Straight Talk

StraightLine
Personal. Unbiased. Proactive.

4th Quarter 2015 | Steven F. Mosshart AIF® | Chief Investment Strategist

2015 Market Performance*

S&P 500
1.38%

Dow Jones
0.21%

NASDAQ
6.96%

MSCI EAFE
-0.81%

Barclays US Aggregate Bond
0.55%

Morningstar Large Cap Core
-0.93%

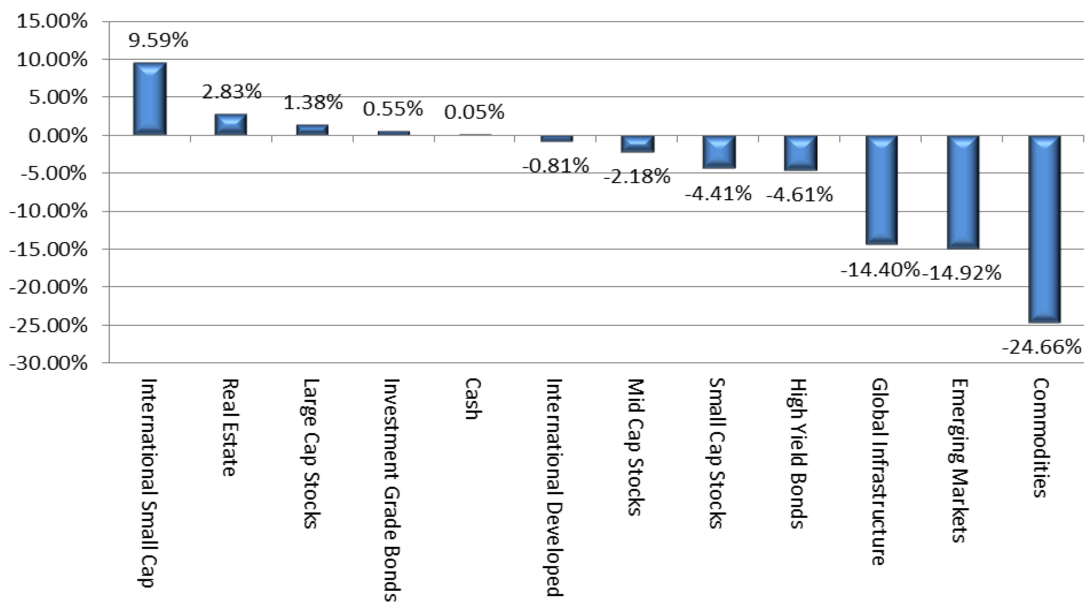
Morningstar Mid Cap Core
-1.40%

Morningstar Small Cap Core
-5.46%

**Market Data supplied by Morningstar and is through 12/31/15. All returns are with dividends reinvested.*

It goes without saying that 2015 was a challenging year for investors. A small slice of stocks did well, while broad returns across asset classes were quite poor. Some of the trends that first established themselves in late 2014 continued to affect markets, with US Dollar strength and falling commodity prices front and center. Additionally, the ongoing deterioration of the situation in the Middle East continues to draw more countries in, and leaves us with a heightened sense of geopolitical risk. Finally, the slowdown in China has many worried about the outcome for the world's second largest economy. These concerns continue to linger into the new year and will undoubtedly play a big part in market fluctuations, at least early in 2016. We remain of the view that this is a mid-cycle slowdown, predominately impacting the industrial side of the global economy.

Below is review of asset class returns in 2015. (See second page for a list of category indices)



After a few years of fairly steady economic growth and stock market returns, last August investors were hit with the first real bout of volatility since the 2011 debt downgrade. To us this marked an important moment in this transition, one in which we as investors have to get used to markets once again returning to "normal" levels of volatility. Naturally, there will be more ups and downs in the months ahead, and as unsteady markets tend to favor stock pickers, we expect that active funds will once again come into favor over indexed strategies.

Despite once again underperforming, we believe that international markets represent attractive long-term opportunities. If it wasn't for the continued strengthening of the US Dollar developed international stocks would have outperformed in 2015, as the MSCI EAFE Index was up 5.33% in local currency terms (vs. -0.81% in USD). We continue to believe that the combination of lower valuations, ongoing monetary easing and earlier cyclical activity will benefit markets in Europe and Japan. Turning to emerging markets, we feel that it will take more time for some of these countries to get their acts together, and some caution is warranted in the short-term. Over time we suspect that China and others will move to more open economies that more closely resemble their developed counterparts. The flight of capital out of these countries is impacting both the economies and currencies, which in turn is hurting their stock markets. Consumers in many of these areas seem to be in fairly good shape, but some companies are feeling the pressure of domestic slowdowns and decreased purchasing power. Within our international allocations we expect to continue to overweight developed versus emerging markets.

As we mentioned in our previous newsletter, the industrial slowdown is impacting commodity prices, which is further exacerbating troubles in some countries which are heavily reliant on commodity exports. The rout in commodity markets has surpassed most expectations, and many commodities are trading at levels below the marginal cost of production. These conditions can't last forever, as most producers would go bankrupt, but in the short-term it's proving to be very difficult to find a bottom in many markets. Oil, of course, is the poster child for the troubles in this space, with prices down some 45% in 2015, depending on what market you're evaluating. The good news is that we know that commodity markets are self-correcting, eventually the current over supplied conditions will lead to decreased production and markets will once again return to equilibrium. Many producers, needing to keep cash flows at high levels, have been too stubborn to cut production thus far, but eventually markets will find a bottom and then rebound. We have a hard time believing that prices will stay at these low levels for too much longer, and despite the ugliness in these markets, we continue to believe that energy related investments are good long-term buys.

In our view the current conditions in stock markets have created a situation where steady, sustainable, growth is hard to come by while at the same time market dislocations have created some good long-term value plays. We've discussed the value opportunities (international markets & energy stocks) above. In terms of growth, we continue to favor both technology and parts of health care. There's a great deal of innovation happening in these sectors and while some of the companies look expensive on a valuation basis, many of them have far better prospects than the broader market. We saw this last year with the returns for the NASDAQ Composite Index (6.96%) which is heavily weighted towards tech and biotech companies. Of course, there are good and bad companies in every sector and investing requires doing your homework, but we continue to like these areas from a broader perspective in 2016. In the last few months we have traded accounts to take advantage of tax opportunities (where applicable) and adjusted the portfolios in line to what our beliefs are going forward, mostly concentrating on developed markets, mean reversals in the commodities cycle, and keeping our fixed income minimally exposed to an increase in interest rates. As the markets start their upward movement these adjustments make the most sense in capturing performance while minimizing risk.

After a prolonged rebound post 2008, it is still our belief that markets remain in a long-term cyclical bull market. It can be argued that we entered a slowdown phase in mid 2014 that continues today. It would be fitting that after a long five year run (2009 – 2014) we're seeing this mid-cycle phase take its time. Within the broader markets we've seen several areas hit hard, and either correct lower or enter bear markets of their own. At this time we do not believe that the broad market or the economy will break down significantly, but investors need to be prepared to see higher volatility with a greater likelihood of corrections, similar to what we saw last Aug/Sept and again to end 2015 and start this year. Markets rarely move to the rhythm of calendar years, and long-term investors would be wise to focus on macro fundamentals, rather than getting caught up in annual returns. Now is a time to be somewhat cautious, but also to keep an eye towards what is likely to work going forward, as recent selling has created some attractive opportunities. We wish you all a safe, happy and prosperous 2016, and as always please contact us (866) 401-5238 or info@straightline.com) if you have any questions.

Indices used in chart

Category	Index	Category	Index
Large Cap Stocks	S&P 500 TR USD	Real Estate	FTSE NAREIT All Equity REITs TR USD
Mid Cap Stocks	S&P MidCap 400 TR	Global Infrastructure	DJ Brookfld Global Infra TR USD
Small Cap Stocks	Russell 2000 TR USD	Commodities	Bloomberg Commodity TR USD
International Developed	MSCI EAFE NR USD	Investment Grade Bonds	Barclays US Agg Bond TR USD
International Small Cap	MSCI EAFE Small Cap NR USD	High Yield Bonds	BofAML US HY Master II Constnd TR USD
Emerging Markets	MSCI EM NR USD	Cash	USTREAS T-Bill Auction Ave 3 Mon