# Straight Talk

StraightLine
Personal. Unbiased. Proactive.

**1st Quarter 2016 — Steven F. Mosshart AIF® — Chief Investment Strategist**

***2016 Market Performance****

***S&P 500***
*1.35%*

***Dow Jones***
*2.20%*

***NASDAQ***
*-2.43%*

***MSCI EAFE***
*-3.01%*

***Barclays US Aggregate Bond***
*3.03%*

***Morningstar Large Cap Core***
*0.42%*

***Morningstar Mid Cap Core***
*2.05%*

***Morningstar Small Cap Core***
*3.64%*

**Market data is from Morningstar and is through 1/31/16. All returns are with dividends reinvested.*

The first quarter once again proved why they say that patience is a virtue. With stock markets mimicking the moves from August to October last year, investors were once again taken on a rollercoaster ride that ended more or less where it started. Ongoing concerns about the global industrial slowdown, earnings, and geopolitics continued to weigh on investors at different times throughout the quarter. Adding to the list of difficulties was the circus that is this election cycle. It's well known that markets don't like uncertainty, and the battle for both party nominations has certainly been at the top of the news these past few months. Looking ahead, we remain somewhat cautious, but are certainly more optimistic about the investment landscape than the news media or general investor sentiment would seem to report.

The good news is that despite the slowdown and recession fears to start the year, the economy seems to be continuing to chug along at a reasonable 2-2.5% growth rate. The bad news is that nearly seven years into this recovery we're still only growing at a 2-2.5% pace. This in our view is the fundamental issue, no one has really known for sure what to make of the economic situation during this recovery cycle. We've seen periods of higher growth and strong fundamentals and then others of slowing growth and deteriorating data. Now that the Federal Reserve has shifted policy from easing to a gradual tightening, it seems that stocks have lost that floor that central bank policy had provided. As such, they are now more susceptible to the ebbs and flows of the economy and broader investor sentiment, as we've seen in recent months.

Essentially, what we're witnessing is a normalization of Fed policy, which in turn is bringing about a normalization in stock market volatility, which we forgot existed in those few years when it seemed that central banks globally were all in easing mode. As we've said before, we expect that markets will be volatile for much of the rest of this year. However, this does not mean that we have a negative view of stocks, or recommend that you should get more conservative with your investments. We certainly don't believe that all of the stock market gains have been a function of monetary easing or that we're due to give them back. There have been real gains in corporate fundamentals, and we're in a period of unprecedented innovation, which should continue to persist. We've taken steps to reduce volatility and will look to continue to do so, if we feel it is prudent.

Getting back to the fundamentals, we've actually become a bit more optimistic about both the economy and stock market. After a clear slowdown in the global industrial economy, we've seen a recent turnaround in manufacturing data. March data showed that for the first time in several months US, European, and Chinese manufacturing was all in expansionary territory. In addition, we've seen the US Dollar weaken over the course of the first quarter, a move which has certainly been welcomed across markets. With more favorable year over year comparisons, it's quite possible that we'll see US companies report better forward looking guidance as we head into earnings season. With expectations very low, it's likely we'll see better earnings as well.

In this slow growth, low return environment there's no shortage of data to support just about any point of view on markets. However, as we've come to know, fear and pessimism make for better stories than the likely reality of the situation. It's important to consider the source of information and what they might stand to gain or lose from taking their position. Irrespective of our moral and fiduciary obligations, we strive to maintain a pragmatic approach, understanding that ultimately our interests have to be aligned with our clients' in order for us to succeed. Please contact us (866) 401-5238 or info@straightline.com if you have any questions.