NOTTINGHAM ADVISORS
ASSET MANAGEMENT

A ROUGH START BUT REASONS TO STAY OPTIMISTIC

The past two weeks have taken me away from the frigid confines of Western New York to the nearly-as-frigid-at-the-time city of Washington, D.C., as well as the sunny and warm shores of Hollywood Beach, FL. Both trips involved attendance and participation in investment conferences with ample opportunity to meet with and listen to some high profile thought leaders (like the guy in the picture at right). As is often the case when I step out of the office for a couple days, the equity markets, and emerging markets in particular, decided to stage a small-scale riot. It was admittedly hard to focus on more macro-related issues while the Dow was posting triple-digit losses; however, more often than not the message I was hearing helped me frame these declines as mere temporary noise rather than long-term trend.

Yours truly and former Fed Chairman Alan Greenspan share a laugh.

The week of January 20th saw me attending Strategas Research Partners' 3rd annual Policy & Election Outlook Conference held in our nation's capital. A policy-wonk's dream, the conference had a jam-packed agenda designed to help investment strategists frame their outlooks for 2014 and beyond. As I wrote to you back in 2009, we believe the center of influence in the finance and investment industry has shifted from Wall Street to Washington. Lawmakers and regulators have taken over from the financial titans of yesteryear and are influencing market behavior on a daily basis. While we're starting to see Wall Street regain some of its luster, our bet is that it will be some time before we have a return to the unfettered ways of the past.

The highlight of the trip for me was a personal introduction and a brief but memorable conversation with legendary former Fed Chairman Alan Greenspan. Although he appears physically somewhat frail now that he's in his eighties, his intellectual rigor remains remarkable. He was the keynote speaker at dinner one evening and it was clear from the get-go that his approach to managing through the financial crisis would have been markedly different from the path chosen by his successor Ben Bernanke. True to his libertarian roots (he was a disciple and close friend of Ayn Rand after all!), he extolled the virtues of the U.S. bankruptcy process and made it clear bail-outs aren't his thing.

While scribbling copious notes, trying not to knock any glassware over, I observed two main points from his talk and subsequent Q & A. Regarding the economy, he noted a long-term decline in

productivity as potentially troublesome while indicating the U.S. economy is suffering from a broad lack of demand. This lack of demand has impacted labor markets, suppressed wages and is at the heart of the weak loan growth exhibited by banks these days.

Greenspan's bigger concerns centered on the need for structural reform of America's long-term unfunded liabilities (primarily Social Security and Medicare). The way the system is set up today discourages individuals from saving on their own, hence the historically low national savings rate. Also, Social Security is not sustainable in its present form and will eventually collapse unless it's modified. Speaking as a pragmatic economist, he felt the only way we'll be able to meet America's moral obligations, as he referred to them, was to raise taxes significantly. He concluded with some thoughts on market bubbles that I found somewhat ironic, but I'll share those another time.

Other speakers at the Washington policy conference touched on areas such as financial regulation, immigration reform, international trade, transportation, energy policy, manufacturing and the Affordable Care Act. The common theme seemed to be that progress and improvement were being made everywhere, just slowly.

A lot of the optimism across the rails, energy and manufacturing sectors was due to the rise of the shale gas industry and what this means for America. Rails and pipelines are the two key means by which gas and oil are shipped across and around the U.S. and technological improvements are being made to increase the safety profile of both. It was estimated the chemical industry will invest $60 billion in the U.S. over the next five years thanks to cheap and abundant natural gas. Nat gas import prices in Europe are over $12 per mmBtu (with consumers paying nearly $18 per mmBtu) while here in the USA it just recently rose above $5.00 per mmBtu as cold weather plagued the country.

I interpreted the collective views of the speakers as generally constructive looking forward, with meaningful legislation set to be passed either prior to, or just after the November elections. Immigration, the XL pipeline and trade partnership agreements were the top 3 agenda items. The optimists amongst the group saw bipartisan legislation being enacted pre-November, while the pessimists felt little would get done ahead of the elections for fear of jeopardizing the re-election prospects of those struggling to retain office.

Charlie Cook, the venerable inside-the-beltway election handicapper, entertained us all at lunch one day, offering his opinions on which party might control Congress post-November, which Senators and Congressmen were at risk, and looking forward to 2016, who might make a run for the White House. In his estimation, the Republicans will retain the House majority while there's an outside chance they could pick up the Senate as well, as second-term fatigue sets in and costs Democrats some votes. The question is, will the Republicans 2012 troubles carry into November, or will voters be more focused on the bungled ObamaCare rollout and look to blame Democrats. Time will tell.

As for 2016, Cook felt that Hillary Clinton was the clear front runner in the Democratic Party, provided that she and her husband were in good health and felt up to the challenge. If Clinton were to not run, Biden, Cuomo, Warren and Gillibrand would likely be potential candidates. As for the Republicans, Chris Christie is the current front-runner, bridge scandal notwithstanding. Cook wasn't sure, though, that he was conservative enough to appeal to the core of the Republican Party, suggesting that Bachman, Santorum, Cain, Perry and Gingrich might gather more interest. Besides that crew, he threw out another half-dozen names, including Jeb Bush and Paul Ryan. Basically, at this point, it's anyone's guess.

From the snowy streets of our nation's capital, I made my way to the sunny shores of Hollywood Beach, Florida to attend the 7th annual Index Universe ETF Conference. Either Tom or I have attended every one of these and we chuckle a bit thinking back to the first one, where there might have been 100 people, all wanting to know what an "EFT" was. This year's conference sold out, with over 1,400 people in attendance and the depth of discussion reflected the incredible growth in the industry over the past few years. There are currently over 1,600 exchange-traded products listed in the U.S. with nearly $2 trillion in assets invested.

Nottingham was showcased by our friends at iShares in their ETF Strategist venue, where we were able to explain our story and investment strategies to anyone willing to listen. We saw really good traffic through our area and were very pleased with the outcome. We've worked really hard here over the past few years to establish Nottingham Advisors as a leader in the ETF investment management space and it seems we're gaining traction. As index-based investing continues to win over new devotees, we feel as though were well-positioned to carry on a leading role.

Among the speakers down in Florida was Nouriel Roubini (you may know him as "Dr. Doom" from CNBC) who correctly predicted the collapse of the housing market. He was surprisingly sanguine regarding the economic prospects for the U.S. going forward, with many of his concerns saved for international markets. Jeb Bush also shared some thoughts with the attendees, and while he didn't come right out and say it, it sure sounded like he was on the campaign trail! Although I'm admittedly suffering from Bush-fatigue, I have to say I was really impressed with his message, and he certainly had a presidential bearing.

The biggest take away from this industry conference was simply the sheer explosion in terms of new products, pitches and strategies being marketed in ETF land. Whereas five years ago we may have had to analyze 3 different ETF's when looking to gain exposure to a specific area, we now will often load 10 or more ETF's into our filter to begin the screening process. Due diligence has never been more important in this space as the sheer proliferation of ETF's has given investors a whole lot more to consider.

The Long Awaited Pull-Back

It's never easy spending time on the road and away from the office; however, when markets are convulsing as they have been thus far in 2014, it's especially challenging. Behavioral finance theorists like to suggest that the pain of loss far exceeds the joy of gain. This has rarely been more apparent than over the past thirty days, where 2013's 30%+ stock market gain has quickly given way to the "this is the big one!" negative sentiment. As we alluded to in our last letter, market pullbacks of 8% to 15% are quite common, even in years with positive returns. As much as we don't like it, we recognize downturns are inevitable and in a way healthy in the long run.

As I pen this note, 69% of S&P 500 companies have reported 4th quarter numbers, with 66% having beaten top-line revenue estimates and 68% beating bottom-line earnings estimates (34% have missed on revenue while 21% have fallen short on earnings). Despite the market turmoil, corporate vital signs are still strong. When all else fails, and it usually does, analyzing earnings and the multiple assigned to those earnings can usually provide investors with a reasonable sanity check. In a fairly-valued to slightly rich market such as this, a sell-off would be a welcome event, if only to create new opportunities to invest capital. It would probably concern us more if the market continued its 2013 ascent and the groundwork for another bubble was laid.

Emerging markets have been identified as the culprit in this latest swoon, with currency turmoil, inflation, political unrest and below target growth all culminating in a capital fight for the exits. And, its times like these that remind us that those exit areas can be pretty small, resulting in much greater price swings. At Nottingham, we still believe EM countries will grow faster than developed markets over the coming decade+ and they are rapidly approaching a very compelling entry/addition point for investors. My guess is we're not quite there yet and the turmoil could continue for another month or two. At some point, likely sooner than later, EM equities will present a highly attractive investment opportunity and we'll hopefully be brave enough to take advantage of it (and I use the phrase "brave enough" because that compelling entry point may be the result of a violent sell-off, the proverbial "blood in the streets" that Baron Rothschild referred to a few hundred years ago.).

With the 10-year Treasury rallying against conventional wisdom, approaching a 2.50% yield and not the 3.50% many anticipated, the heat is off the Fed for now as it continues to pare back monthly bond purchases. Bond markets appear to have adjusted quickly to accommodate the Fed's withdrawal from the market. If nothing else, this latest equity turmoil reminded us why we own bonds – and it ain't for the income! Though it's early here in 2014, and our best guess is that both equities and bond yields will end the year higher than where they are today, we don't see too many obvious trades at this point. Diversification remains our friend (and is still underpriced and undervalued in our opinion) and we'll continue to monitor the data to see which way the economy is headed. It's important for investors to remain calm in the face of volatility. Remembering one's long-term financial plan is paramount. When the facts change, the plan should too.

Until then, switch the tube from CNBC to NBC and cheer on the athletes of the USA giving their all over in Sochi. After all, there's nothing quite like the Olympics to help renew one's national pride.

Stay warm,

Larry Whistler, CFA
President/Chief Investment Officer
February 2014

We, our affiliates and any officer, director or stockholder, or any member of their families, may have a position in and may from time to time purchase or sell any of the herein mentioned or related securities.

All opinions and estimates included in this report constitute the firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

www.nottinghamadvisors.com

NEW YORK OFFICE : 500 Essjay Road : Suite 220 : Buffalo, NY 14221 : 716-633-3800 : 716-633-3810 Fax

FLORIDA OFFICE : 772 U.S. Highway One : Suite 100 : North Palm Beach, FL 33408 : 800-281-8974