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summaries

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Market Commentary

The first quarter of 2016 ended in positive territory, but was reminiscent of riding a roller coaster at Cedar Point. The year began with one of the worst starts in history, with the price of the S&P 500 down over 10.5% by February 11, 2016. From the low point in February to the end of March the price of the S&P 500 Index recovered 12.6%, resulting in a total return of 1.35% for the first quarter.

Benchmark Returns as of 3/31/16	2015	Q1 2016
Domestic Equities		
S&P 500 Large Cap	1.38%	1.35%
S& 400 Mid Cap	-2.18%	3.78%
S&P 600 Small Cap	-1.97%	2.66%
International Equities		
MSCI EAFE Developed Int'l	-0.81%	-3.01%
MSCI Emerging Markets	-14.92%	5.71%
Bonds		
Barclays U.S. Aggregate Bond	0.55%	3.03%

Benjamin Franklin said there were only two things certain in life - death and taxes. However, Ben died in 1790, two years before the New York Stock Exchange was officially formed. Were he alive today I feel confident he would add an additional certainty - the stock market goes up and the stock market goes down! There were three primary drivers of the early turmoil in the markets this year: China's economic slowdown, the interest rate hike by the Federal Reserve, and the plummeting price of oil. The markets may have been able to shrug off one or two of these issues, but all three created a temporary perfect storm.

China's economic slowdown continues to surprise individual investors. China in years past enjoyed high single digit and many times double digit economic growth, but as China's economy continues to develop and grow; sustaining such a high rate of growth on a consistent basis is an unrealistic expectation. The Chinese economy grew by 6.9% in 2015, considerably less than the average expansion posted in the last 26 years, but certainly a respectable rate.

The Federal Reserve finally raised interest rates in December, by 0.25%. This was hardly earth shattering. The rate hike by itself did not confound investors. Interest rates have been held artificially low since 2008 and the Fed has not raised interest rates since 2006. Fed Chairwoman Janet Yellen's reaction to the global slide in stock prices did unhinge investors. The Fed was scheduled to raise interest rates four times in 2016 but the unsteady start in the global stock markets and the slowing growth in China caused still another change in course. Chairwoman Yellen testified before Congress on February 10, 2016 that "A weak yuan has major implications for global trade. This uncertainty led to increased volatility in global financial markets and, against the background of persistent weakness abroad, exacerbated concerns about the outlook for global growth…." When questioned whether she changed her outlook on the U.S. economy since the beginning of the year she replied, "The answer is maybe, but the jury is still out."

Likely of greatest concern to the markets was the steep decline in the price of oil. For some reason,

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the stock market moved in lockstep with the price of oil. Low oil prices are bad for oil companies and their employees and economies that depend on the price of oil to support their economies (i.e., Russia, Venezuela, Saudi Arabia, etc.) but for all others it resulted in a pay raise – we all pay less at the pump! And, companies that use oil/gas in their everyday course of business had lower costs of production.

Why has the price of oil been so low? Why did the price drop so dramatically since June of 2015? The answer is simple - there was an over supply of oil and production without a corresponding increase in consumption. The oil industry cannot simply turn off the spigots. It takes time to slow production. It also takes time for large oil producers to decide to cut production. If we step back and take a breath, we know there is a bottom price.

Markets lack common sense sometimes and tend toward herd mentality behavior in the short run, and CNBC and other business news sources thrive on feeding the herd. In the short term the markets are driven by fear and greed. As investors, we are in the stock market for the long term and tend not to react to market turbulence. Our response to the steep decline in the markets was to buy into the weakness where appropriate and wait for the markets to find clarity and regain some sense.

We do, however, expect that 2016 will be a very volatile year and recommend investors buckle up and exercise patience and common sense. The total return of the S&P 500 for the first quarter of 2016 was 1.35% with dividends paid. Taking a long term view, we believe that by holding your current positions and adding to them when the market is trading on fear will build wealth in the long term.

As always, we truly appreciate the opportunity to serve as your advisor. Please let us know if you would like to discuss our outlook in more detail. We would very much welcome the opportunity and dialogue.

Suzanne Antonelli, CFP®

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