Winter Newsletter

Blue Bell
PRIVATE WEALTH MANAGEMENT

Groundhog Day

In reviewing our January 2015 market newsletter, some of our comments and concerns were: crude oil prices, the high-yield bond market, economic weakness in the Eurozone, the strength of the dollar, health care costs, volatility in most markets, countries potentially defaulting on debt, a P/E ratio of the S&P 500 of 17x earnings, and the drop in emerging markets and the MSCI EAFE indexes. Our concerns for 2016 include many if not all of the topics listed above.

You may remember the movie Groundhog Day, it feels like that to me. The big news in 2015 was the 50% drop in the price of crude oil which we said was, "An event that requires constant attention." We have had many discussions with clients concerning the fact that oil, being a supply/demand commodity, was being affected by the weak demand from China. The second largest world economy may be experiencing a financial crisis of its own. It is well known that the US economy affects the rest of the world, so does China. Our concerns about the high-yield "junk bond market" caused several days of extreme volatility in 2015. We believe this will continue and may expand in 2016. We spoke about economic weakness in the Eurozone and suggested a major bond buying program similar to that of the US would occur in Europe. While we were correct in our prediction, the expected strength in the European markets, similar to what occurred in the United States, have yet to be realized. In our opinion, 2016 will be a repeat of 2015. We mentioned that volatility was elevated in 2014 and it continued into 2015. 2016 may be a year of more extreme volatility than the past two.

The growth forecast for GDP was approximately 3%, however we stated a strong US Dollar could cause "our economy to suffer a slowdown." This is exactly what occurred and growth of our GDP is estimated at 2.7% for 2015 subject to future adjustments. This is concerning but what we expect in the New Year is what we must look at. We expect continued slow growth in the US economy with GDP growth between 2 and 3%. With the Federal Reserve's recent increase in interest rates, the equity and bond market reactions will be monitored closely. Oil and commodity prices may remain weak and oil producing economies will need to tighten their belts. We believe equities will outpace bonds for the fifth straight year, yet as we have stated, the US stock market is not inexpensive with a P/E ratio of 21x. Our belief is that the earnings of US companies, after underperforming the prior year for the last three quarters, will grow to maintain a reasonable but not exceptional investment environment. Low energy prices will suppress inflationary pressures in many areas however inflation should still be a cause of concern for retirees as they have a far greater life expectancy than previous generations.

We expect more volatility but with a fairly decent year end return unless we experience an extreme unforeseen shock. Terrorism, cyberattacks, geopolitical factors and a contentious presidential election campaign will surely add to the volatility. As many of you are aware, we increased our exposure to Structured Investments having a 10% buffer in 2014 and again in 2015. We expect to continue using a laddered approach using these investments for the foreseeable future. Please visit us for an update on the advantages and disadvantages of Structured Investments. It is important to us that you understand this investment vehicle.

Our goal is to keep our clients invested by adding downside protection in their portfolios. Doing so should reduce the volatility of investment decisions and help in maintaining long-term investment goals. We believe emotional investing is one of the main reasons mutual fund investors dramatically underperform the averages. Buy low and sell high is everyone's mantra but emotions cause many to do just the opposite. Market downdrafts lead to fear and emotional selling while market upswings generate confidence and increased risk.

Please remember a 10% correction is actually a healthy movement but many fail to remember that a 10% reduction on a $2 million portfolio is $200,000. Often this occurs in a short period of time and has always proved to be a long-term buying opportunity, although markets may get worse before they get better. It is obvious that investing requires a long-term outlook with a well thought out approach as market timing never works over the long-term. Our success has been rooted in keeping our clients invested for the long-term with some downside protection where appropriate.

Inside this issue

Special points of interest

- Wall Street analysts predict another positive year for the US stock market.
- Why the first week of the year has little meaning in where the stock market will finish the year.

BBPWM In The News

Scott Miller Jr. was a featured speaker at the SPA-Bloomberg NYC Event: "Mastering Structured Solutions and Yield Enhancement"

2016 Year End Projections

With the bull market entering its seventh year, strategists on Wall Street are expecting another year of gains but with more volatility along the way. Last year market strategists were looking for a rise in stocks of 10% or more. There were several issues that caused stocks to lag in 2015: the uncertainty surrounding the Federal Reserve's decision of whether or not to raise interest rates, the continuing decline in oil and commodities, a strong dollar, and China fears of a devalued yuan. Despite many of these same headwinds still looming, all of the strategists we researched remain optimistic for the stock market in 2016 with an average prediction for the S&P 500 to gain 8.30%. Analysts cite continued economic growth, increased consumer spending, and fair stock market valuations as reasons for the 2016 election year to end in positive territory.

Below is a complete list of the strategists, their projections for the S&P 500, as well as selected commentary.

Firm	Strategist	Projection	2016 % Change
Societe Generale	Alain Bokobza	2050	0.30%
Goldman Sachs	David Kostin	2100	2.74%
Jefferies	Sean Darby	2100	2.74%
BMO	Brian Belski	2100	2.74%
Credit Suisse	Andrew Garthwaite	2150	5.19%
Blackrock	Russ Koesterich	2175	6.41%
Morgan Stanley	Adam Parker	2175	6.41%
Barclays	Jonathan Glionna	2200	7.64%
Citigroup	Tobias Levkovich	2200	7.64%
Bank of America	Savita Subramanian	2200	7.64%
JP Morgan Chase	Dubravko Lakos-Bujas	2200	7.64%
Deutsche Bank	David Bianco	2250	10.08%
S&P Capital IQ	Sam Stovall	2250	10.08%
UBS	Julian Emanuel	2275	11.30%
Oppenheimer	John Stoltzfus	2300	12.53%
RBC Capital	Jonathan Golub	2300	12.53%
Fundstrat Advisors	Tom Lee	2325	13.75%
Piper Jaffray	Craig Johnson	2350	14.97%
Canaccord Genuity	Tony Dwyer	2360	15.46%

**Percent change is based on the S&P 500 close of 2043.94 on 12/31/15.*

Goldman Sachs – David Kostin - 2100

"We forecast the S&P 500 index will tread water for a second consecutive year in 2016. Our year-end 2016 target of 2100 represents a 1% price gain from the current index level (2089), which itself is just 1% above the year-end 2014 level of 2059. Including dividends, we expect the total return in 2016 will equal 3%."

Citigroup- Tobias Levkovich - 2200

"We see large-caps outperforming small-caps (in the U.S.), while valuations also favor larger companies," Citi added in the note. "A rising bond yield should support an investment style change towards value stocks over growth."

Morgan Stanley- Adam Parker - 2175

"We are viewing this as a mid-expansion period where equity returns are not strong (much like 2015 so far), instead of the end of the expansion," Morgan Stanley strategists wrote on Sunday. "Should investors regain confidence that the US economy and corporate behaviors will not lead to a substantial earnings correction, we think the market could begin a more meaningful acceleration path."

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JP Morgan Chase- Dubravko Lakos-Bujas - 2200

“Negative earnings effect from energy is likely to fade away, but strong [U.S. dollar] will continue to exert some drag causing further negative revisions to current 2016 earnings growth estimates,” wrote Lakos-Bujas.

Bank of America- Savita Subramanian - 2200

"So while returns may compress from the outsized gains we have seen over the last several years, we remain constructive on equities. The bull market in stocks is not over, in our view."

Barclays- Jonathan Glionna - 2200

"We maintain our view that return expectations should roughly match EPS growth expectations," he added. "In other words, we do not expect any more expansion in valuation multiples. Our S&P 500 price target for the end of 2016 is 2200."

RBC Capital Markets- Jonathan Golub - 2300

"2015 was marked by falling oil prices, a diminishing global growth outlook, and flat rates," Golub wrote to clients on Friday. "Our constructive 2016 outlook is predicated upon stabilizing commodity prices, and an incrementally higher dollar and rates. All of this should result in a substantially higher earnings trajectory as well as a modest re-rating of stocks."

Deutsche Bank- David Bianco - 2250

“Strong private equity activity, public company share repurchases and increased M&A throughout the world shows that the persistence of low interest rates vs. real asset valuations will cause investors to chase existing income producing assets and bid up prices,” he noted. “If long-term yields stay low as the Fed increasingly steps aside, equity valuations are likely to climb higher and corporate managers will also come to more accept lower returns on potential new projects.”

S&P Capital IQ- Sam Stovall - 2250

“An 8% rise in earnings-per-share growth, with all sectors gaining except energy, should push the S&P 500 to 2250 by the end of 2016,” Stovall noted. “Expect volatility to pick up in 2016, however, just as it did in 2015 with the rolling number of days the S&P 500 advances or falls more than 1% on the rise…[A] stock-market correction still looms: The S&P 500 has gone 38 months without a decline of 10% or more, versus an average of 18 months since WWII (and a median of 12 months). In addition, the S&P 500 endured 30 declines of 5% or more during third years of the presidential cycle, yet still recorded above-average full-year price gains.”

Fun Facts!

- The S&P 500 is positive 18 out of the last 21 election years.
- The S&P 500 closed 2015 within 1% of the initial index average for just the 5th time in its history.
- You can figure out who will be president based on the 3-month stock market performance preceding an election. - From S&P Capital IQ's Sam Stovall: "An S&P 500 price rise from July 31 through October 31 traditionally has predicted the reelection of the incumbent person or party, while a price decline during this period has pointed to a replacement. Since 1948, this election-prognostication technique did an excellent job, in our view, recording an 88% accuracy rate in predicting the re-election of the party in power (it failed in 1968). What's more, it recorded an 86% accuracy rate of identifying when the party in power would be replaced (it failed in 1956)."
- The first week of a new year has little meaning to where the year will end for the stock market. When the first day of a new year is positive, stocks are positive 66% of the time, and when it is negative, stocks are positive 64% of the time.

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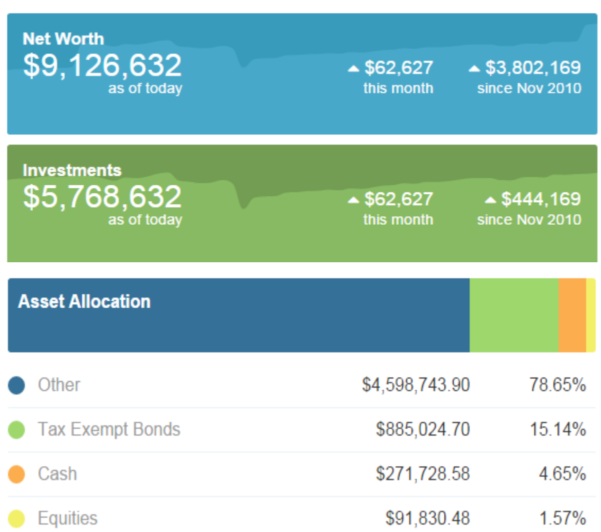
Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Please let us know if you hold any IRA money outside of Schwab so that we may include this into our RMD calculation for 2016.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.

BBPWM Wealth View



If you are interested in seeing a full picture of your financial situation, please feel free to give us a call. We have a new website that updates your assets and liabilities on a daily basis. We have an app that can be found at the Apple App Store.

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