INVESTMENT ASSESSMENT
APRIL 2016

At the close of the first quarter 2016, the Dow Jones Industrial Average (DJIA) was plus 1.5%, the S&P500 was up .8%, and the NASDQ Composite was virtually unchanged. * These final numbers do not reflect stock market volatility during the first three months of 2016. From the market close on December 31, 2015 to January 20, 2016, the three major averages all recorded near double digit losses. Then after a weak beginning in February, when it looked like the bottom was falling out, stocks went on a terror, soaring almost 13% in a matter of weeks. The first quarter, indeed, was a trying time for buy and hold investors.

It was far worse for those who sold into the January-February decline. Consider this - on January 20, 2016, the twelfth day of trading in the new year, the S&P500 registered a 9% year-to-date decline. That afternoon, widely followed MSM Money reported the following:

"Dow Dives 500 Points as Oil Keeps Sliding"

"Global Stocks on Brink of Bear Market"

"What January Losses Could Mean for 2016"

"IBM Sinks to 5 Year Low After Gloomy Forecast"

What followed was an eight day market rally, and then a pull back that re-tested the January lows. On February 11, 2016, as selling pressure dissipated, the stock market bottomed, leading to an eight week rally.

So, following this roller coaster market, how do we prepare for the second quarter of 2016 and the balance of the year? We expect stocks will give back some of their recent gains. It appears that quarterly earnings reports, most of which will be released this month, will be lackluster at best. According to Thomson Rueters, S&P500 earnings are expected to drop by 6% in the first quarter - as weak as any numbers reported since the 2008 financial crises. Much of this will be accounted for by extremely weak profit figures in the energy sector. More importantly, the stock market's recent rise needs to be consolidated - setting the stage for potential gains for the balance of 2016.

In our view, the single most important determinate for stock market direction remains Federal Reserve monetary policy. On Wednesday, March 16, 2016, the Federal Reserve left historically very low interest rates unchanged, acknowledging risks from abroad and some concern about growth in the US economy. The Fed had begun raising rates in December for the first time in over a decade, but the Central Bank's recent statement noted "global economic and financial developments continue to pose risks" - the implication being that uncertainty and head winds abroad could delay the pace of further increases. As we stated in our January 2016 *Investment Assessment*, given an environment of low interest rates, continued economic growth, or improvement in commodity prices, any positive surprise would produce investment opportunity. The stock market continues to benefit from a lack of competition for investor capital.

We believe that investors will be rewarded by holding value stocks, blue chips paying consistent dividends, and companies with tangible assets that are attractive as cash flow investments. Last year, 2015, we had a two-tiered market with a limited number of growth stocks substantially out-performing classic value stocks. We anticipate a rotation of investment dollars into high quality equities with strong balance sheets and a history of consistent earnings and dividends. In short, we believe that blue chip companies will benefit from a slow but steady U.S. economic recovery.

Over the last few months, our managed portfolios have maintained an over weighted position in money markets and bonds. Over the course of the next few weeks, we think there will be an opportunity to increase our equity position in a combination of value and growth equities.

Craig Cooper
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*Wall Street Journal, April 1, 2016