Investment Watch

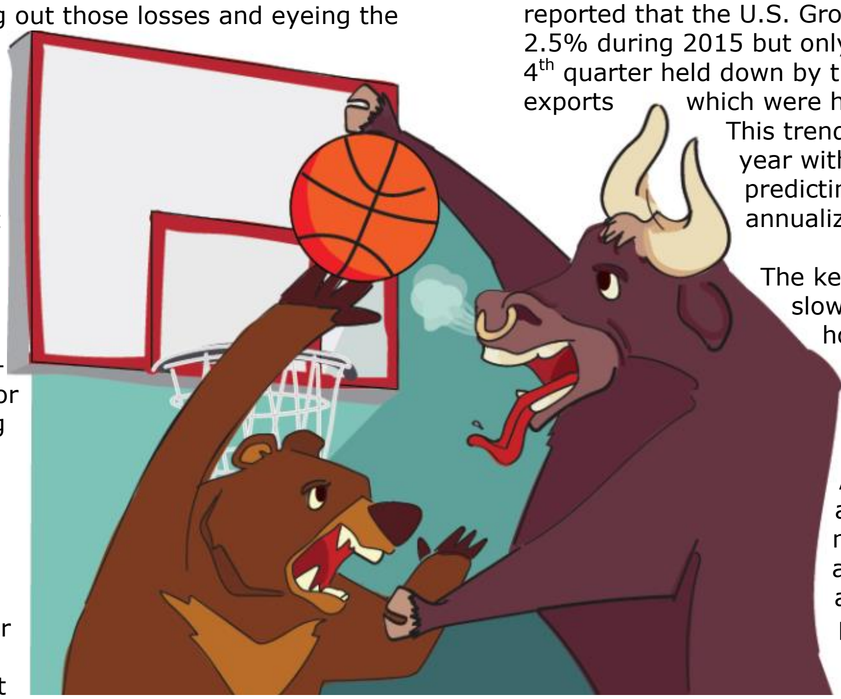
1st Quarter, 2016

Market Madness!

The **Market Madness** didn't wait until March this time. The madness began with the New Year's tip-off. If you were in hibernation during this raucous quarter, you'd believe that the stock market was as tranquil as offseason basketball. But the stock market had the "***Worst start of a calendar year. Ever.***" over its first 10 days as documented by MarketWatch on Jan. 15th. The Stock Market Bear was on a defensive point blocking rampage which resulted in a 10% tumble in the S&P 500 by early February, while the NASDAQ declined almost 15%.

This rapid market downturn brought out the *bad-news* Market Bears in droves. U.S. News' headline on Jan. 12th read, *"Market Analysts Warn of 'Cataclysmic Year Ahead'"*, citing *"...continued drops in oil prices and a trembling Chinese economy."* Predictions of the end of this 7 year Bull Run were as sure as the worst 16th seed being demolished in the first round.

But no sooner did the Bears issue their post-mortem on this resilient Bull, than he came back with a March scoring rally wiping out those losses and eyeing the record books. It's no slam dunk, but if this Bull Market lasts through the end of the next quarter, it will be the second longest run in history. Even though this surprising surge thwarted another bear market downturn, the outlook for a Cinderella ending may not yet be in sight. This road to the final four is littered with global economic hurdles.



Last December, our Federal Reserve began raising short term interest rates expecting additional strengthening of the Dollar. Conversely, foreign central banks eased credit seeking to weaken their currencies and jump start their economies. The Bank of Japan and European Central Bank are even experimenting with negative interest rates trying to weaken their currencies to make their exports more competitive. Ironically, the opposite has occurred. Both the Japanese Yen and the Euro have soared while the U.S. Dollar plunged. The long stretch of rock bottom interest rates meant to contain the 2008 financial collapse has created these market distortions which yield these unexpected results.

The relative strength of the American economy is in stark contrast to the flagging economies in Europe, China, and Japan. The U.S. holds the number 1 rank to achieve a self-sustaining economy. However the probability of achieving robust growth with these global headwinds is as likely as picking a perfect bracket. Although the U.S. has been the scoring star in the past pulling the world out of recession, the global economy is much larger and more difficult to carry on our backs. In this globalized world, it's now more of a team effort and we need the entire team to contribute.

Fed Chairperson, Janet Yellen, is our coach and holds the clipboard outlining the game plan. Even though believing in the remarkable resilience of the U.S. economy, she has adjusted her plan to counteract the global economic and financial uncertainty. At the beginning of this year the Fed's plan was to have four more ¼% rate increases during 2016. Now only two are in her plan and it could be just one data dependent increase.

U.S. growth although positive has been sluggish, but has been improving. The Bureau of Economic Analysis reported that the U.S. Gross Domestic Product rose 2.5% during 2015 but only 1.4% annualized during the 4th quarter held down by the manufacturing sector and exports which were hard hit by slow global growth. This trend is being carried into the new year with Macro Economic Advisors predicting a slightly better 2.0% annualized rate for the 1st quarter.

The key to weathering this global slowdown is solid growth here at home. The consumers, who represent 70% of our GDP, may be ready to open their pocketbooks and start fueling that growth. The average American is getting in better and better shape. Unemployment is low, real wage gains are showing life, home prices are steadily climbing, and the personal savings rate is a healthy 5.2% according to the Commerce Department.

The recent market volatility has everyone worried, but the markets have climbed that wall of worry. It's no slam dunk, but with more disposable income and a healthier balance sheet, the American consumer may defy the gravity of these global headwinds and start that Cinderella run. Stay calm. It's just March Madness.

March 31, 2016

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