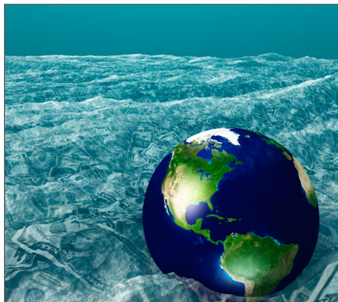
DILIGENCE & PATIENCE

The Bull Market is alive and well. That's the way we see it. The Market correction, which effectively began last spring, went a long way to trim the fat from the Bull. The volatile price action in 2016 speaks to the many issues plaguing the Market. Some of the issues are good. Some are not so good. It's been the case for years, and the Bull has kept charging higher. The Bull is leaner and healthier now, but not quite ready to run just yet.

We entered the New Year anticipating a continuation of the correction, but did not expect the declines to be as swift and violent as they were in January. Quick declines tend to bring fear and panicked behavior, which generally result in oversold conditions and excellent buying opportunities. But investing requires diligence and tremendous patience. After an immediate 11% decline, the S&P and the DOW soared in March to close out the first quarter in the green. The only other time the stock market declined 10% but ended the quarter positive was 1933.

THE NEW GLOBAL ECONOMY



January brought fresh concerns about a recession in the United States. The US economy has been able to grow consistently since the Financial Crisis. The growth has not been stellar, averaging around 2.5%, but it's growth nonetheless. Still by far the largest economy in the world, the US represents approximately 25% of global GDP. The US is the growth engine of the world, and has been insulated from the rest of the world.

The global economy has been facing growth struggles for a while now, particularly in Europe, Japan & Emerging Markets. Japan is the 3rd largest economy, behind the US and China. A combined Europe rivals the size of the US economy, and Europe is barely growing. If not for the aggressive support from their central banks, both Europe and Japan would be in recession. China continues to treat its growing pains. Emerging Markets have been hampered by the decline in commodity prices as many of those economies strongly rely on exporting those goods.

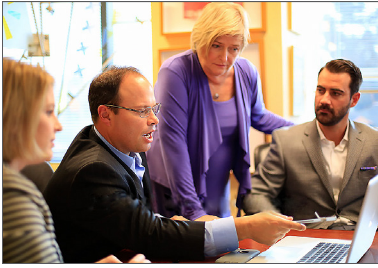
Recessions often come when consumers, investors, and business leaders become overconfident, if not euphoric, and lose financial discipline. There is no evidence of this type of attitude today. In fact, sentiment is very skeptical. That is generally a good backdrop for a continued Bull Market. Banks maintain strong balance sheets today. Consumer debt is quite low, compared to prior peaks, and consumption behavior is nowhere near reckless or euphoric.

The Fed finds itself in a precarious position. It raised interest rates last December for the first time in 10 years, putting an end to its zero rate policy. Its dual mandate of price stability and maximum employment is theoretically being met with low inflation and low unemployment. But the Fed introduced global issues as a major concern of theirs, which certainly influenced global markets. The dual mandate was created well before globalization modernized. The Federal Reserve has reluctantly inherited the role of the global central bank.

The result is a slow-growth stage of this Bull Market cycle. Since earnings traditionally drive stock prices, companies that are able to grow their earnings will attract more buyers. That can lead to expensive, overbought situations. Many of the high-flying Tech stocks from 2015 have come back down to Earth this year. The weakness will prove buyable in our estimation. It's still a stock picker's market. We need to see earnings growth stabilize and we want to see revenues start growing again. Revenue growth is the best measurement of increasing demand. It's been absent for a while.

The price of oil has been very volatile. After cratering to decade lows in the $20's, crude surged over 50% in just 5 weeks, to reach $42. That was a critically important event because not only does the price of oil reflect global economic growth, there are so many companies and countries that depend on oil for financial success. Low oil prices were choking the credit markets. That was our biggest fear heading into 2016. There has been tremendous relief, but its not over yet.

SMART AND PROVEN STRATEGIES

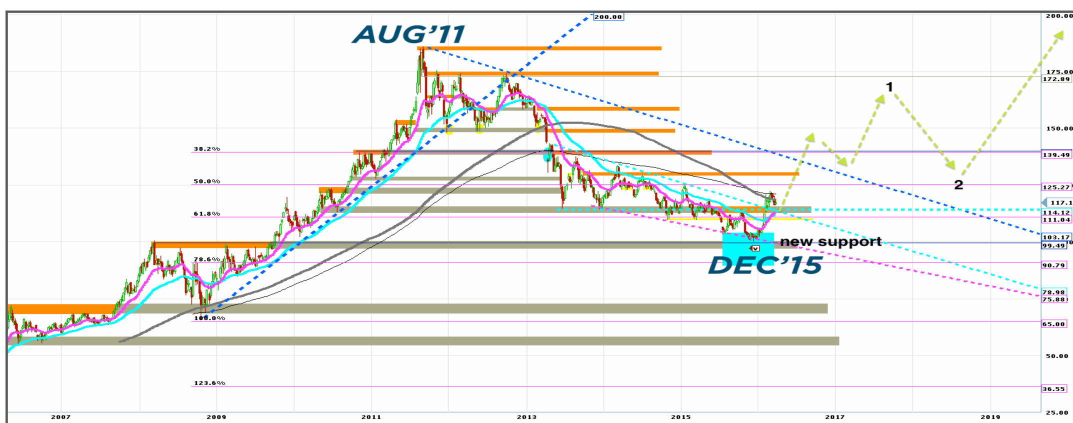


One of our areas of focus for 2016 is "**Beautifully Boring Blue Chips**". These are large, well known and established companies with stable revenue streams and pay attractive dividends. It's been a good place to be so far. The defensive characteristics of these Blue Chips tend to hold in much better during corrections. We see this continuing into the Summer.

We've liked the Bond Market in 2016 and have been putting fresh money to work. Interest rates have gone down in 2016, which is great for Bond prices. Our focus is high quality corporates and muni's. We don't like Junk Bonds here. We believe rates stay low for longer, which will be good for Bond investors.

It has been an eventful and at times turbulent start to 2016. More market volatility is in our future, however we believe the Bull Market is alive and well. We are just in a slow-growth stage of this Bull Market cycle. Market corrections are expected along the way and provide opportunities. Global issues will impact our Market as well the Fed, but we are prepared and anticipate it. We maintain our discipline as investors and use both price and fundamentals as a guide to stay ahead of the markets.

CHARTING GOLD



In the heart of a potential European Debt crisis back in 2011, Gold catapulted in its final ascent of its last Bull Market cycle. It rose over $500 an ounce from $1400 in May to over $1900 in August of that year! There were infinite reasons why Gold should and "would" continue to go higher. Many labeled it a new currency, another tag was a total hedge against future unrest, an inflation hedge, and on and on. Seemingly there was only one direction it could go right?

Well as we've learned, those reasons didn't add up to a positive landscape for Gold. In fact it began a 4 plus year Bear Market where the price declined from over $1900 an ounce to close to $1000. That is a 46% decline over the past 4 years.

Right before Christmas last year Gold started showing potential longer term bottoming signs. It was acting different in a good way. To start 2016, Gold rallied over 20% before recently pulling back a bit. We are seeing many signs in our work, that this turn in Gold could be the start of a new multi year Bull Run. It is still early and there is additional work to do to prove it, but it continues to check off more boxes in our work. And as it does, we will make sure our holdings reflect our conviction levels in this possible new Bull Run for Gold.

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