a 25% rebound.

Like most dramatic market movements, what's happening right now isn't new. Back in October of 2007, before the financial crisis, the DJIA reached 14,000. That number wasn't reached again until February, 2013. We heard the same calls of market bubbles or overvaluation at that time, too. So, let's stop and look under the hood. In 2007, the companies that made up the DJIA had consolidated earnings of $808 per unit and the index traded at a valuation of 17.3 times those earnings. In 2013, the same companies had earnings of $1,067 for a valuation of 13.1 times those earnings. Based on history and fundamentals, that's far from overvalued.

Which brings us to now. Using the same measures, the companies that make up the DJIA are earning $1,122, making the valuation 15.1 times those earnings, well within the historic band of 13 to 17 times those earnings. No bubble to see here, folks. This doesn't mean the market can't go down in the near future, but it tells us without some extreme outside factor the markets are acting "normal."

Lastly, let's look at how some of our investments, just as planned, have helped move us toward our clients' destinations over the last couple of years. From 2007 until today, here's what's occurred. The Walt Disney Company has increased their 2007 sales from $35.5 billion to over $45.0 billion, increasing earnings from $4.7 billion to $6.1 billion. Just as important they have increased the amount they pay us shareholders from $637 million to $1.34 billion, or from $0.31 per share to $0.75. That's an increase of 141%. Another example, in that same time frame, is Potash Corp, where sales have increased from $5.2 billion to over $7.3 billion, with earnings moving from $1.1 billion to $1.8 billion. And the cash they've paid to shareholders has risen from $110 million to $1.15 billion or from $0.12 per share to $1.33.

Is the market too high? We don't think so. But, frankly, it doesn't particularly matter because our (financial) plan has never been about moments, seminal or otherwise. The current buzz about the Dow's rise is the shiny lights of Vegas, the two-headed calf in Genoa, Colorado. But our goal is, and always has been, getting to the final destination, safely and efficiently.