Market Commentary
March 31, 2016

2016 began on a sour note, with the domestic equity market declining by 10% during the first half of the quarter, followed by an increase of 13% to end the quarter with a modest gain. Oil prices were even more volatile, with the price of West Texas Intermediate falling from $37.04 on December 31, 2015 to $26.21 on February 11, 2016, a decline of 29.2%. By March 31, 2016 the price recovered to $38.34, an increase of 46.3% off the quarter's low, but up just 3.5% for the quarter overall. The headline on the February 7 Barron's magazine offered a classic contrarian prediction, "Get Ready for $20 Oil". It is possible they will be correct, but who *actually* knows?

Interest rates, which were universally expected to rise significantly in 2016, declined again. Most of the expert forecasters predicted the 10 year treasury would increase from 2.27% to about 3.0% this year. The 10 year treasury yield ended the quarter at 1.78%.

Other experts forecast continued strength in the currency markets and the opposite occurred, with the dollar depreciating by 6.7% versus the yen and by 4.0% versus the euro.

Emerging markets were out of favor at the beginning of the year. For the quarter, emerging markets were up 5.71%.

Domestic equity valuations are slightly above their historical averages and have outperformed the MSCI AC World Index each of the past three years and six of the last eight years. If you expand the time horizon to 50 years, the frequency of out performance for each index is actually about 50%, or the equivalent of a coin flip.

Asset class index returns for the quarter were S&P 500, +1.35%; MSCI Emerging Markets, +5.71%; MSCI AC World, +0.24%; Barclay's Capital US Aggregate Bond, +3.03%; S&P Preferred Stock, +1.21%; and Alerian MLP, -4.17%.

So what is the point of all this? No one can consistently predict market prices in the short term, and those who make forecasts do so not because they know, but because they are asked. We do not pretend to know the future with absolute certainty. Instead, we contest that prudent investing

focuses on value and asset allocation strategy. Diversified multiple asset class portfolios are more durable than owning any one asset class outright, making superior risk adjusted returns possible over the long term.

In the short term there are many things to worry about…a contested domestic presidential election among candidates with extraordinarily high disapproval ratings, an immigrant crisis in Europe, potential exit by Great Britain from the European Union, weakness in China and the list goes on and on. Be wary of media incentivized by drama. In reality, most reported drama either does not materialize, is not as bad as feared, or is already reflected in market prices.

Our largest concern is the unconventional actions by the world's central bankers to suppress interest rates, which has resulted in negative interest rates in many parts of Europe and Japan. These policies have failed to stimulate meaningful global growth which is an indication monetary policy has limitations. The near term impact is unfairly punishing savers and causing many investors to assume unfamiliar risks with their investments. The long term effect is unknown, as we are in uncharted territory.

Although we do not expect a recession any time soon, we believe in capitalism and business cycles and know that eventually there will be a correction in the markets. In the meantime, we expect continued volatility, an economy that plods along at a relatively slow pace and modest returns from most asset categories during the next few years.

Thank you for your trust and confidence. Please do not hesitate to contact us if you have questions or would like to discuss your investment portfolio.

Sincerely,

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