Shorepoint Capital Partners LLC

Identifying Opportunity.
Navigating Risk.

Newsletter – January 2016

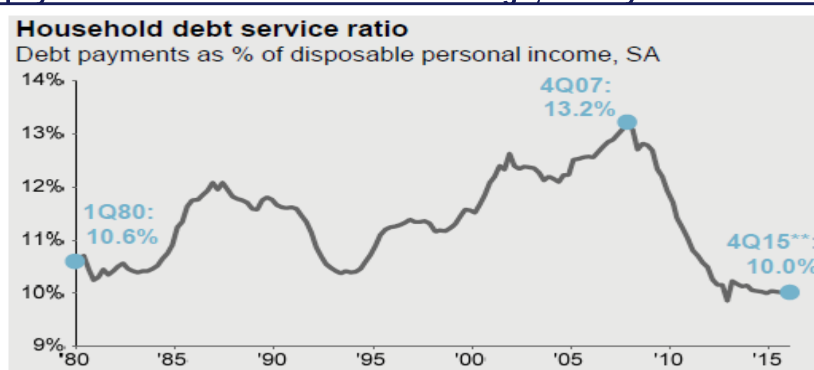
The Fed Awakens

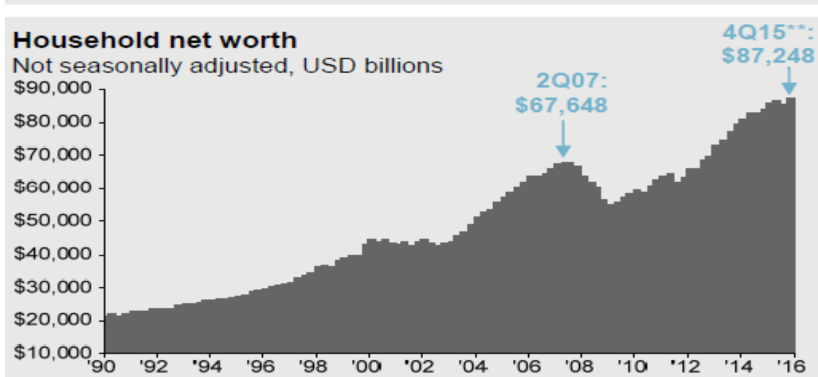
After several years of the Federal Reserve ("Fed") maintaining a zero interest rate policy, it elected to raise the federal funds rate by 0.25% this past December- the first hike in a decade. The move was widely anticipated and telegraphed by the Fed. Conversations turned quickly toward anticipation and timing of the next raise. We think we will be having this conversation for months, if not years, to come. However, that doesn't mean it has imminent bearing on our overall investment strategy decisions.

Oil Prices – The Major Factor Driving Market Volatility

Unemployment continues to fall and is approaching healthy levels. Rates remain historically low, providing support to homeowners and would-be purchasers. Debt service as a percentage of household net worth has not been this low in decades. Americans have repaired their personal balance sheets since the Great Recession, which provides a strong base to our domestic economy. Despite consumers holding low debt and at low interest rates, we have seen little of that savings go into investing or spending, a trend more perplexing considering the massive, unexpected dive of oil prices, which usually induces higher consumption. We *have* seen increased purchases in car sales, which are at all-time highs. And you might have guessed that SUVs and light trucks are experiencing torrid sales growth while hybrids and fuel efficient cars languish in inventory.

Debt payments are low and net worths are high, so why do we feel so bad?





MARKET TRENDS 12/31/2015

US Stock Markets	**Q4**	**YTD**
S&P 500 Index	7.04%	1.38%
S&P MidCap 400 Index	2.60%	-2.18%
Russell 2000 Index	3.59%	-4.41%
Int'l Stock Markets		
EAFE Index	4.71%	-0.81%
Emerging Mkts Index	0.66%	-14.92%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	-0.69%	1.07%
Barclays Capital Muni Bond 3 Year Index	-0.01%	1.18%
Commodities		
SPDR Gold Shares (NAV)	-4.74%	-11.78%
Goldman Sachs Commodities	-16.63%	-32.86%
Real Estate		
Dow Jones US REIT Index	7.23%	2.14%
Yields	**12/31/2015**	**12/31/2014**
6 Mo. US T-Bill	0.48%	0.12%
10 Yr UST	2.27%	2.17%

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

Tim Vanech
Tvanech@shorepointpartners.com

Luis M. Raposo, CFA
Lraposo@shorepointpartners.com

Main 781 341 7250
Fax 781 341 7246

14 Page Terrace
Suite 2 C/D
Stoughton, MA 02072

shorepointpartners.com

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"Historically, these oil price drops have acted as 'tax cuts' to consumers, so what is different this time?"

"It could be that consumers, so battered by 2007-2009 and past oil shocks, are more reluctant to start spending until a longer period of low prices has occurred."

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Historically, these oil price drops have acted as "tax cuts" to consumers, so what is different this time? Perhaps consumers are spending more than they would have without the drop, which is keeping the domestic economy stable for the moment. It could be that consumers, so battered by 2007-2009 and past oil shocks, are more reluctant to start spending until a longer period of low prices has occurred. Whatever the answer may be, we believe that the oil price decrease is a boon to everyday people and small businesses, especially restaurants and the like, which have done very well overall - not Chipotle, but that is a bean of a different pot. What is different this time is that the U.S. has established its own energy sources more prevalently than in the past, and, as it has grown more significantly as a contributor to the economy, risk has also increased when things go bad, which they always do - for a period of time at least.

US Oil Production Growth - Reward Becomes Risk - For the Moment

Change in production and consumption of oil
Production, consumption and inventories, millions of barrels per day

	2013	2014	2015*	2016*	Growth since 2013
Production					
U.S.	12.4	14.1	14.9	14.7	19.0%
OPEC	36.4	36.4	37.4	38.1	4.5%
Global	**90.9**	**93.3**	**95.5**	**95.8**	**5.4%**
Consumption					
U.S.	19.0	19.1	19.4	19.6	3.2%
China	10.5	10.9	11.2	11.5	9.7%
Global	**91.3**	**92.5**	**93.8**	**95.2**	**4.3%**
Inventory Change	-0.4	0.8	1.7	0.6	

The result of this energy price risk is likely amplified by the low interest rate environment. In addition to interest sensitive areas like finance and real estate, yield-starved money has poured into high yield, aka "junk", bonds. Some of this high-yielding debt was issued by energy companies that may have taken on commitments they can't meet at current oil prices. So there will be some negative effect on investors and institutions from these losses - as some air comes out of the high yield balloon. While we are not proponents of using large amounts of low quality debt in portfolios, we remain watchful of first and secondary effects from this trend.

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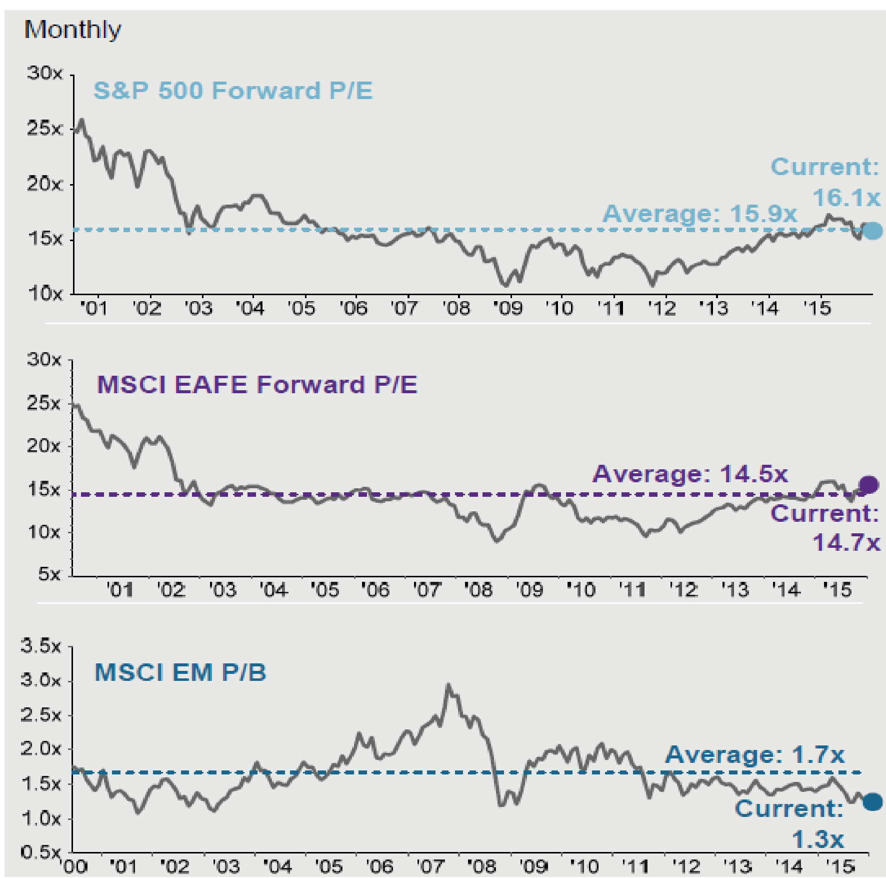
2015 - The Year Diversification Hurt

As many of our long term clients know, we have made a near-religious commitment to the benefits of:

1. Dollar cost averaging: regular investments into the market like most of us do in our retirement plans, and
2. Diversification of one's investment assets.

Well, this past year diversification did not help us! For the equity allocation, investing outside the S&P 500 Index detracted from performance as domestic mid and small caps, international developed and emerging equities all ended 2015 in negative territory. The S&P 500 Index's positive return (+1.38% for 2015) was largely influenced by a very small number of holdings such as Amazon, Facebook, Netflix and Google which represent less than 5% of the S&P 500 but drove the overall positive return for the Index – without them, the S&P 500 would also have been negative for the year. Also, over 55% of the stocks in the S&P 500 are down more than 20% from their 52 week high, entering bear market territory. Diversification also did not benefit investors in their bond allocation, as U.S. Treasuries and high quality corporate bonds led the way for the year. However, we do not waver from our belief in diversification which history has shown to be profitable to investors with few exceptions like 2015.

Equity Valuations: Average to Below Average



"…we believe that the oil price decrease is a boon to everyday people and small businesses…"

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“The U.S. economy is sound, despite the recent volatility of stock markets globally.”

“The markets feel exceedingly risky in the short term but the risk of losing money goes lower and lower based on your timeframe.”

“For those of us crazy enough to do so, a measured approach to saving and investing through bad times is an opportunity.”

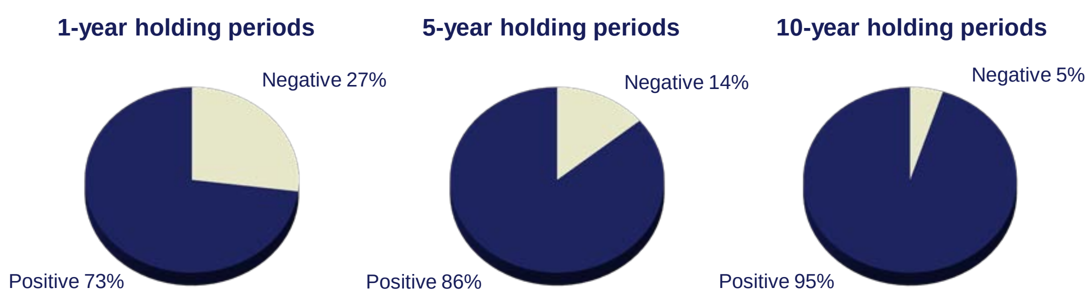
Conclusion and What to Do

In short, the U.S. economy is still growing, albeit more tepidly than we would like. Interest rates are low. Unemployment is improving. The U.S. economy is sound, despite the recent volatility of stock markets globally. Fears about global growth are founded on reality. As we have pointed out, transportation stocks’ performance over the last year or so have portended a softening and slowing pace of economic activity. We remain watchful of these concerning trends.

However, we do not recommend getting too carried away on the elixir of negativity. Yes, terror attacks across the globe - most recently in France, Lebanon, Syria, and at home with domestic shootings- are horrifying and scary. And these events make people less willing to take risk and do their daily work without pause. But many of us will be getting our morning coffees, going to safe workplaces, and doing our best to progress individually and collectively each day. That is the constant of America. We work and try to get ahead. And it has never been a good long term bet to make that our system - this experiment of ours - will not work.

Like life, we find rewards in investing through constancy, diligence, persistence - all a bundle of boring, hard sacrifice. If we approach life and investing with that process and that integrity, we can win with certainty over uncertainty. The markets feel exceedingly risky in the short term but the risk of losing money goes lower and lower based on your timeframe. The next four months is anyone’s guess. But the next eleven years will likely be quite rewarding for those who remain steady and sacrifice short term comfort for long term stability and gain. For those of us crazy enough to do so, a measured approach to saving and investing through bad times is an opportunity. Take it if you can.

Holding Equities for the Long Term: The Power of Time



Source: Calculations by Broadridge based on total returns on the S&P 500 Index over rolling 1-, 5-, and 10-year periods between 1926 and 2014.

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