

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

3 rd Quarter, September 30, 2015			
	09/30/2015	% Change 3 rd Quarter	% Change Year to date
Dow Jones Industrials	16,284.70	- 6.98 % *	- 6.95 % *
S & P 500	1,920.03	- 6.44 % *	- 5.29 % *
Russell 2000	1,100.69	- 11.92 % *	- 7.73 % *
BC Aggregate BD Index		1.23 % *	1.13 %
10 YR Treasury Yield		2.06 %	
30 YR Treasury Yield		2.87 %	

* *Includes reinvested dividends*

American Pastoral

Relocating our offices to bucolic Harmony PA has provided any number of interesting and unexpected turns. Most recently we were able to observe firsthand the filming of *American Pastoral*, a movie based on the Pulitzer Prize winning novel of the same name penned by Philip Roth. Evidently our parking lot provided the right setting to build and destroy the Post Office / General Store essential to the plot. The movie tells a sobering story set in New Jersey during the turmoil of the late 1960s, a time that included the Vietnam War, economic malaise and racial conflict throughout the United States. The protagonist, Seymour Levov had a perfect life which included a beautiful family, a solid business and a magnificent home. During the dark times in the novel, an act of political terrorism by Seymour's daughter destroys the Post Office / General Store with a bomb that tragically kills the village doctor. The bomb also destroys the family's idyllic life and the story centers around Levov's struggle to reconcile the turn of events.

The darkness in the book reflected an equally dark period for the American economy and stock market. The Dow Jones Industrial Average (DJIA) opened the year (1968) at 905, stumbled through the next fourteen years and in August of 1982 was 14% below the 1968 opening, trading at 777. From this depressed level in 1982, the Dow Jones Industrial Average experienced an unparalleled twenty-five year growth spurt, peaking at 14,198 in October 2007.

The stock market has always had extreme cycles and always will. One of the keys to long term success in the "dark periods" is managing risk and earning a safe return. Today's investing landscape in some ways is as challenging as the difficulties that the economy faced in the 70s. The litany of obstacles is long: Federal Reserve neurosis, a slowing Chinese economy, volatility in the currency markets and a paucity of liquidity in both the equity and bond markets. Add to this mix extreme bearish sentiment and you have the ingredients for buying blue chip companies at a discount. In the industrial sector, the selling has been severe for a number of years.

As a value investor, identifying discounted value and searching for yield is paramount. In poring over the decimated industrial sector, we found a safe harbor stock trading at a discount to intrinsic value. Emerson Electric is a one hundred and twenty five year old engineering solution company whose stock has declined 25% this year. Primary business segments of Emerson are process management, industrial automation, network power and climate technologies. The company has sales of approximately \$24 billion, 115,000 employees and has a manufacturing or sales presence in 150 countries. While the current industrial environment for Emerson's end markets is soft, the market often exaggerates trends and is assuming a structural decline in their markets.

Opportunities to buy blue chip companies at significant discounts are rare. Warren Buffett once quipped "The best thing that happens to us is when a great company gets into temporary trouble ... We want to buy them when they are on the operating table."

Emerson remains extremely profitable, maintaining a healthy balance sheet, and has a dividend yield of 4.1%. They have increased their dividend for fifty-eight consecutive years. The decline in Emerson's stock price presents an opportunity to buy a great business at a deeply discounted value.