

Newsletter – July 2016

MARKET TRENDS 6/30/2016

<u>US Stock Markets</u>	<u>Q2</u>	<u>YTD</u>
S&P 500 Index	2.46%	3.84%
S&P MidCap 400 Index	3.99%	7.93%
Russell 2000 Index	3.79%	2.22%
<u>Int'l Stock Markets</u>		
EAFE Index	-1.46%	-4.42%
Emerging Mkts Index	0.66%	6.41%
<u>Fixed Income</u>		
Barclays Intermediate Gov't/Credit Bond Index	1.59%	4.07%
Barclays Capital Muni Bond 3 Year Index	0.69%	1.46%
<u>Commodities</u>		
SPDR Gold Shares (NAV)	6.67%	24.10%
Goldman Sachs Commodities	12.67%	9.86%
<u>Real Estate</u>		
Dow Jones US REIT Index	6.79%	12.30%
<u>Yields</u>		
	<u>6/30/2016</u>	<u>12/31/2015</u>
6 Mo. US T-Bill	0.35%	0.48%
10 Yr UST	1.47%	2.27%

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

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Age of Anxiety

The second quarter of 2016 was marked by anxiety on several fronts. The U.S. Presidential election continued to draw concern. On the Republican side stands a non-traditional candidate in Donald Trump with populist approval but an ongoing challenge to galvanize the support of his chosen party. The Democrats' heir apparent, Hillary Clinton, continued to struggle to finally fend off the primary challenge from Bernie Sanders while also facing persistent, stiff headwinds for her improper use of email/private servers; rallying her party's support has proven difficult for Clinton as well. Though one candidate seems to offer more of the same, while the other stands for disrupting the status quo in potentially dramatic ways, voters seem scared and unimpressed by both candidates with disapproval ratings of each soaring higher even as the sitting President's approval ratings float higher.

Amid a backdrop of several years of ongoing, unabated sluggish growth abroad, initial employment claims domestically seemed weak as well. There have been many euphemisms for the U.S.'s status in a low-growth, return yield world where governments via Central Banks slosh out capital in the hopes to fill a growth void. This is a "new role" for Central Banks and really reflects the abdication of fiscal action on the behalf of world governments – government inaction being prevalent globally! The U.S. is referred to as the best house in a bad neighborhood or the least dirty shirt in the laundry; we need newer, more creative analogies here. With the rate of hiring in the U.S. seeming to slow or moderate, investors and economists quickly revised views of when the Janet Yellen Federal Reserve ("Fed") would raise interest rates again - and how much she would raise them. *The consensus view of "normalizing rates" has changed, and the market is now pricing a 0.25% move upwards for 2016 at most - quite a departure from the 0.75% - 1.00% initially predicted.* Ultimately this will be decided in time by inflation and unemployment and is highly unpredictable - and perhaps not a good use of too much brain time either. At Shorepoint, we believe that predicting the short-term movements of the stock market is almost as perilous and meaningless as the quarterly conjecture on the Fed's monetary policy choices.

In fact, we frown upon the short-term prediction game played by many guests on CNBC and online, who often seem quite confident making pronouncements with no bearing on a record of accuracy or utility. This second quarter of 2016 proved this assertion with a miniature case

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study in the form of Brexit anxiety. In advance of the British vote on whether to leave the European Union (“EU”), U.S. markets rallied, as Wall Street often does, on the assumption from polls, hearsay, and financial prognosticators, that the “Brits” would restore status quo and simply stay. Instead, voters surprised the world and financial markets (perhaps themselves?) with a vote to exit the EU. Predictably, Wall Street digested the news like you would an old, moldy tuna sandwich, wiping out trillions of capital with incredible speed across the globe.

Almost immediately, or within days, not weeks, Brexit turned “Bregret”, and financial markets, especially the infamous U.S. best-home-in-bad-neighborhood/least dirty shirt, rallied back toward record highs - once again proving that the world is uncertain and gray versus black and white and binary. Truth evolves in time, while folly, borne of hubris and fear, lurches reactively. There is no long-term investment success without pain. We believe it is better to work hard each day with long-term thinking and planning, and we construct our investment portfolios with patience and humility at the heart - and healthy doses of skepticism and general contrariness.

We continue to read/hear about negative investor sentiment including our clients’ concerns about the equity market. As a matter of fact, a recent article in the Wall Street Journal had the following headline, “The Most Hated Bull Market Keeps Chugging Along”. The first sentence of the article reflects a view that we share and has been proven in the markets over and over again.

“Stock rallies typically don’t die from too much skepticism” -WSJ

The week following the Brexit vote, investors pulled nearly \$8 billion from U.S. equity funds, the fourth biggest weekly withdrawal of the year, according to the Investment Company Institute. As the following chart shows, this is a longer-term trend. Investors have taken \$64 billion from domestic equity funds for 2016 through May, nearly double the amounts from a year ago. However, what investors accomplished by trying to “time” the market was to sell low or lock in losses and miss the subsequent rebound. Corrections and short-term gyrations are part of investing and the key is to stay disciplined to a longer-term investment plan, add cash if possible on pull backs and/or become more aggressive – we are here to discuss the appropriate options with you.

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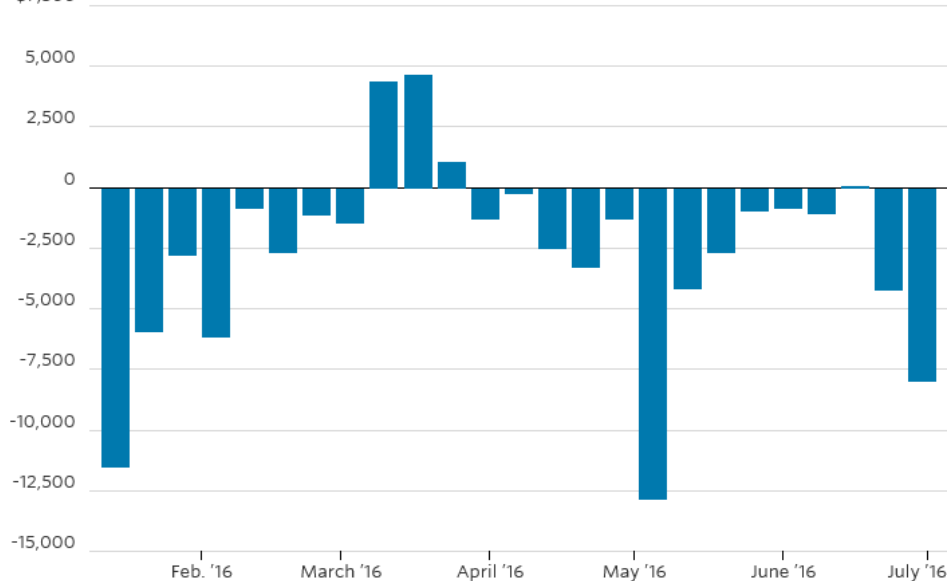
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Missing Out

Weekly flows of U.S. equity mutual funds and exchange-traded funds, in millions



Studies show that many factors influence what returns investors realize over time. One of the major factors is investor behavior. The DALBAR research firm recently released their most recent study as of 2015. It noted that the 20-year annualized return for the S&P 500 Index through 2014 was 9.85%, but the average equity mutual fund individual investor saw a return of only 5.19% - a gap of 4.66%.

Shorter-term investors are more likely to see their investments lose value. In fact, history has shown that positive outcomes occur much more often over longer periods than shorter ones. In the past eight decades, the S&P 500 has gone up and down each year, but investors who stayed true to their plan were more likely to see positive results. In fact, 24% of those single years had negative results but investing over five years, negative results dropped to 10% and over a 20-year period, negative results dropped to ZERO. We cannot predict and/or control short-term market volatility; however, we can try to be more disciplined and focused on your financial plan.

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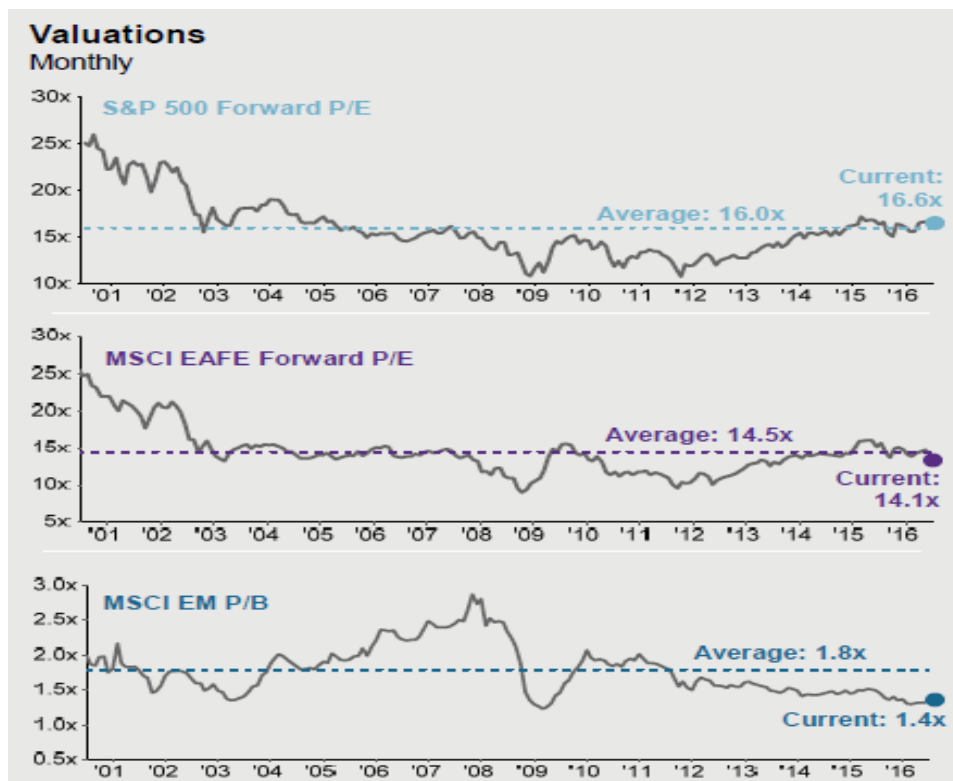
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Conclusion/What to Do

The bottom line is that we live in a relative world. What matters to us is the earnings of publically-traded companies, which has been consistent, if not robust. Bonds in general look expensive to us. U.S. stock markets look fairly valued historically without great upside, but cheap when you factor in low interest rates, the high valuation afforded to bonds, and the paltry returns we can get from cash. International and emerging markets still appear cheap to us both from historical and relative views. Thus far we have seen diversification working better in 2016 than it did in 2015, and we are very pleased with the bounce we have seen in client portfolios overall.



We remain vigilant and ever watchful but also hopeful. The market has climbed a wall of worry as it always does when it rallies. Will it get through the new highs this time or simply be another failed test? We don't know; no one does. But we will keep ensuring that every position in our clients' portfolios are carefully thought out as best we can and give our constituents the best chance for success in this anxious, low interest rate world without precedent.