CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

June 27, 2015

A Week for America

By

Jack Mayberry

The week just passed is a remarkable and wonderful one, thanks to the Supreme Court. It is especially so given that the Supreme Court has, in recent years, delivered itself of dark, end-of-term rulings that spread gloom over much of the country.

The Affordable Care Act, King vs. Burwell. Thursday's 6 to 3 decision relating to Obamacare was unremarkable from a legal point of view, in that the statutory construction question before the court involved law settled many decades ago. However, the Roberts court has, more than once, overruled former Supreme Court cases that had also involved settled law and there was the very real risk that it would do so again. As everyone knows, a ruling that upheld the literal reading of the 'an Exchange established by the State' would have wrought havoc in the many, mostly Red states, in which the federal governmen, and not the state, runs the exchanges. The outcome would have stripped 6 million or more newly-insured people of the federal support for their premiums and made a hash of the entire Affordable Care Act (ACA).

Chief Justice Roberts and Justice Kennedy joined the four liberal justices in construing the questioned language in the rational way that preserved the clear intent of the complex legislation. Roberts wrote the opinion, a forceful and strongly-worded statement that may serve to guide lower courts in deciding whether to pay heed to the other spurious, politically-oriented attacks brought by the frustrated opponents of the ACA. (The Court's opinion may be found at http://www.supremecourt.gov/opinions/14pdf/14-114_qol1.pdf.) With Thursday's ruling, the ACA has a much greater chance of becoming a permanent part of the American system of support for health care, like Medicare. It is worth remembering that the legislation establishing the Social Security system and Medicare both endured enormous political opposition after their passage, like that endured by Obamacare. In the fullness of time, and particularly after this ruling, the opponents of the ACA will give up; the ACA will be recognized as succeeding and it will garner ever-wider popular support as more Americans enjoy the benefits of proper health care.

Gay Marriage, Obergefell vs. Hodges. On Friday morning came the 5 to 4 decision holding that the right of same-sex couples to marry is 'fundamental right' under both the Due Process and the Equal Protection clauses of the Fourteenth Amendment. Justice Kennedy, who was the author of the Supreme Court's earlier opinions on gay rights, wrote for the majority in a quite moving and very eloquent opinion. (See the Court's opinion at http://www.supremecourt.gov/opinions/14pdf/14-556_3204.pdf.) This decision was less surprising than the Obamacare ruling; it had seemed likely that Justice

Kennedy would continue his support for gay rights, as would the four liberal justices. Notwithstanding that, Kennedy's profound discussion on the dignity of gays' efforts to win the right to marriage and his deep analysis of the history of marriage both give extraordinary weight to the Court's ruling.

For me, the striking thing about Obergefell is that it suggests a restoration of the trajectory in civil rights and civil liberties in America to what had seemed to be its arc, before the right-wing movement to undo it all. Throughout the years of the Warren Court, when I was growing up, there was a movement to the expansion of rights as Americans came to realize that blacks and women should no longer be excluded from full participation in American society. The large scope of Due Process and Equal Protection became well articulated during Earl Warren's tenure as Chief Justice. This forward-looking trajectory continued when Warren Burger became Chief Justice and only began to be turned in a retrograde way during William Rehnquist's term as Chief Justice, beginning in 1986.

Although the Obamacare decision does not touch on civil liberties in the Fourteenth Amendment sense, Chief Justice Roberts' opinion in King vs. Burwell, as well as in his 2012 majority opinion in the first Obamacare case, National Federation of Independent Business vs. Sibelius, suggest that he stands with the liberal wing of the Court in recognizing that this fundamentally important piece of legislation should be treated by the Court with the deference that it extends to less politically-charged enactments. This a very consequential decision because of the centrality of health care to human life (and, since this is an investment letter, to the economy and investment markets) and Chief Justice Roberts' views suggest that he will sustain this legislative enactment even if, as a personal and political matter, he may oppose it. In short, for many in this country, these two Supreme Court decisions provide a sense that America still stands for progress.

Investment matters. Although not discussed much in these letters, we purchased our US health care investment, one of our major equity investments, more than two years ago and it has appreciated in this time by about fifty percent. Happily, this has been a large investment, constituting 11 percent or more in equity-oriented portfolios. The dynamics of Obamacare, broadening health care coverage, have boosted profits of many hospitals, insurers and others in this sector, even as the rate of cost increases in health care has fallen. Had the Court ruled against the ACA, health care stocks would have taken a tumble. On the day before the decision was announced, stocks in the sector fell sharply, then rallied more sharply on the announcement of the Court's ruling.

Turning away from these Supreme Court decisions, a word on the fraught negotiations between Greece and its creditors, a primary issue facing global investors for several weeks. This week just passed was to be the drop-dead week for resolution. Both sides were bending toward compromise, because for the European Union, as well as for Greece, the consequences of failure to reach a deal seem too awful to consider. However, political obstacles to concluding a deal loom terribly large, both in Greece and in Germany. As of late Friday night, Greek prime minister Alexis Tsipras called for a public referendum in Greece on the questions presented. Well and good, but probably too late to forestall a default by Greece on a loan repayment to the International Monetary Fund (IMF). As of this writing, Greek default on the IMF loan seems quite likely , and 'Plan B', the undefined project within the Eurozone to limit collateral damage from a default, appears likely to come into play. Fasten seat belts; turbulence ahead.

CORE Comments

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CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

May 17, 2015

A Return to Normal?

How much does a ten-year bond pay one who buys it when it yields 0.05%, as the German bund did last month?

Assume that one invests €100,000 in such a bond. The interest one receives is €50 per year, or a whopping total of €500 over the ten years.

Those who bought the bund at yields like those presumably expected that the bund's price would keep rising (and its yield keep falling). The expectation was that the bund would soon be trading with a negative yield, because of the ECB's buying.

And that may still happen.

By

Jack Mayberry

The past several weeks have witnessed remarkably swift reversals in government bond markets, most notably in German government bonds, the *bund*. All bonds, including US treasuries, have been touched. To quantify the changes in prices and yields, note that at the time of the last *Core Comments* of April 19, 2015, the bund had risen in price to such a degree that its yield, which moves inversely to price, had touched 0.05%. This is, of course, an astonishingly low yield, never before seen. Since then, the bund's price has fallen and its yield recently touched 0.80%. This is still an extremely low yield, but it represents an exceptionally fast change in price and yield, especially since it appeared in April that the bund's yield would turn negative, a situation that obtained last month with Swiss government bonds, among others.

The ten-year US treasury yielded about 1.80% at the time the bund changed hands at 0.05%. In the intervening weeks, its price has also fallen and its yield moved up, but less remarkably, to around 2.37%. (As of this writing, the bund yields 0.62% and the treasury 2.14%.) The historically low yields and high prices for these and almost all bonds have arisen in the aftermath of the financial crisis and great recession. Economic growth has been far lower that in typical recoveries and economic expansions, for the many reasons discussed in these letters over the years: Major central banks, the Federal Reserve Board, the European Central Bank (the ECB), the Bank of England and the Bank of Japan, have engaged in a series of hitherto untried monetary policies, notably massive asset purchases (referred to as "quantitative easing"). Governments, especially but not only in Europe, have restricted government spending; these fiscal policies have further depressed economic activity. It is beyond the scope of this letter to explain how these various actions have wrought their changes on economies and bond markets; it must suffice here just to list some factors. The very recent increase in rates may be a sign that fixed-income markets now anticipate the ending of extraordinary monetary policies and the return to more 'normal' levels of economic growth and inflation. At Core, we have doubts about this thesis.

As 2015 began, the ECB was about to commence--at long last--its asset purchase program, by which it is purchasing about €60 billion of bonds of European Union governments each month. The ECB plans to continue these purchases until it has purchased more than €1 trillion of such bonds or until deflation risk has abated. This €60 billion per month is a rate roughly equal to the total issuance of such bonds. Meanwhile, the Fed ended its latest--and probably last--asset purchase program last autumn, after having increased assets on its balance sheet from the pre-crisis level of about $800 billion to $4 trillion in bonds and other securities. US job creation especially but economic growth generally appeared to have reached decent levels in the second half of 2014. The expectation, encouraged by the Fed itself, was that the Fed would begin to raise short-term interest rates, which have been essentially zero in the seven years since the crisis. As the year began, the contrast between still-weak economic growth in Europe and relatively strong US growth, and between the ever-loosening monetary policy of the ECB and the Fed's incipient monetary tightening produced the following effects in bond, currency and stock markets: The dollar rose against most currencies, but especially against the euro. European stock markets rose in anticipation of economic stimulus from the ECB's program, and European bonds rose in price as the ECB bought every bond in sight.

And so things proceeded during the first few months of the year. Core's portfolios were structured to take advantage of these market movements and we enjoyed strong returns. As the first quarter progressed, various economic reports began to show that US growth was slowing during the winter, until finally the March jobs report showed the lowest level of job creation in a year. Meanwhile, similar reports from Europe indicated faster growth there. The settled view of economic weakness in Europe and strength in the US was not being borne out by the facts.

Thereafter came rapid adjustments in currency and bond markets: the euro, having fallen from \$1.40 to \$1.05 in a year, stopped its seemingly inexorable move toward parity with the dollar, and began to march higher--to \$1.14 at present. Yields of the bund, the treasury and other bonds changed as noted. As it happens, stocks have not been much changed. There have been sharp moves of a few days duration, first downward, then upward, but the results have been modest. The S&P 500 made a nominal new high on Friday; European stocks are only a tad lower.

A return to normal? Does the sudden and sharp change in direction in currency and bond markets in recent weeks mark a turning point in the long path to recovery after the financial crisis? Have we finally seen the lowest bond yields in human history? Is this the first step away from the era in which extraordinary monetary policies by the central banks so affected prices of stocks, bonds and other assets? I think not. Firstly, from times long before the financial crisis, Fed policies have driven asset prices. This will not change and the only new thing in recent years is that the Fed employed monetary policy tools it had never before used. (Well done, Mr. Bernanke and Ms. Yellen!) Secondly, the ECB is still in early stages of its massive quantitative easing program. The economic effects in Europe are still unclear; early reports are favorable but not conclusive. It remains likely, in Core's view, that the ECB's asset purchases will push stock and bond prices in Europe higher and its currency lower. Quite independent of the ECB's policies has been the slowdown in US growth in the beginning of this year, a phenomenon we have seen in recent years; another severe winter in the Northeast and the ports strikes in California explain some of the weakness. Thirdly, market dynamics themselves may explain much: There was little doubt, as the year opened and the ECB began its project, that the euro would fall, while the dollar and European stocks and bonds would rise. That did happen…until it didn't. It was what is called a one-direction trade and everyone piled in. In recent weeks, the direction changed. Swiftly.

Core's view is that the recent shift augurs nothing. It is simply one more example of a 'crowded trade' reversing suddenly. Volatility--large price swings--is simply a characteristic of modern financial markets. Let us not accord too much significance to short-term price movements; instead we must assess larger underlying economic movements and the monetary and fiscal policies of the major countries. We consider this to be our assignment. Our conclusion now--always subject to change--is that the shifts in asset prices in the last few weeks mean very little.

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CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

April 19, 2015

What will be the outcome of negative interest rates?

Stock markets in Eurozone countries have been flying this year. Bond prices are soaring and their yields are falling, in many cases to negative territory. Even economies in these countries are coming to life in the context of a set of favorable conditions.

Although Japan's economy is far from vibrant, its stock market is reaching heights last seen at the turn of the century. The Quantitative Easing programs in Europe and Japan are a tonic for investment markets, whatever is their effect on real economies.

By

Jack Mayberry

European stock markets have continued to be strong and it now appears that economies in most of Europe are beginning to improve, as well. As I have written, the enormous asset purchase program by European Central Bank (ECB) has caused the value of the euro to drop in relation to the dollar and has caused asset prices, including stocks and bonds, to rise. At the ECB's recent press conference, its president, Mario Draghi, commented that the asset purchase program is only one kilometer into its marathon. This suggests that the recent trends--falling euro and rising stocks and bonds--will continue.

Growth in the Eurozone countries. Moreover, after several years of wavering between recession and anemic growth, economies of Eurozone countries are improving and might just grow faster in 2015 than the US economy. Four things appear to be helping these countries, First, sharply lower oil prices help consumers and businesses. Second, the decline in the euro's value makes exported goods cheaper in dollar terms. Third, after years of fiscal austerity, government spending is growing a bit. Finally, the pressure to reduce debt is easing and credit is expanding. All this may be temporary, but it is quite welcome; there are positive signs of economic growth throughout the region. This provides a contrast to the American economy, which faltered in the first quarter, presumably as a result of the strikes in California ports and the quite severe winter weather in the Northeast. Given the strength in US stocks markets in 2014 and the weakness in the Eurozone, it is unsurprising that European stocks have raced ahead in 2015, while US stocks have barely budged. Our substantial investments in European stocks have done very well.

Greece and other risks. Several weeks ago, as the new left-wing Greek government was beginning negotiations with the European Union (EU), the International Monetary Fund (IMF) and the ECB to alter the terms of bailouts of Greece by these three entities, there appeared to be a clear path to a new agreement. In the weeks since, positions have hardened, but Greece's funds available to meet its obligations over the next two or three months seem insufficient. A Greek debt default and the possibility of its exit from the Eurozone ('Grexit' is the infelicitous term that denotes it) seem to be distinct possibilities. Although Grexit might be accomplished without <u>too</u> much collateral damage to the European banking system and to other countries in the Eurozone, there is, of course, no precedent for this. The sanguine predictions might prove to be so much wishful thinking. More generally, the various issues that have kept the Eurozone economies weak--including an aging population, an ineffective currency union, and damaging fiscal austerity--are likely to restrain growth in coming years. For now, however, our European investments should prosper.

Japan, a somewhat similar story. Japan began its massive asset purchase program well before Europe's. Since Japan's quantitative easing (QE) program began, the yen has fallen sharply against the dollar and Japanese stocks have soared in price. However, the deflationary pressures in Japan and its economic contraction have hardly abated. These were the reasons to engage in QE in the first place. Thus, there is a good chance that the asset purchases and other unconventional monetary practices will be increased in coming months. Whatever is the effect on Japan's economy, further appreciation in Japanese stocks is likely.

One unforeseen consequence of all the radical monetary projects since the financial crisis is a new era of negative interest rates on many European bonds.

This phenomenon is essentially a new one and distortions it may cause in economies and financial systems are yet unknown.

The worrisome aspect of the ECB's bond purchases. I have written often in these letters how the QE programs of the Federal Reserve (which has come to an end), the Japanese Central Bank and the ECB are so beneficial for the investment markets in which we invest. The ECB's new and huge program may come to reveal how it can damage markets. The ECB is buying €60 billion per month of bonds and plans to continue for an extended period. (A 'marathon,' Mr. Draghi calls it.) The problem is that there are not really enough bonds being issued by Eurozone countries or readily available in the secondary market to support buying of such magnitude. As a result, interest rates for European bonds are plunging (and their prices rising) to hitherto unimaginable levels. The German 10-year government bond, the *bund*, which yielded a very spare 0.5% *per annum* as QE got under way, has seen its price rise and yield fall. On Friday, the yield fell to 0.05% and is moving inexorably to negative territory. The Swiss government recently issued a new ten-year bond at a negative yield. Something more than half of all European government bonds and notes now have negative yields. If one buys a newly-issued bond with a negative yield, one pays the issuer for the privilege of lending. Why would one pay 10,500 Swiss francs to the Swiss government for the promise by Switzerland to repay 10,000 francs in ten years? What are mattresses for anyway?

In the past, there have been occasional, brief, and infrequent episodes of negative interest rates--paying to lend. (These have generally involved Switzerland, always a haven for nervous owners of capital.) There has never been a situation in which hundreds of billions of government bonds and notes have yielded less than nothing. What will be the outcome, particularly as the ECB's marathon buying spree is only beginning? Insurers sell annuities with promises to pay sums certain over a period of years; they sell promises to pay sums upon the deaths of insureds. To honor these promises, insurers need to earn positive returns on the premium income they collect.

At the request of a number of clients, we have sent our quarterly reports by email in .pdf files to most clients. If you wish to receive these by email, please let us know. We will continue to send regular paper reports to all who wish to receive them. And, we are happy to send these reports in both formats to you. Let us know your preference, please.

Although much is being written about benign or dire effects of negative interest rates, in truth, no one knows how this will play out. Our letters have noted in recent months that volatility (price fluctuation) is becoming more pronounced in various markets. These wide swings in asset prices reflect the risk <u>and</u> the uncertainties created by these bond market developments. We at Core are mindful of risks exemplified by this price volatility. Although markets have favored our investments, particularly currency-hedged equity investments in Japan and Europe, we will not get carried away by the exuberance on display in some markets.

Energy in the future: oil and solar. For another letter is a discussion I had planned for this one about oil-related investments after the tremendous decline since last summer. In short, it appears that the Saudis and OPEC no longer control oil prices; instead these are set by the costs of production. Ever-improving oil and gas extraction technology will keep oil prices low--or so I think. I also plan to discuss solar power, where technology has driven costs ever lower and permitted the doubling of installed photovoltaic generation capacity every two years. It will not take too many more doublings to supply all we need. More to follow.

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CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

March 5, 2015

A Strong Start to the Young Year

Strong stock markets in Europe and Japan and the weakening euro and yen flow in large part from the massive European and Japanese central bank asset purchase plans.

The European Central Bank will begin its asset purchases next week, but its January announcement of the program's dimension galvanized stock and currency markets.

The combination of liquidity provided by central bank programs and modest improvement in economic growth have been the forces behind this year's healthy stock market gains.

The new year has begun very well for our investments, particularly in foreign stocks. This somewhat reverses the results from 2014, when US stocks were quite strong and European stocks rather weak. As discussed in our last letter, the European Central Bank (the ECB) finally announced its plans for a very large and open-ended program of asset purchases, referred to as 'quantitative easing' or 'QE.' This plan, involving the purchase (mostly of bonds issued by European governments) of €60 billion per month for eighteen months, was announced in January and will commence next Monday. The planned purchases are designed to enhance economic growth in the Euro-zone countries and to counteract deflationary forces in Europe. Whether these results are achieved by the ECB's program is by no means certain. However, it is quite likely that the asset purchases will cause prices of various European (and other) assets--including bonds and stocks--to rise in price. The outperformance by European stocks this year may be attributed in part to the ECB's announcement of its QE intentions.

The decline of the euro. Additionally, it is reasonable to expect that QE will cause the exchange value of the euro to continue its decline against the US dollar. The euro has already fallen by about 20 percent against the dollar since May. It may fall further because the US economy is stronger than Europe's and because the Federal Reserve has finished its asset purchases and will probably begin to raise interest rates later this year, while the ECB just begins its own quantitative easing now. The differences in rates of growth and in monetary policies are likely to cause the euro to decline further against the US dollar. (Note that for Core's investments in European stocks, we use a fund that hedges away the euro currency effect, thus the decline in the euro does not cut into the returns earned by appreciation of European stocks.)

The tone improves in Europe. Despite slower growth in Europe, things European are decidedly less gloomy than they have been in recent years. The interim deal made last week between Greece and the parties involved in 'assisting' Greece with its large debt burden--the European Union, the ECB, and the International Monetary Fund (the IMF)--suggests strongly that an arrangement will be made with Greece that will keep Greece within the Eurozone and will not disturb financial markets unduly. (Whether it lessens the severe pain that Greeks have suffered in recent years from the economic depression into which the country has fallen is quite another matter. Let us hope so.) And, after a rather grim 2014, when most European economies were teetering at the edge of recession and deflation, the prospects for 2015 are more positive. Economic growth is hardly robust, but estimates are being raised, not lowered.

By

Jack Mayberry

Japan and other equity markets. Similarly, Japanese stocks have been quite strong so far this year. The massive quantitative easing program by Japan's central bank has been under way for over a year. Its effect has been to increase the prices of Japanese stocks and to bring down the exchange value of the yen. (Precisely as we expect, *mutatis mutandis,* from the ECB's QE program.) As with our European stock investments, so our Japanese investments have been hedged against the yen's decline. Early this year, we added an <u>unhedged</u> Japanese stock investment, alongside our hedged one, on the notion that the yen's decline may largely be over. The US stock market has lagged Japan and Europe a bit this year, but it made another new high at the beginning of this week. Although the Fed will begin 'normalizing' interest rates later this year, its policy is still very accommodative; it provides a good tail wind for US stocks and helps the US economy.

Two factors have helped the world's stock markets recently: the liquidity provided by the world's major central banks and the modest but real economic growth in most regions. Central banks increase funds available for investment through their asset purchase programs, while, at the same time, their purchases withdraw significant amounts of government bonds from the markets. The Federal Reserve now holds $4 trillion of securities; Japan and Europe are engaged in multi-trillion dollar purchase programs. The effect is to drive up prices of bonds and push investors into other assets, like stocks and real estate. Central bank liquidity will remain a formidable factor in financial markets all this year and perhaps some time beyond.

Russia. After writing this rather cheerful account of central bank actions, financial markets, and growing economies, it is depressing to turn again to Russia. In the last month came another cease fire agreement settled in Minsk among Putin, Merkel, Hollande and Poroshenko. Before the ink was dry, the Russian-backed forces in the eastern part of Ukraine declared that the agreement did not apply to the railroad junction they were attacking, so the fighting continued there. Then came last Friday's murder on a Moscow bridge in the shadow of St Basil Cathedral of Boris Nemtsov, the able Russian opposition leader. It is plausible to consider this an assassination approved, if not ordered, by Putin. Or, in the climate fostered by Putin's characterizations of political opponents as 'traitors' or members of 'fifth columns,' it might be that a radical group sympathetic to Putin murdered the 'traitor.' It is quite possible that we will never know what happened, but this act shows us once again that Putin is prepared to go to extremes to maintain his power.

Dreadful as Mr. Putin's Russia has become, we should not overestimate the impact of these Russian and Ukrainian matters on investment markets. Geopolitical events, however nasty, rarely have a meaningful impact on financial markets. The Arab oil embargo in the mid-seventies is an event that did bear heavily on markets for a long time, but all the wars and terrorist attacks since have had little more than fleeting impact. To put this another way, Janet Yellen is far more important to investment markets than Vladimir Putin.

Mr. Putin, with his vast arsenal of nuclear weapons and, apparently, some very able special forces units, could rival Ms. Yellen in importance if he should escalate things enormously, by invasion of Estonia and the other Baltic states, or otherwise. Until then, we can consider these unhappy events in Russia and Ukraine without worrying unduly about their impact on our portfolios.

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CORE Comments
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January 24, 2015

The European Central Bank Lays out its Plan

The European Central Bank has announced its Quantitative Easing program, after many months of hints, speculation, and behind-the-scene negotiations with the Germans and others who have opposed the plan.

It is a massive program, under which €60 billion will be purchased each month for at least 18 months. Will it reverse deflationary expectations? Will it stimulate demand and rouse the eurozone economies from slumber? Time will tell.

It is quite likely that the ECB's QE program will cause stock and bond prices to rise and the value of the euro to fall.

By

Jack Mayberry

The new year has begun with financial markets and the global economy roiled by uncertainty and unexpected events. The European Central Bank has been the source of major uncertainties: firstly, what action it would take to attempt to revive growth in Europe, and, secondly, what effects will its actions have. The relentless decline in the price for crude oil has unsettled markets, economies, and geo-political calculations. The startling and utterly unforeseen action by Switzerland's central bank to end its 'peg' to the euro focused investors' fears that central banks had so manipulated normal prices for credit, currencies, and other assets as to render these prices and their underlying relationships unpredictable and vulnerable. This list could readily be lengthened.

These events, these uncertainties occur at a time of difficult economic conditions. Pervasive weakness in global economic demand has caused prices for goods and services in many countries to stagnate. Median inflation in developed economies is now below 1 percent. Deflation--i.e., falling prices--is at hand in many countries; the 50 percent decline in oil prices in six months pushes prices even lower. While the United States had reasonably strong growth in last nine months of 2014, Europe, Japan, and other developed economies have been barely positive. China's growth, still strong by standards of mature economies, has slowed considerably.

The European Central Bank settled one open question on Thursday with its announcement of its plan to buy a huge quantity of bonds issued by the various eurozone member governments. The scale of purchases is larger than expected; it is comparable in size (€60 billion per month) to the recently-ended Federal Reserve's asset purchase program; it is potentially open ended insofar as the ECB promises to continue the asset purchases until inflation returns toward the ECB's target level. The planned purchases are very great, €1.1 trillion or more, and the concessions to Germany's opposition are modest. Thus, at long last, the ECB begins its quantitative easing program (QE).

The ECB's announcement and the market's favorable initial reaction begs the question: Will it succeed? This is unknowable. QE programs initiated by the Federal Reserve and the Bank of England have been followed by higher economic growth in the United States and the United Kingdom, but those programs began several years ago. Has the ECB come too late to the party? Japan's central bank is in the midst of an enormous asset purchase program, but its was also begun rather late in the game. So far the result in Japan has been to weaken the yen and to bolster the stock and bond markets. These results were intended and expected, but the bigger targets, the revival of Japan's growth and the escape from deflation, have not been hit. It is simply impossible to know if the ECB can halt the deflationary spiral in Europe and stimulate economic demand. Europe, like much of the developed world, suffers from too little demand. As a result, it is awash with savings not put to productive use, while it has terribly high and very long-term unemployment, particularly afflicting younger people.

Investment implications. Three points to consider: First, European stocks will probably rise with the ECB's QE program, while the euro declines in value. Second, US stocks and the US dollar are the favored investments by most investors around the globe. Finally, volatility--wide and sharp swings in asset prices that have characterized the last six months--is likely to continue.

Whether the ECB's asset purchase scheme will raise inflation toward ECB's close-to-but-less-than 2% target is an open question, about which skepticism is well warranted. Whether the program will stimulate much-needed economic growth is similarly unknown. What seems quite likely, however, is that the ECB's program will stimulate the prices of investment assets in Europe and around the world, just as has been the result of the QE programs of the Fed, the Bank of England, and the Japan's central bank. Stock prices in eurozone countries will rise. Equally likely is that the euro will continue to decline against the US dollar. Since the middle of 2014, the euro has fallen from about $1.40 to $1.12 today. Although the euro may not continue its straight-line descent, over the next 18 months of the QE program, it is likely to fall further. Accordingly, we will continue our investments in European stocks and we will maintain our currency hedge, so that the decline in the euro does not offset the gains in the stock prices.

The US stocks dollar was as strong as new rope in 2014 and US stocks provided better returns than did most other equity markets. Surveys show that many investors expect similar results for 2015. This remains to be seen; rational expectations are often dashed by reality. We maintain a balanced approach and hold European, American, and Japanese stocks. The continuation of Japan's very large scale QE program and the initiation of the ECB's will support their stock markets and others around the world. The Fed promises to take great care in raising interest rates. The result is likely to be decent, if unspectacular, economic growth in the US, giving rise to improved corporate profits and supporting stocks valuations.

Finally, we have seen an increase in the frequency of sharp falls and rises in the prices of various assets and currencies. Expect this to continue. The unsettled nature of economies and the divergence in monetary policies between Japan and Europe on the one hand and the US on the other will probably disturb markets. The very sharp decline in oil in since last summer is also a cause of increased volatility, in part because of stresses it creates in Russia and the Middle East. (Witness the violent upsurge in fighting in recent days in eastern Ukraine, again at the apparent instance of Russia and with another large influx of Russian arms and personnel. This appears to be Mr. Putin's response to the economic distress in Russia caused by the collapse in the rouble and oil prices.) Geo-political concerns, also including ISIL, the Iranian nuclear threat, the Sunni-Shia violence throughout much of the Muslim world, and Ebola, are likely to unsettle markets more than once this year.

Core seeks to strike a balance between opportunities and risk, by maintaining a goodly set of investments that stand to gain in coming years, while taking measures to mitigate the risk of deep declines in portfolios. Increased volatility certainly heightens risk, but it also gives alert investors opportunity to buy at temporarily low prices. Onwards into 2015!

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