Shorepoint Capital Partners LLC

Identifying Opportunity.
Navigating Risk.

Newsletter – November 2016

MARKET TRENDS 9/30/2016

US Stock Markets	Q3	YTD
S&P 500 Index	3.85%	7.84%
S&P MidCap 400 Index	4.14%	12.40%
Russell 2000 Index	9.04%	11.46%
Int'l Stock Markets		
EAFE Index	6.43%	1.73%
Emerging Mkts Index	9.03%	16.01%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	0.16%	4.24%
Barclays Capital Muni Bond 3 Year Index	-0.25%	1.20%
Commodities		
SPDR Gold Shares (NAV)	0.03%	24.14%
Goldman Sachs Commodities	-4.15%	5.30%
Real Estate		
Dow Jones US REIT Index	-1.15%	11.01%
Yields	**9/30/2016**	**12/31/2015**
6 Mo. US T-Bill	0.43%	0.48%
10 Yr UST	1.60%	2.27%

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

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Fed Speak, the Election and Economy

In a year where the old adage "sell in May and go away" wouldn't have worked, equity markets consolidated their gains and fixed income continued to rally in the third quarter. There hasn't been a significant stock market correction since this past February despite unflagging negativity in investor sentiment and money continuously being pulled from stocks in favor of bonds- a trend that provides us as contrarians with some comfort. Money tends to pour into asset classes closer to tops than bottoms. The continuous flow of cash into bonds is one reason we favor equities over fixed income, especially dividend-paying stocks.

Another reason we are staying with our long-term position that equities are generally more attractive than bonds is directly related to the Federal Reserve ("Fed") and monetary policy. The Fed has remained more accommodative (keeping interest rates low) than expected this year which means money is cheap! Each time the Fed has decided not to raise rates, the stock market has rallied. More recently, it seems the financial markets have "accepted" or "at least anticipated" that the Fed will raise interest rates possibly in December as near-term volatility has lessened.

While we think the economy is strong enough to sustain a small rate hike, we believe that these increases will be few and far between and "data dependent" to use Chairwoman Yellen's language. Although the stock market may overreact to the downside when an actual interest rate increase is announced, we would use sell-offs as opportunities to add to existing positions and/or to initiate new buys of attractively valued high quality stocks.

We believe bonds, especially high-quality U.S. government and corporates, are significantly overvalued compared to stocks in almost all categories. We know all too well that financial instruments can be over- or undervalued for a longer timeframe than expected! We continue to diversify our bond allocation into less traditional areas such as emerging market bonds, mortgage backed securities, floating rate loans, preferred stocks, etc. Some of these areas have produced solid returns in 2016 after a lackluster 2015. Perhaps in years ahead if the Fed successfully navigates a tightening process, high-quality bonds will become more attractive again.

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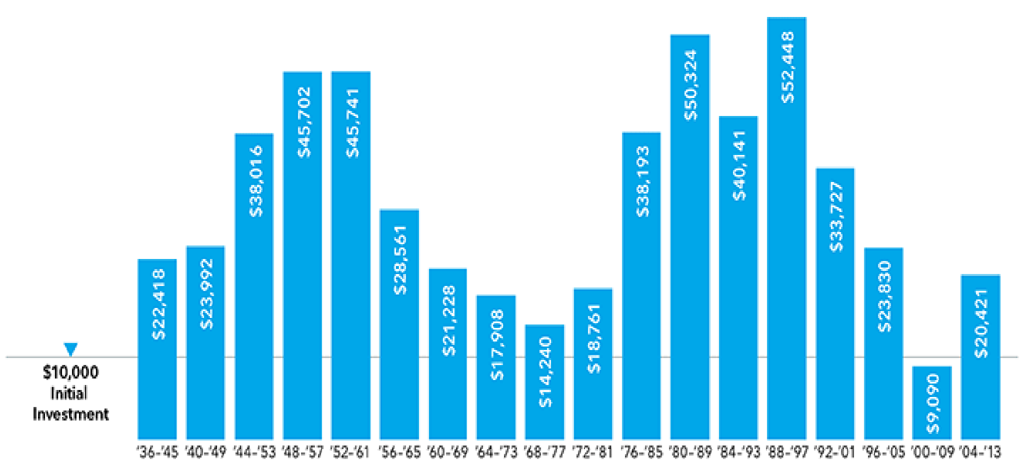
Ah, the election. Deep breath. While two candidates running for the highest office in the land battle each other, we would note that the markets place an exceedingly high likelihood on Secretary Clinton landing the job. For the quarter, it seemed that the Trump campaign had hit its nadir in mid-August and had bolstered itself in September as the quarter ended.

At this writing, that trend had reversed itself, and recent developments made it seem unlikely that Trump would expand his loyal base of supporters to win the contest. We hesitate to focus too much on elections because they tend to trigger only short-term market volatility and economic uncertainty. Presidents may have an important near-term influence on certain aspects of the economy and the markets; however, there are still many things that they have little control over and major policy changes still require a coordination between the Administration and Congress. In addition, there is usually little to do as investors because there are too many variables to consider and frankly, the long-term timeframe we follow tends to wash away the significance of short-term politics, even for the ultimate job in the country, if not the world.

S&P 500 total ending value 10 years after the start of a presidential election year



Source: American Funds

Overall, the domestic economy positives still outweigh the negatives and we believe a recession is unlikely. The U.S. economy is growing at an anemic pace, but still expanding, even if it is the weakest economy recovery since 1949. Historically low interest rates benefit the economy by lowering borrowing costs for consumer and corporate capital spending. For traditional savers in bank/money market accounts, the low rates have been detrimental. To get a "return" on their money, savers have to take on more risk and invest in the bond and stock markets.

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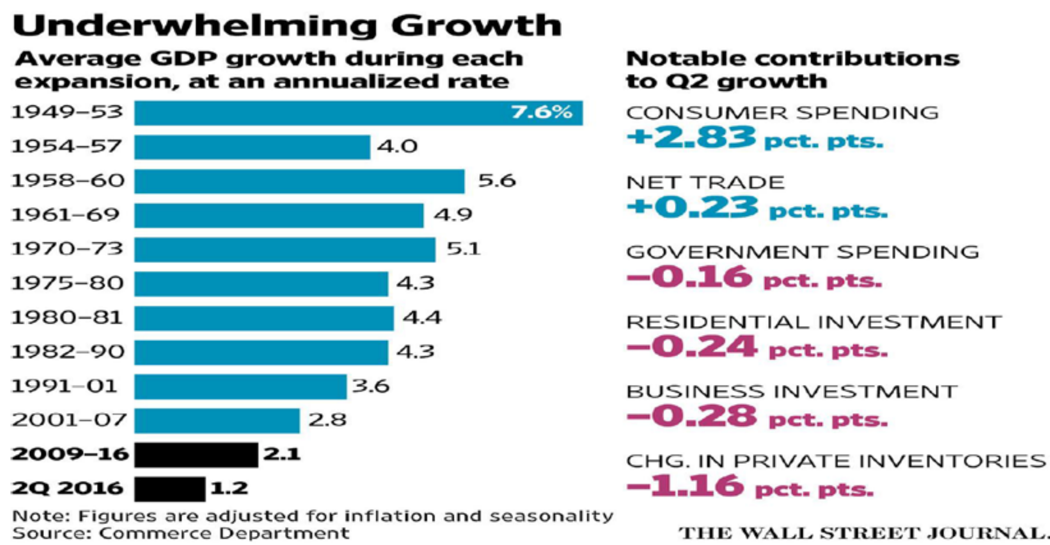
On the employment front, job growth continues and unemployment rates keep dropping. Housing is largely affordable on average in this country- that is if you don't live in San Francisco, NYC, or Boston or other hot spots. Average FICO scores have increased significantly and are very high (over 700) for residential mortgages, a welcome fact after the debacle of 2007-2009. Housing starts (new home construction) are low historically, so new supply isn't coming online at a rapid rate. This helps keep house prices elevated but will likely result in more construction spending.



Another positive is low oil and gasoline prices which benefit consumers (two-thirds of the economy), especially lower income workers more proportionally. Also, car sales remain strong and low interest rates enable consumers to finance at attractive terms. However, we are monitoring the increase in car loan delinquencies and the possible negative impact to the economy. Consumer sentiment is high and discretionary income is rising, though people are not spending like they used to, despite the fact that their household net worth have increased greatly in the last several years. The average household is spending about 30% less of their disposable income on debt since the Great Recession, only about 10% of their income currently - a rate not seen since the 1980s!!!!

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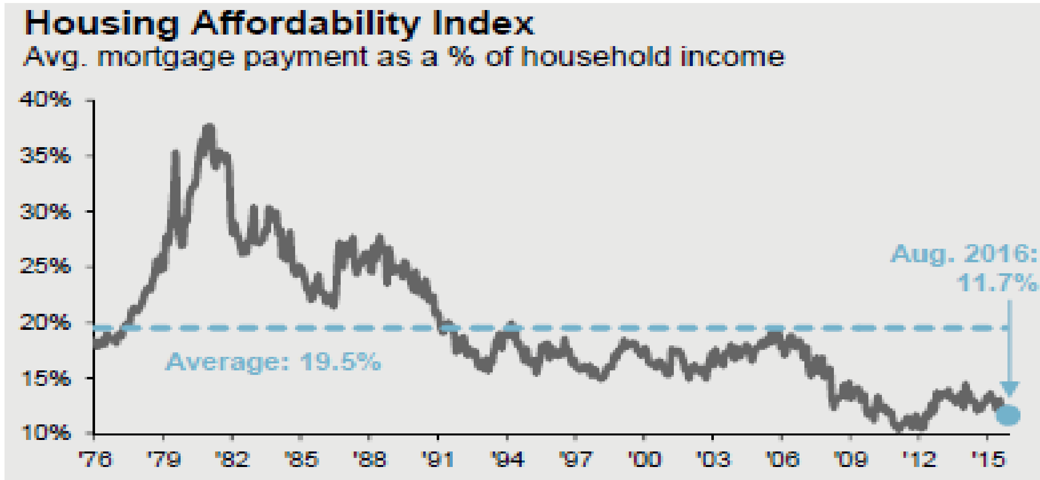

The increasing debt of the government is troubling to us because it makes us more vulnerable to interest rate increases in the future. We would hope to see adult attention paid to the source of these long term debts-entitlements like Social Security, Medicaid and Medicare, as well as our defense budget. But leadership on such issues seems in short supply in our current political system. As constructive contrarians, we believe these issues, that are getting little air time during this election season, are vital to the functioning of the great, successful American experiment.

In conclusion, we see a stable, low return economy with people spending less and companies awash in cash and taking advantage of historically low interest rates. Companies remain cautious overall. Despite cost-cutting, balance sheet repair and robust cash flow generation, we haven't seen the increase in capital spending that we would expect. However, acquisitions seem to be accelerating as companies look for alternatives to grow their business in a lower return environment.

As contrarians, we maintain an overweight to equities and will continue to allocate to weak areas within the equity market. We are using equity volatility to upgrade portfolios into either higher quality dividend-paying companies and stocks with a margin for safety. We continue to favor higher quality companies that are attractively valued, with solid balance sheets and that are strong cash flow generators.