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Sandpiper Capital

Gleanings

1613 Laskin Rd., #200
Virginia Beach, VA 23451

757-962-4596
Fax 757-962-5038

www.sandpiper-capital.com

> *"Unless and until the sharing of the growth of national incomes begins, we will not experience anything approaching a normal economic expansion."*

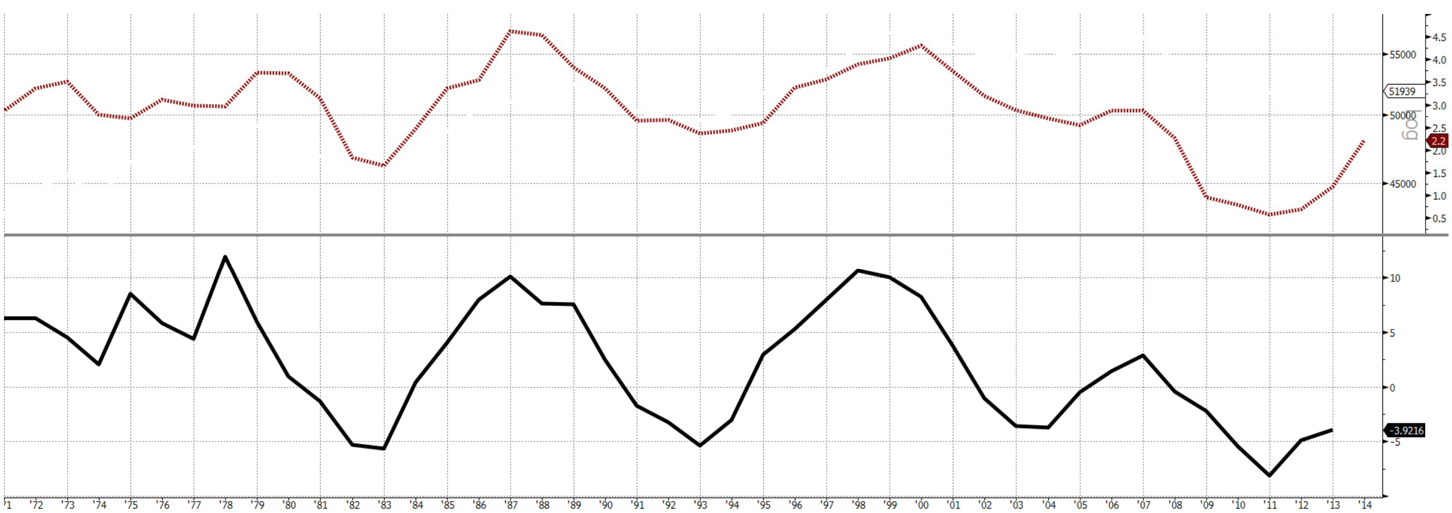
Market Returns Annually and for Year to Date and Ten Years Ending 03/31/15

Index	2013	2014	YTD	10 Yrs
S&P 500	32.4	1.8	.9	**8.0%**
ML 1-5 yr Gov't/Corp	.3	1.5	1.0	**3.6%**
EAFE (Dev Fgn Mkts)	22.8	.7	4.9	**5.0%**
Emerging Markets	-2.5	-.5	2.2	**8.8%**

The CEO of Coca-Cola walks into a classroom…

of 5th graders in an Atlanta public school. The teacher, to illustrate a math lesson, says, "Let's give a big thanks to Mr. Kent for coming by. Before he walked in, the average income for all of us here in *our classroom was about $2,000. Now it's over a million! Bobby pipes in, "Yeah, but the median is still zero."*

Now, that didn't actually happen but you can see my point. Average incomes in the US rose by over 4% per year since 2000 according to the Commerce Department. Median incomes, that is, the middle income where half the population makes more and half make less grew at 1.7% per year and in the six years since 2007, it's only been .5% per year. Now, profits, the S&P and national income have all increased at about 4% annually but it's obvious that if the middle households have no more annual income (or actually less if you account for inflation), than they did seven years ago, that the economy is going to feel it. If you look at the trailing five year rate of change for median wages (in black below) you'll see that economic growth, (GDP in red), has a very difficult time growing when wages are not. We will have updated numbers for 2014 in September, but the trend is clear. We have had very anemic growth because most people have stagnant household incomes. The credit expansion fueled by rising home prices helped spending pre-2007 but that is over. Unless and until the sharing of the growth of national incomes begins, we will not experience anything approaching a normal economic expansion



The wage dilemma isn't only affecting the U.S. Every developed economy is feeling the pressure of competition from developing nations where the cost of labor is a tiny fraction of theirs. Low wage growth and low national economic growth are the predominant themes of the global (developed world) economy. One of the fallouts from very slow economic growth is the very low level of interest rates. In the table below you can see the slowdown in GDP as well as the drop in long term interest rates. The question that you have to ask is that if long term interest rates are a reflection of expected growth rates of the overall economy, does the current 2% level mean a steady 2% per year growth or the current 3+% averaged into another year or two of our consistently recurring recessions.

	Nominal GDP			30 Year Bond Rate		
	Five Years Ending 2007	Five Years Ending 2014	**2014**	Five Years Ending 2007	Five Years Ending 2014	**2014**
Canada	5.9%	4.5%	**3.8%**	4.7%	2.7%	**2.0%**
United Kingdom	5.8%	3.7%	**3.8%**	4.4%	3.2%	**2.3%**
United States	5.6%	3.7%	**3.7%**	4.8%	3.2%	**2.5%**
Germany	2.7%	3.1%	**2.8%**	4.4%	2.3%	**0.60%**
France	4.0%	1.9%	**1.5%**	4.4%	3.1%	**1.1%**
Italy	3.6%	0.5%	**0.1%**	5.0%	5.0%	**2.0%**
Average	**4.6%**	**2.9%**	**2.6%**	**4.6%**	**3.3%**	**1.8%**

There is good news. The current low interest rate environment doesn't mean we can't find the occasional opportunity in fixed rate investments. For the buy and hold investor, high quality ten to fifteen year taxable municipal bonds are still available at attractive (4%+) rates. In this case, being a small investor is an advantage. Bond dealers will only pay a price for a small (under $25,000) lot of a municipal bond that is low enough that they are positive that they can resell it immediately. Sellers' disadvantage becomes the opportunistic buyers' advantage. By watching for odd lot pieces that are priced too cheaply, you can actually do much better than the institutions that need million dollar increments. Below you'll find an example of one recent purchase that we made. These are rare and go very quickly, but well worth taking advantage of. The caveat, of course, is to only buy those amounts that you can hold until they mature.

Credit Rating	Issuer	Rate	Maturity	Early Call Date	Purchase Price	Yield To 2025	Bloomberg Evaluation
AA-/Aa2	COLORADO STATE G.O. COP BUILD AMERICA BONDS	6.25%	9/15/2029	9/15/2025	118.43	**4.10%**	126.875

Tom Lukic