# CAPLAN CAPITAL MANAGEMENT, INC.

24 NORTH THIRD AVENUE, SUITE 201, HIGHLAND PARK, NJ 08904 TEL: (732) 249-8600

**January 2016**

## Investment Review and Outlook

Finally! After dragging their feet for many years, the Federal Reserve Board agreed to raise interest rates in December. As we had predicted, the sky did not fall. Equity markets rebounded in the fourth quarter and recouped some of the losses from the summer swoon. But 2015 was a challenging year for stocks. Losses earlier in the year resulted in declines in most equity indices. And many stocks suffered declines much greater than the declines in the indices.

As we enter 2016, we are seeing global market instability primarily emanating from the economic malaise and financial instability in China. As we pointed out in mid-2015, the Chinese government has been attempting to keep the economic miracle alive and to maintain the economy on a track of steady growth. We warned that economic dislocation in China had the potential to negatively impact global economic growth.

The proximate cause for the recent stock market turbulence is that investors in China have grown uncomfortable with the government's institution of ad hoc rules and policies to keep the equity markets from falling. The most pronounced fallout from the situation in China has been manifest in the persistent declines in commodity prices, which have now reached multi-year lows. Because our client portfolios have exposure to the fluctuations in certain commodities markets, we are monitoring the events in China closely.

All that said, we believe that commodity prices have fallen too far and are rapidly approaching levels of disequilibrium. Demand will ultimately increase and producers will more aggressively curtail supply. We agree with those who say that commodity prices may have seen their peak prices for many years to come. But current low prices are unsustainably low in our view. If commodity prices recover only half of their declines from the peak, the stocks of surviving companies will likely shine in the years ahead.

### What's Good for GM's Board Room is Good for GM's Shareholders

In 1953, **General Motors (GM $30.25)** CEO Charles Erwin Wilson stated: "What is good for our country is good for General Motors." Later, that statement was misquoted as, "What is good for General Motors is good for the country." Either way, that statement was upended in later years as the financial performance of the company became completely disconnected from the performance of the US economy. For decades General Motors was sorely mismanaged and the company was slow to adapt to rising competitive pressures. This ultimately led to its bankruptcy in 2009 followed by its reincarnation as a public company in 2010.

So does it really pay to invest in a stock that has such a tainted track record? For value investors the answer could be "yes." We believe that with the new management team under the leadership of CEO Mary Barra, the management has transformed the company into a more dynamic and forward looking enterprise that will be able to effectively compete globally in the 21st century economy.

In her second month as CEO, Barra faced a massive recall of faulty ignition switches. Rather than ducking responsibility, Barra acted quickly to deal with the fallout including offering compensation to victims of accidents caused by the faulty switch. More recently Barra's management team has been at the forefront of exploring new automobile technologies including autonomous cars and ride sharing services.

At the same time, Barra has demonstrated a commitment to please shareholders. She has accelerated the return of capital to shareholders by increasing the dividend and actively repurchasing shares. She also vowed that the company will no longer invest in any markets where the company cannot achieve a return on invested capital of 20%, a high hurdle that should help keep the company consistently profitable through the cycle.

So it seems that investors should take a fresh look at the new General Motors and perhaps they will discover a profitable opportunity to take the shares for a test drive.