Building & Preserving Wealth by Design - Not by Chance

QUALITY FINANCIAL CONCEPTS

Doug's Insights

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What Will 2016 Bring to Investors?

"Repeat of 2015 – New High for the Markets?"

Happy New Year? Clearly, 2016 is not off to a good start and may even create questions as to life of the current bull market. It is weeks like these which will test your resolve as to whether you are an investor or not. It is also weeks like these which create averages as well as long term opportunities.

As you recall, late in 2015 we had the first correction in almost four years followed by a partial recovery and now the markets are testing the lows from the correction. I would not be surprised if you are ready to yell "*uncle,*" however, those that do generally cause their portfolios to have lower returns. As an example, the table shown has the annual returns for just one of the many funds we use and this one happens to be an equity fund. Of the ten years shown, three of the ten indicate negative returns, yet the ten year average is 8.17%. Prior to the negative return in 2015, it had been six years since it had experienced a loss for a year. But, has it really been clear sailing?

Ave Maria Rising Dividend Fund	
Year	**Return**
2006	17.89%
2007	(0.59%)
2008	(22.79%)
2009	25.29%
2010	17.90%
2011	4.63%
2012	13.89%
2013	33.85%
2014	9.28%
2015	(5.89%)

On a monthly basis, the Ave Maria Rising Dividend Fund lost value in seven months during 2015, four months during 2014, two months in 2013, two in 2012, and five in 2011. These monthly losses were as high as 6.69% and in 2011 all five months with a loss were back-to-back, resulting in a cumulative loss of 17.02%! Yet, those maintaining their position through these poor performing months resulted in a positive overall return. Primarily this was due to the strong monthly performance that also occurred. In the last five years, there were seven months with at least 4% growth with the best being 9.71%. Similar results could be said of funds which are part of American, Invesco, Oppenheimer, or any other mutual fund family.

It is never easy and certainly not fun to patiently wait for markets to start moving up again. During these times we make sure nothing is challenging the economy by monitoring economic data. There are always headlines regardless of month, year, or time warning of the next market crash or recession. Rather than reacting to headlines about China, Isis, or any other hot topic, it is always best to know how current economic data is impacting the economy. One of the best sources about the strength of our economy is the Federal Reserve. This board is solely focused on the US economy. Through the tools available to the Board, it is their responsibility to make sure the economy is growing and inflation is under control. It was only last December when the Board raised the Federal Reserve Rate by a quarter of point. While this is a very small adjustment, it is most likely the first of several to come. Like many moves in our economy, it is

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Insights Continued

often associated with good and bad news. As for the rate hike, first and foremost this means our economy is strong and moving in the right direction. Since higher interest rates increases the cost of expansion or acquisition of major assets which have to be financed, it is a step the Board would not have done if there were any economic data indicating weakness. In addition to following the actions of the Board, there are data points easy to follow which also indicate our economy is in good shape. For example, record automobile sales, strong housing sales and refinancing, low unemployment and high job growth all indicate our economy is growing. While data can change quickly, it is unlikely it has done so since December.

If our economy is continuing to grow and the likelihood of a recession is nominal, why then are the markets testing recent lows? In this case, oil prices could be one of the major factors. Oil is one of those commodities where a price too high or a price too low is a concern for the economy. I am certain you are enjoying the cost to fill up your car. Currently, West Texas Intermediate (WTI) crude is trading in the low $30's and briefly in the high $29 range. This is a decades low price and one generating concern should it continue very long since its impact is lower revenue for an entire industry potentially leading to layoffs, defaults on bonds, and potential bankruptcies of companies within this industry. Forecasts were for price recovery late 2015 which now has been pushed back by most to 2016. Presently the markets are trading almost in lockstep with the price of crude. With each day showing recovery in this commodity's price, the markets are almost always trading higher. U.S. production is shrinking as the number of active drilling rigs have been greatly reduced. Additionally, horizontally drilled wells which produce more due to a larger production zone, also deplete faster helping to reduce the oversupply.

Similarly to when the housing industry was very weak and few homes were being built and sold in 2009, the recovery of the rest of the economy was far more difficult without the participation of the housing industry. As Europe continues to move to recovery this will also increase the consumption of fuel, further reducing crude surpluses and stabilizing the price. In my opinion, when this occurs and not if this occurs, investment markets will recover significantly.

Since the markets reached their bottom on March 9, 2009, we have seen a steady move up for over six years. With exception to part of 2011, the markets moved up without much volatility. We have experienced a long period of quiet moves up which is out of character of the markets. Much of the market's normal volatility has resurfaced with the sudden drop in crude prices in 2015 and consequently the uncertainty of when prices will recover. As interest rates around the world remain low, a growing US economy, and all global monetary systems continuing to be accommodative, most analysts are expecting moderate growth of the US markets for 2016. This will be supported further as oil consumption increases and production surpluses shrink. These predictions could result in new market highs late 2016. New data points released weekly provide glimpses into the future allowing us to monitor the need for allocation changes. Lastly, as we face another US Presidential election in 2016, potential impact on the economy and markets through changes in policy and politics may also necessitate shifts in the allocations we are using. *Patience, is one attribute of successful investing.*

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