Lassus Wherley
Building Better Futures
...a View from the Top

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Another Kind of March Madness!

Here are our thoughts on the financial markets in 2016 and answers to a couple of great questions.

We continue to see choppy markets both domestically and abroad as the year marches on. March was a refreshing change in direction leading to positive returns that we were very happy to see. We expect we will see more of those positives but will also see negatives mixed in with those positive days.

These ups and downs are being driven by many of the same themes we have been discussing for quite some time. These include China, the price of oil, the Fed, ongoing concerns relating to slower growth in the global economy, and uncertainty over the upcoming elections. But the reality is that market volatility is being driven by our two normal drivers which are fear and greed. Fear is the typical emotion which drives the type of selling we saw in January and February in domestic equity markets. Fear-driven markets can be a self-fulfilling prophecy as far as driving continued selling, regardless of the economic backdrop and what have been improving fundamentals for the US economy.

As of March 31st, the S&P 500 posted a positive return of 1.35%, with the Russell 2000 (US small-cap stocks) down 1.52%, the MSCI EM Index (emerging market stocks) up 5.03%, and the MSCI EAFE (developed international stocks) down 3.01%. Volatile equity markets like these illustrate the importance of remaining well diversified, having sufficient cash on hand, and having defensive exposures in your portfolio

with bond and hedge strategy investments. The Barclays US Aggregate Bond Index has provided a nice offset to the volatility in equity markets, and has returned 3.03% YTD through March 31, 2016. Municipal bonds, as measured by the Barclays Municipal Index, have returned 1.67% year-

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to-date through the end of March.

As we noted above, the selling that we saw in the first half of the quarter in US equity markets occurred despite improving fundamentals for the US economy, which continues on the path of slow growth. Recent economic reports have shown continued improvement in the labor market, with the unemployment rate now at 5.0%. In addition, we continue to see slight moves up in the labor force participation rate as well as jobless claims hovering around record lows. Although there can be volatility from report to report, on the margin, the overall trend is pointing to more folks joining the workforce and successfully finding jobs, and fewer folks losing jobs. In addition, we are seeing continued signs of increasing wages, and consumer confidence seems largely undeterred despite the volatility in the markets.

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Oil prices have continued to be a source of concern for markets, and moves in oil prices have been closely correlated with moves in domestic market indices. We have seen some recovery in oil prices in the recent past, with ongoing discussions between both OPEC and non-OPEC oil producers, and speculation as to what level of agreements may or may not be reached to freeze production levels. However, Iran had been eagerly waiting to bring substantial oil supply to the market for some time, with US and European Union sanctions having recently been lifted in accordance with the nuclear deal. It will likely be difficult to convince Iran to curb oil production and their overall effort to regain market share in light of this. The possibility of coordinated action from oil producers to curb output has sent oil prices up in the short term, with crude oil trading at just around $44/barrel as of the time of this writing. It is also important to remember that US production has become an increasingly meaningful part of overall world oil production, and we have seen substantial cuts in capital investment by oil and gas companies as well as steadily declining US oil rig counts. Although oil prices have the potential to remain low for some time, a decline in US production and potential coordinated action on output between OPEC and non-OPEC oil producers could potentially bring some support to oil prices.

Here are a couple of great questions from some of our clients. Let us know if you have one you would like included.

Question: *Should I be worried about another 2008 with all the volatility we are experiencing in the financial markets?*

Answer: Although we recognize how the volatility and extreme ups and downs in the financial markets bring thoughts and concerns that this could turn into another 2008, we do not believe that to be the case. There are several notable differences between the environment that was present during the 2008 global financial crisis and the current environment. In the last View from the Top, we discussed the four primary characteristics that are typically pre-conditions to a prolonged bear market as noted in JP Morgan's "Guide to the Markets." Prior to the global financial crisis, 3 out of 4 of these conditions were present, including a US recession, a spike in commodity prices, and aggressive rate hikes by the Fed, with extreme valuations in equity markets being the only box that was left unchecked at that time. As we have discussed, at the present time, the US is not in recession (which is technically defined as two consecutive quarters of negative GDP growth), and we are continuing to see improving fundamentals. We have also seen the opposite of a commodity spike, and valuations for the S&P 500 Index are more or less in line with long-term averages at this point.

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Although the Fed is and will remain a source of uncertainty/volatility for the markets, recent comments by Janet Yellen have more firmly acknowledged the risks faced due to falling commodity prices and global volatility. At the start of the year, Fed guidance was essentially for a series of four rate hikes to occur this year. Recent guidance from the Fed has scaled back the expectation from four rate hikes this year to two. With these risks acknowledged, the Fed reiterated the expectation for moderate growth in the US economy. Beyond this, we are not seeing the kind of systemic risk to the financial system that was present during the global financial crisis. The majority of large US banks currently have very solid balance sheets that are flush with cash tilted towards shorter term more liquid assets vs. the illiquid holdings that were prevalent prior to the global financial crisis. While recent events and continued volatility in the markets do amount to some level of probability of a recession, overall economic growth and fundamentals are not currently painting that picture.

Question: *How do I know if the charity I am contributing to is using the funds for programs or has high expenses?*

Answer: This is a great time of year to ask that question since it gives you several months to do your research and really understand

your charity and how that money is really utilized. There are many sources online to research charities, but two of the more popular sites are Charity Navigator and CharityWatch. Charity Navigator is America's largest independent charity evaluator. The service is free and charities can be searched by name, location or type of activity (e.g., veteran's services, cancer research, etc.). Charities are rated by evaluating two broad areas of performance: Financial Health and Accountability & Transparency. Ratings show givers how efficiently Charity Navigator believes a charity will use their support today, how well it has sustained its programs and services over time and their level of commitment to being accountable and transparent. Charity Navigator assigns an overall rating, as well as a rating for Financial Health and a rating for Accountability & Transparency. The ratings are star ratings, from one star (poor) to four stars (exceptional).

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CharityWatch, formerly known as American Institute of Philanthropy, is a nonprofit charity watchdog and information service. CharityWatch analysts perform in-depth evaluations of complex charity financial reporting. Once the analysis of a charity is complete and any required adjustments are made, CharityWatch performs two end calculations and assigns the charity a letter grade efficiency rating on an A+ to F scale. The results of these end calculations include Program% that reflects the percent of total expenses a charity spent on its programs in the year analyzed, and Cost to Raise $100 that reflects how much it cost a charity to bring in $100 of cash donations in the year analyzed. Some CharityWatch ratings are available at no cost while access to all CharityWatch's ratings, analyses, and other information on charities is available for a modest membership contribution.

Regarding phone solicitations by fundraising firms, the best advice is the next time you get that call asking for a contribution on behalf of a particular charity, say no and hang up. If you do want to contribute to that charity, do so directly to the charity.

Information about Charity Navigator and CharityWatch was obtained from their respective websites. Please see these websites for more detailed information.

www.charitynavigator.org
www.charitywatch.org

We continue to review overall exposures in client portfolios and rebalance where there are opportunities to do so. In particular, we are

reviewing our exposures/choices in the hedge strategies asset class as an important piece of the defensive portion of client portfolios. We track fund performance to make sure it is in alignment with our expectations and stay in close contact with the portfolio managers who run the funds to ensure that the funds continue to be the right long-term options for client portfolios.

Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

Enjoy the summer and this great sunshine!

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