# CAPLAN CAPITAL MANAGEMENT, INC.

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## Investment Review and Outlook

It seems as if every few months another new word or expression enters the lexicon of stock market pundits and is construed as the next major concern for investors. In late 2012, Washington and the media warned us of the specter of a "fiscal cliff." Earlier this year it was the dreaded "sequester." And now the markets are confronted with another potentially unnerving event, the upcoming "taper."

Beginning in May, the bond market was upended by statements from Federal Reserve Board Chairman Ben Bernanke that the days of unprecedented monetary stimulus would begin to wind down. We have warned several times that interest rates have been held at unsustainably low levels and would have to eventually snap back once the Federal Reserve's quantitative easing (QE) programs come to a close. Yet we were rather astonished by the rapidity and the magnitude of the rise in interest rates across the bond market during the past several weeks. After all, Bernanke implied that there will be a "tapering" of the monetary stimulus, but he never articulated anything that could be construed as a "tightening" of policy.

The fact that interest rates on fixed income securities are moving higher is not necessarily a bad portent for the economy and the stock market. It may actually be a welcome sign that the economy is perceived to be entering a period of sustainable growth. That would be welcome news as far as we can see.

It may take a quarter or two before market participants adjust to the new reality that the Federal Reserve will no longer be the main engine of stimulus. That said, Bernanke made clear that he has no intention of raising short term interest rates anytime soon. The message is that the Federal Reserve will likely conduct monetary policy in a way that will sustain economic growth and job creation. The Fed will continue do what is necessary to prevent the economy from slipping back into a recession. Ultimately, that sounds like good news for stock investors.

### The Apple of Our Eye

Early last year, while the **Apple Inc. (AAPL $415.05)** bulls were running wild, we penned a screed entitled, "Sell Apple Now." At the time, the stock price was $634, on its path to a peak of $700. The reaction from our clients was almost universal: "Have you lost it, man?" Fast forward a mere five quarters and many former Apple bulls are asking, "Why didn't I see this coming?" The stock is down over 40% from its peak. Sales of its flagship I-phones are decelerating, the "cool factor" is beginning to fade and competitors like Samsung are gaining market share. So what does this all mean as we look forward?

As we said last year, Apple is a great company. Though the company lost its iconic CEO, Steve Jobs, the company remains a great innovator and a market leader in a number of technology products and applications. But it was no surprise to us that profit margins would eventually come under some pressure. We believe this is a result of natural market forces and does not represent any existential threat to the company's core product lines.

The main reason why we have turned bullish on Apple's stock is because of its valuation. The stock now trades near 10 times expected 2013 earnings per share. The stock is trading even cheaper if one accounts for the massive pile of cash the company has accumulated. Moreover, we believe that there are numerous opportunities for Apple to grow and lead the industry in technological innovation.

Legendary hedge fund manager David Tepper has recently turned bullish on the stock. In an interview on CNBC on May 14 he said that the big question for Apple is not whether the next new product launches will be "revolutionary." The question is whether they will be "evolutionary." We will have more clarity in the back half of this year with some important product launches taking place. We believe that Apple will continue to innovate and reward shareholders with earnings growth in coming years, albeit at a slower pace.