



SCS Connection

Southern Capital Services, Inc. — Double Issue

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The Long Awaited Correction Has Arrived

by

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Increased market volatility has been with us since the beginning of 2015. But now we have crossed the threshold into what is called a “market correction”. Normally, we have corrections on an almost annual basis, but it has been several years since the last 10% correction. This market downturn has come upon us with unusual rapidity due to economic problems in China, nevertheless it was long overdue and its ultimate arrival was inevitable.

The following two graphs on the next page show the history of corrections and the fact that afterward the market has always gone on to new highs. Graph #1 is a 10-year period showing the history of the S&P 500 and it is evident that there were numerous corrections and one major bear market.

Graph #2 covers over 20 years of S&P 500 history including many corrections and the two major bear markets of this new millennium. Again it is clear that each market down turn whether it be major or small has always been followed by a rally to new market highs.

PLEASE NOTE!

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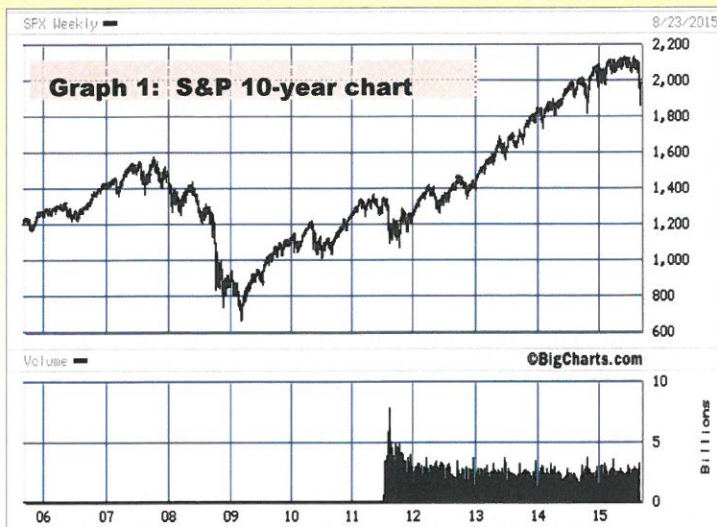
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Long Awaited Correction (cont.)



If we looked back over 90 years of market history, we would observe the same recurring pattern of the market always going on to new highs after declines because the stock market reflects the progress of the US economy ultimately overcoming all obstacles and difficulties.

WHY IS THIS DOWNTURN LIKELY TO BE A CORRECTION RATHER THAN A BEAR MARKET?

The reason we are probably not experiencing a bear market is because there are a number of positive factors that do not indicate conditions that are favorable for a bear.

- The US is still posting modest yet positive quarterly growth in the 2% annual rate range.
- Interest rates are near their all-time lows.
- The price of oil is below \$40 a barrel.
- There are trillions of dollars on the sidelines waiting for the opportunity to be put to work.
- Of the five major investment categories (Cash, Bonds, Stocks, Commodities and Real Estate) Stocks still represent the best overall opportunity.

ARE WE TAKING ANY DEFENSIVE MEASURES TO MITIGATE THE IMPACT OF A CORRECTION?

Yes we have taken a position in a defensive fund to help offset the losses from a correction. Also, we are monitoring the global economic situation and will be prepared to increase our defensive measures if the correction grows into something more severe.

Interesting US Financial Facts

- ◆ The median rent for a Manhattan apartment climbed to \$3,380 this year; and, yet, the borough's vacancy rate is only 1.65%.
- ◆ If you have no debt and have \$10 in your pocket, you are wealthier than 25% of all Americans.
- ◆ It costs the U.S. government 1.8 cents to mint a penny and 9.4 cents to mint a nickel.
- ◆ In 1980, there were 15,099 Americans aged 100 years or more. By 1990, there were 36,486, and by 2012 there were 88,510, according to the Census Bureau. *(Keep up Social Security!)*

Dr. Chang — Noted Economist

It was a great privilege for me to host my former economics professor from graduate school days, Dr. Semoon Chang, at our office recently for an interview on current economic conditions. We frequently report our take on the national and global economy, and we think it is good to hear other points of view from time to time. Here are the key factors and trends Dr. Chang is watching.

In the U.S. economy, Dr. Chang noted that since 1900, the average rate of growth has been about 3 percent. Post-recession growth rates are usually higher, and tend to hover in the 5+ percent range. However, since the latest recession of 2008-2009, the U.S. economy has yet to reach even a 3 percent annual rate, with federal forecasts for 2015 and 2016 still below that level. What is the reason for this slow growth?

According to Dr. Chang, some of the factors are: too much government regulation; too many citizens depending upon government; an inflexible economy that is unable to react quickly to market forces; and too much public debt. Regarding the last point, Dr. Chang noted that the current U.S. government debt of over \$18 trillion amounts to \$60,000 per citizen. And the \$450 billion in annual interest on the debt amounts to \$1,500 per citizen. Interest payments will only get higher as more debt accumulates and interest rates eventually rise.

The long-term impact of this debt problem is a slowing economy and loss of jobs; limitations to what the government can do during an emergency, such as another recession or war; and higher interest rates. Fortunately, Dr. Chang noted that the dollar is still strong relative to other currencies around the world and this is helping it maintain its status as world reserve currency (currency by which most global transactions are conducted.) Still, our nation's debt problems need to be solved.

In the global economy, Dr. Chang observed that the economic climate has improved some in Europe and Asia (before the recent Chinese troubles), while declining

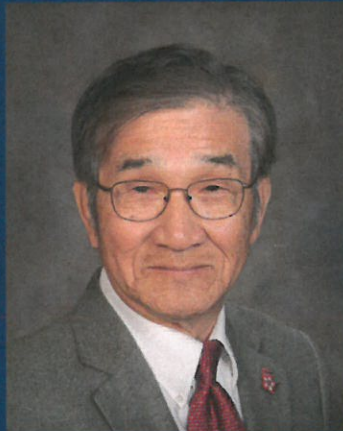
Interviewed by Eric Nager, CRPS®

some in the Middle East and Latin America. The recession in Russia continues to worsen. As for China, their problems are due to low consumption and income growth, as well as a slowing economic growth rate and an economy overly dependent on heavy industry.

As to the factors behind the recent market correction, Dr. Chang sites fears about China's economy, yet wondered how much of a "crash" China really endured. Chang recalls that in February the Shanghai Index was around 3,000 before running up artificially to 5,200 in May. As of this writing it's back around 3,000. Other factors in the correction were falling oil prices, disappointing corporate profits, and uncertainty over interest rates.

Finally, Dr. Chang noted new and different reasons why investors buy stock today than in times past. It used to be that investors looked for low price to earnings ratios (PE) and the expectation of capital appreciation. Today he sees companies with rising incomes drawing demand from investors that outpaces the supply of stocks, thus raising stock prices beyond the level that can be explained by reasonable P/E ratios or expected capital gains. This inevitably leads to frequent bubbles in the stock market that leads to wider fluctuations than in the past.

Dr. Chang publishes monthly updates on local economic data on his website. For frequent updates on national data, you can follow him on Yahoo Group. Go to www.groups.yahoo.com, search under "semoon," click to join his group and follow the instructions from there.



Dr. Chang Biography

For many years Dr. Semoon Chang was professor of economics at the University of South Alabama where he was the director of the Center for Business & Economic Research. He received his Ph.D. from Florida State University and has authored six books and numerous articles and economic studies. Today Dr. Chang heads up the Gulf Coast Center for Impact Studies that performs business consulting services by conducting economic impact studies and publishing relevant economic data. The center's web site is www.semoonchang.com.



Survey on Client Events

On a scale of 1-10, with 10 being high, how interested are you in a client seminar on being prepared financially to send children and grandchildren to college?

1 2 3 4 5 6 7 8 9 10

If we conducted such a seminar, what day and time of week work best for you?

How important would it be to have a children's activity provided at the same time?

What other seminar topics are of interest to you? _____

How interested are you in a webinar, and what day and time work best for that, if different from above? _____

Help Us Serve You

This year we have held client events for our female clients and for those who are interested in their options when it is time to collect Social Security benefits. In an effort to cover topics that reach all segments of our client base, we are interested in hosting the next one on being prepared financially to send children and grandchildren to college. To that end, we have prepared a short survey to gauge your interest. It can be completed and returned to us in one of four ways:

1. Fill it out and mail it back to us – we will send you a replacement newsletter!
2. Fill out and fax this page back to us at 251-626-3257.
3. Email your answers to us at info@southerncapitalervices.com.
4. Call us at 251-626-1140.

Thank you in advance for helping us develop topics of interest to you.

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