

## Newsletter – May 2016

### MARKET TRENDS 3/31/2016

<u>US Stock Markets</u>	<u>Q1</u>	<u>12 Mos.</u>
S&P 500 Index	1.35%	1.78%
S&P MidCap 400 Index	3.78%	-3.60%
Russell 2000 Index	-1.52%	-9.76%

<u>Int'l Stock Markets</u>		
EAFE Index	-3.01%	-8.27%
Emerging Mkts Index	5.71%	-12.03%

<u>Fixed Income</u>		
Barclays Intermediate Gov't/Credit Bond Index	2.45%	2.06%
Barclays Capital Muni Bond 3 Year Index	0.77%	1.54%

<u>Commodities</u>		
SPDR Gold Shares (NAV)	16.34%	3.80%
Goldman Sachs Commodities	-2.50%	-28.67%

<u>Real Estate</u>		
Dow Jones US RET Index	5.15%	3.00%

<u>Yields</u>	<u>3/31/2015</u>	<u>12/31/2015</u>
6 Mo. US T-Bill	0.38%	0.48%
10 Yr UST	1.77%	2.27%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

Tim Vanech  
[Tvanech@shorepointpartners.com](mailto:Tvanech@shorepointpartners.com)

Luis M. Raposo, CFA  
[Lraposo@shorepointpartners.com](mailto:Lraposo@shorepointpartners.com)

Main 781 341 7250  
Fax 781 341 7246

220 Norwood Park South  
Norwood, MA 02062

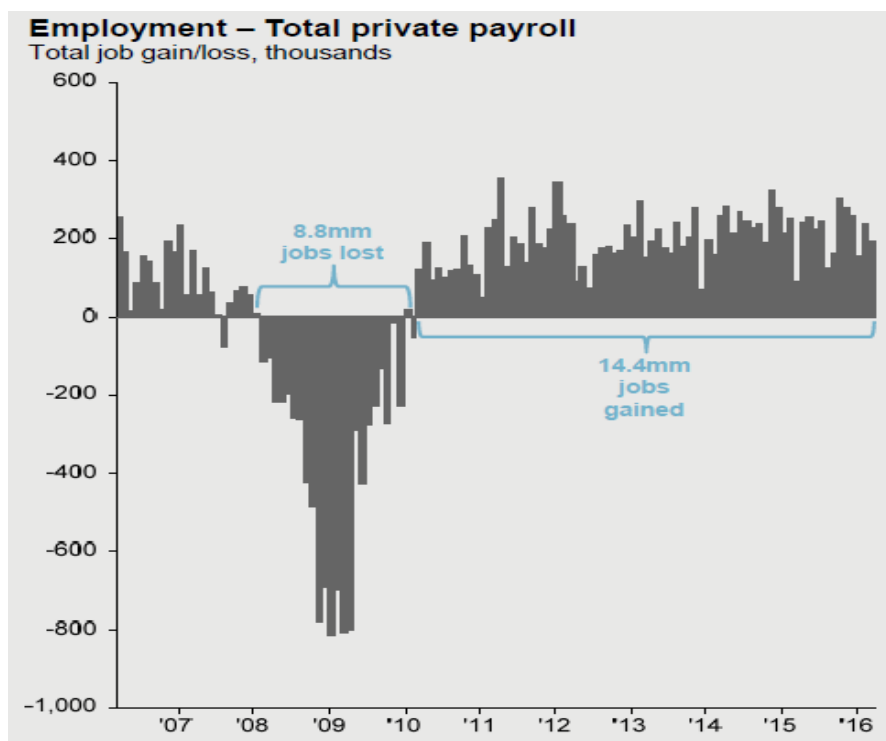
[shorepointpartners.com](http://shorepointpartners.com)

### A Tale of Two Eighths

There were two very different eighths to the quarter that made up the first three months of 2016.

January started with a plunge, the worst start for U.S. stock markets in more than eight decades. Fears included: a hard landing/significant slowdown of the Chinese economy, the Bank of Japan's pursuit of negative interest rate policy, domestic recession concerns, further Federal Reserve ("Fed") interest rate hikes, a sudden and huge drop in world oil prices, global economic and geopolitical strife, and U.S. election jitters.

Financial types wrung their hands and fretted: Was the payroll employment numbers weak enough to prevent Yellen & Co. from raising interest rates again at the March 2016 meeting? Was the evident weakness in global economies spreading to the U.S.? We all know that no country is an island in a globalized, wired world. It seemed that the persistent softness in transportation stocks portended a bleak time. Would banks that made loans to oil companies take large losses and/or bring the U.S. economy to a standstill? Have we seen the peak in corporate profit margins?



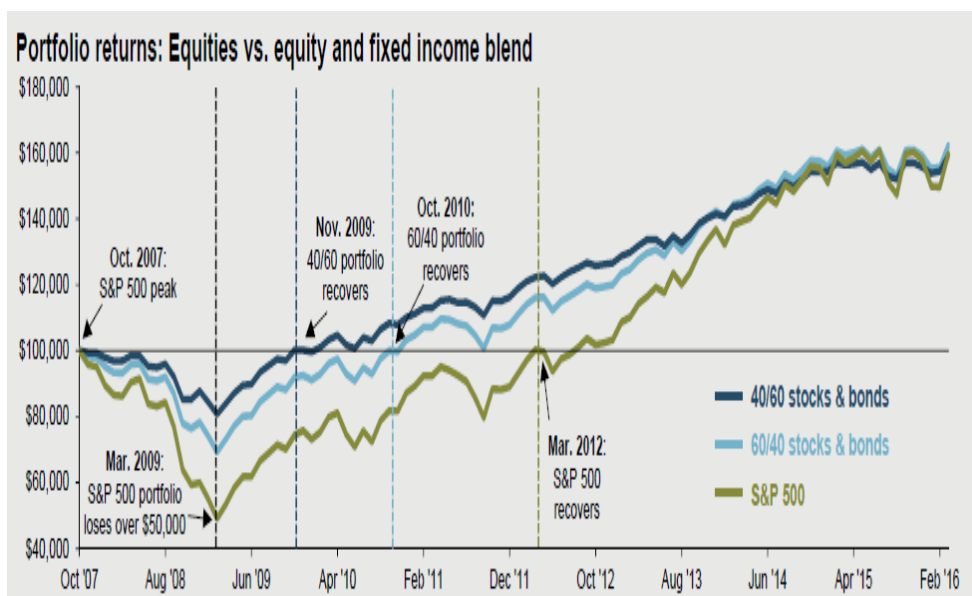
Source: BLS, FactSet, J.P. Morgan Asset Management.

*“January started with a plunge, the worst start for U.S. stock markets in more than eight decades.”*

*“Corrections are a normal, though unsettling, part of investing in the stock market.”*

*“After falling almost 15 percent, the market started going up in mid-February. It powered back over the last six weeks of the quarter regaining everything it had lost....”*

Clients were rightfully concerned. However, we encouraged many to stay on track and not to panic and sell into the recent stock market correction. Corrections are a normal, though unsettling, part of investing in the stock market. Wait for better times and then decide, we cautioned. For more contrarian-minded and opportunistic clients, we actually recommended adding more cash to their portfolios to be invested. Some did, but always lurking in our persistent, primitive brains is the fear that this is 2008 all over again, even when our rational mind tells us otherwise. It felt like the beginning of the end again, and no one wants to relive that pain.



But then something changed and we aren't really sure what – perhaps too much pessimism and the pullback being overdone. After falling almost 15 percent, the market started going up in mid-February. It powered back over the last six weeks of the quarter regaining everything it had lost without much of a pause along the way. *In fact, by the end of the first quarter, U.S. markets were positive for the year!*

I have been reading *David and Goliath* by the famous edutainment writer, Malcolm Gladwell. The book uses the Biblical confrontation as an example of human nature's proclivity to miscalculate probabilities - in this case in favor of a giant over a small boy adept with a sling. In fact, Gladwell argues that perceived disadvantages can actually be advantages.

Tim Vanech  
[Tvanech@shorepointpartners.com](mailto:Tvanech@shorepointpartners.com)

Luis M. Raposo, CFA  
[Lraposo@shorepointpartners.com](mailto:Lraposo@shorepointpartners.com)

Main 781 341 7250  
Fax 781 341 7246

220 Norwood Park South  
Norwood, MA 02062

[shorepointpartners.com](http://shorepointpartners.com)

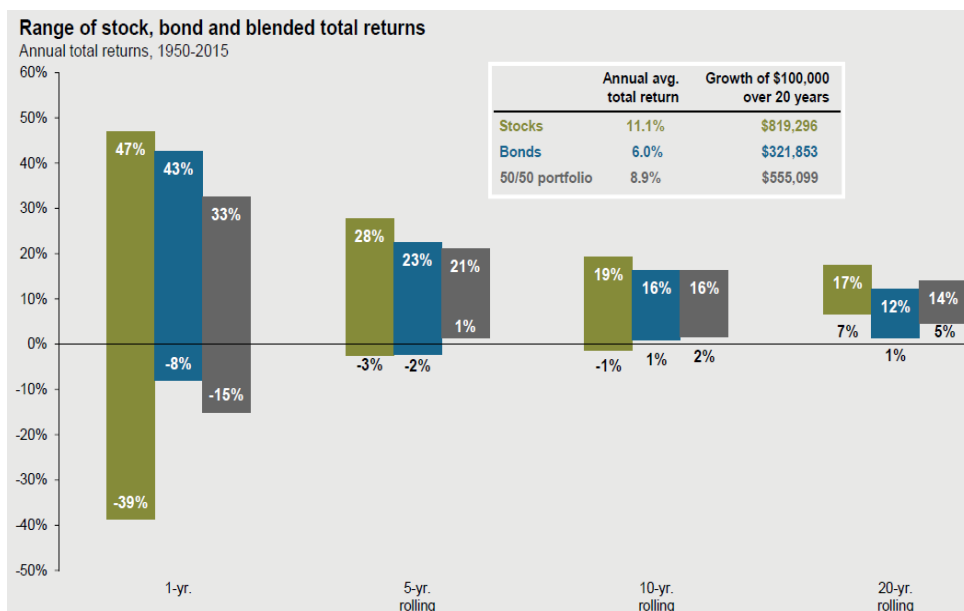
*“...the [client] calls that come in during sharp sell-offs are mostly to inquire if we should be selling rather than buying.”*

*“With every year that one is invested in stocks, the risk of loss actually decreases.”*

*“Much more common and detrimental to a client’s life...are seemingly non-financial, or at least non-market-related matters.”*

This got me thinking about perceived risk versus actual risk and the differences between the two. Could it be that we perceive risk incorrectly at times or fail to see the opportunity within risk? The answer is **yes** - and with surprising regularity. After decades of working with clients, the calls that come in during sharp sell-offs are mostly to inquire if we should be selling rather than buying. The majority of the time these calls predict better times ahead and that buying really should be the order of the day.

With every year that one is invested in stocks, the risk of loss actually decreases. Over a 20 year holding period, the chance for loss diminishes to almost nil. See the following charts. Yet in our emotional makeup or wiring, we start most of our worry list asking “*What is going on with the markets?*” rather than considering that people are “losing” their minds and undervaluing opportunities to make decent returns over time.



So what are the real risks to clients? Much more common and detrimental to a client's life than a poor performing portfolio are seemingly non-financial, or at least non-market-related matters. For example, the two biggest threats we see to clients' financial lives are chronic illness and adult children who require financial support. In truth, these are topics that we can invest time and money into and receive a return - not all the time and hard to measure, we realize. However, most of us would do better, in this hedge fund high frequency trading world, to perceive those forces as opportunities to tend our garden - our health and our families. We are glad to help with a variety of strategies around these topics and conversations.

Tim Vanech  
[Tvanech@shorepointpartners.com](mailto:Tvanech@shorepointpartners.com)

Luis M. Raposo, CFA  
[Lraposo@shorepointpartners.com](mailto:Lraposo@shorepointpartners.com)

Main 781 341 7250  
Fax 781 341 7246

220 Norwood Park South  
Norwood, MA 02062

[shorepointpartners.com](http://shorepointpartners.com)

### Conclusion/ What to Do

***“...the time to really worry is when everyone is positive and no one is discussing concerns in the media or in your Uber.”***

***“...dividend stocks always have a place in portfolios to produce income and lower volatility relative to non-dividend paying stocks.”***

***“...discipline and patience are vital to keeping risks down, in order to find value in the places others don't see it, or to wait for it to emerge.”***

We are sure that you have read and heard in the media a variety of gloom and doom predictions. Are there things to worry about? Of course there are, and there always are! We think the time to really worry is when everyone is positive and no one is discussing concerns in the media or in your Uber. Overall, the domestic economy is tepid but stable. We continue to have strong job growth and unemployment is low. The housing market has picked up across the country. Interest rates are low and inflation is below the historical average.

Where will the markets go from here? We never know. But, staying the course has paid off thus far as what didn't work in 2015 has turned around so far in 2016. For example, emerging market equities have been one of the better performing equity groups in 2016 and dividend-paying stocks seem to be back in favor again. As a matter of fact, dividend stocks always have a place in portfolios to produce income and lower volatility relative to non-dividend-paying stocks. Also, we have indicated several times that equity and bond markets will likely continue to be volatile. We are not discounting the many concerns that exist in the markets and world. However, we are attempting to be objective, evaluate the risks/concerns, and put them in perspective while monitoring these issues.

As contrarians, we continue to overweight equities over bonds and allocate to weak equity sectors/stocks. We are using the volatility to upgrade portfolios into higher quality dividend-paying stocks with a margin for safety. Shorepoint believes that discipline and patience are vital to keeping risks down, in order to find value in the places others don't see it, or to wait for it to emerge. We continue to favor higher quality companies that are attractively valued, with solid balance sheets and that are strong cash flow generators.

Tim Vanech  
[Tvanech@shorepointpartners.com](mailto:Tvanech@shorepointpartners.com)

Luis M. Raposo, CFA  
[Lraposo@shorepointpartners.com](mailto:Lraposo@shorepointpartners.com)

Main 781 341 7250  
Fax 781 341 7246

220 Norwood Park South  
Norwood, MA 02062

[shorepointpartners.com](http://shorepointpartners.com)