1402 E. Center Street Kingsport, TN 37664
423-247-1152 Toll-Free 877-247-1152
Fax 423-247-5714 www.BHRetire.com

JEFF'S PERCEPTION

Quarterly Commentary & Portfolio Review **April 2016**

"*The grass is not, in fact, always greener on the other side of the fence. Fences have nothing to do with it. The grass is greenest where it is watered.*" - Robert Fulghum

Calmer waters are welcome

Probably the simplest reasons anyone invests in stocks are to make money (capital gains), generate income (dividends), or some combination of the two. Of course, that really is putting it in the simplest of terms.

Many of you have chosen to follow our recommendations to place a portion of your nest egg in a multi asset portfolio that includes equities, because the stock market has historically offered superior long-term returns.

Others are nearing or at retirement. For you, the empirical research suggests that a continued exposure to a multi asset portfolio will not only generate income, but also allows for some growth.

It's not a strategy that guarantees against short-term losses in the equity portion of your investments, but the limited exposure to the market mitigates much of the risk to your entire nest egg.

It’s not a strategy that guarantees against short-term losses in the equity portion of your investments, but the limited exposure to the market mitigates much of the risk to your entire nest egg.

Collective wisdom, market volatility, and how stocks are priced

There is an enormous amount of research that has gone into how stocks are priced. In our short time today, I will keep things simple.

Whether we are reviewing an individual stock or a broad measure of equities such as the S&P 500 Index, in reality the price is a gauge of market sentiment that takes into account the collective wisdom of all market participants.

These participants include everyone from the small investor to sophisticated institutions that have created complex models to value stocks.

Simply put, they incorporate all publicly available information, collectively generating what they believe is a fair price for the stock or industry metric at that moment. As sentiment shifts, so does the price.

These participants are all “putting their money where their collective mouths are,” so to speak.
Since information is so readily available and is so quickly distributed, analysts and academics like to say that markets are efficient.

While I would argue in favor of market efficiency, I believe the collective wisdom of investors can sometimes misprice risk, especially when emotions come into play.

Still, I strongly encourage you to avoid trying to time the market. No matter what an article you have seen that seems to have special insights into the future says, no one has a crystal ball that consistently calls highs and lows.

That brings us to the ups and downs in the market we've recently experienced – what analysts call 'volatility.'

In some respects, the declines of just over 10% in the late summer 2015 selloff and the early 2016 selloff really weren't particularly significant. Market corrections in the broader context of a bull market will happen from time to time. Our goal is to manage and mitigate risk, but we can't eliminate it.

SUMMARY STATISTICS	1 MTH	YTD	1 YR (Annlzd)	5 YR (Annlzd)	10 YR (Annlzd)	STDEV. (5 Yrs)	DRAW. (10 Yrs)
7Twelve Moderate	6.0%	3.7%	3.4%	2.4%	4.6%	9.5%	-36.5%
1 US Large Cap	6.8%	1.3%	1.8%	11.6%	7.0%	12.2%	-50.9%
2 US Mid Cap	8.5%	3.8%	-3.6%	9.5%	7.8%	14.5%	-49.6%
3 US Small Cap	8.2%	2.7%	-3.2%	10.4%	7.0%	15.5%	-52.1%
4 Intl Developed	7.3%	-1.3%	-6.5%	2.4%	2.7%	15.2%	-57.2%
5 Emerging Mkts	12.5%	4.4%	-11.1%	-3.4%	4.2%	18.8%	-60.2%
6 Global REITs	9.6%	7.2%	3.9%	10.2%	5.5%	14.8%	-67.6%
7 Natural Rsrcs	9.8%	9.3%	-14.7%	-8.2%	0.7%	19.6%	-48.9%
8 Commodities	3.8%	0.4%	-19.6%	-14.1%	-6.2%	14.6%	-67.0%
9 US Bonds	0.9%	3.0%	2.0%	3.8%	4.9%	2.8%	-3.8%
10 US TIPS	1.7%	4.2%	1.5%	2.9%	4.5%	4.7%	-11.5%
11 Intl Bonds	4.3%	8.5%	7.0%	0.7%	4.1%	7.2%	-15.2%
12 Cash	0.0%	0.1%	0.1%	0.0%	1.0%	0.0%	0.0%

*The 7Twelve Index does not track an actual investment. Source – 2016 Lunt Capital Management, Inc. 7Twelve used by permission.

Economically speaking

One recent fear is that the economy was set to slip into a recession.

Recessions will take a big bite out of corporate profits, and profits are the biggest medium and long-term factor that affect stock prices.

While recent data are not suggesting the economy is running on all cylinders, it does signal that the expansion is muddling along at a modest pace.

Yet, that's not what stocks seemed to be telegraphing early this year. Everything from China worries, falling oil prices, and fears about earnings seemed to be suggesting the economy was set to stall.

While markets typically process information efficiently, once in a while the collective wisdom overshoots to the upside or the downside. We see it in hindsight.

Expect to see headlines screaming of an impending bear market or even a market crash. They really don't offer much in the way of solid market analysis, but they are designed to get "eyeballs," or page clicks. The old news adage, "If it bleeds, it leads," applies to sensational financial articles, too.

The case of China

China provides an excellent case in point. U.S. exports to China account for just under 1.0% of U.S. GDP (U.S. Bureau of Economic Analysis), but China just seems to have this way of creeping into investor psychology with scary headlines.

While China has not gotten its problems under control, its economy avoided the proverbial brick wall. Its currency, the yuan, has stabilized and has even begun to appreciate against the dollar, rising to roughly a four-month high (St. Louis Federal Reserve).

More importantly, stocks have closely tracked crude oil in recent months (St. Louis Federal Reserve), and the uptick in oil has benefited stocks.

On the subject of oil…

What's been going on in oil has really been counterintuitive and has defied the predictions of most analysts.

You see, oil was supposed to act like a huge tax cut for consumers, fueling spending and growth. In reality, it's not a tax cut. Instead, it's a transfer of wealth from producers to consumers.

So far, energy producers have slashed spending and fired employees, without a corresponding pick up in spending by consumers.

While I must admit that filling up for less than $2 per gallon is satisfying, we've witnessed economic pain without economic gain. And it's spilled over into the broader stock market.

Furthermore, the steep decline in energy earnings has pulled down profits for the overall S&P 500 Index and wreaked havoc on high-yield bonds.

That's why the recovery in oil has aided stocks. As we head into late spring and summer, we are entering what has traditionally been a strong period for oil (St. Louis Federal Reserve, Energy Information Administration).

Yet the recovery in oil is fragile. While the steep drop in prices since 2014 is starting to impact production from the more costly U.S. shale fields, oil output has been far more resilient than many had anticipated – credit innovations and efficiencies gained over the last year.

But talk of a deal to freeze or cut production among key global producers remains just that – talk.

The dollar dip

Finally, investors are also trying to price in the impact from the recent dip in the dollar into stocks, especially the larger industrials that do a fair amount of business overseas.

Remember, the collective wisdom of the market? It is millions of investors, both large and small, quickly pricing new information into buy/sell decisions. In turn, it's reflected in changing prices.

A stronger dollar is a big benefit to those traveling overseas, and it helps keep a lid on the price of imported goods. But companies doing business abroad must translate those foreign sales back into more expensive dollars, which hurts earnings.

Notably, the rise in stocks last month was inversely correlated to changes in the dollar (in fact, it was a very steep inverse correlation – St. Louis Federal Reserve), as investors cautiously anticipate, dollar headwinds will abate when multinationals begin reporting Q1 earnings later in the month.

Bottom line

"*You can't cross the sea merely by standing and staring at the water*." - Rabindranath Tagore

Markets will experience periods of tranquility and markets will experience periods of volatility. In some respects, it's much like the weather. Even then, I might put more faith in the three-month temperature outlook then I'd put in the many and varied forecasts for stocks. It's noise and best to be avoided.

All of you have financial goals. If you are to hit your goals, a plan - i.e., a financial road map – is critical. Imagine starting on vacation without a roadmap, without GPS. Each of you has been provided a financial/retirement roadmap that is specifically tailored to your specific situation and destination. If you have not reviewed your situation utilizing our Retirement GPS System I strongly urge you to do so at your next review.

Unless new circumstances have arisen in your life, I strongly encourage you to stick with the plan that we have both agreed upon. This includes an exposure to stocks.

So, I believe as we put a volatile 1st quarter behind us, the case and the need for diversification and active money managers is stronger than ever. This is not the time to abandon the investment principals that are the tenets of successful investing.

The most successful investors are "committed investors". "Committed Investors" standout from the pack of fair-weather, emotional, overconfident, overpessimistic, and distracted investors. These types of investors are really just pretenders and are typically selling or buying at the wrong times. For the successful few, investing is not a summer romance, but a lifelong marriage. My purpose, my mission has always been to make B&H Wealth Strategies committed investors.

I hope you've found this review to be educational and helpful. As I always emphasize, it is my job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

Thank you very much for the trust and confidence you've place in my team and my firm.

Securities and Registered Investment Advisory Services offered through
Silver Oak Securities Inc. / Member FINRA/SIPC
B&H Wealth Strategies and Silver Oak Securities, Inc. are not affiliated

Portfolio Strategy Recap(s)

Multi Asset:

The 7Twelve Benchmark Index (see table summary in commentary) finished the quarter with a 3.7% gain. The index surged 6% in March. The performance was led by Emerging Markets and Natural Resources, however both are still down over 11% and 14% over the last 12 months.

Our Multi Asset Strategies have been underweight both assets in 2016. This helped reduce drawdown in the first 42 days of the year while global markets were sharply down. It also dampened the returns in the next 49 days as the markets rallied, seemingly following oil prices that started moving back up. B&H Multi Asset portfolios finished in or near positive territory. (Actual results will vary depending on where the strategy is held).

Neimann Capital Risk:

Risk managed is a strategy that invests in US stocks. Risk managed seeks to offer downside protection by incrementally going to cash when they believe the market risk becomes excessive. At times, risk managed can be 100% in cash in order to minimize potential losses. The strategy began the year with a 50/50 split between cash and stocks. By February 11th the portfolio was 70% in cash, reflecting the excessive risk in the market. By the end of the quarter the strategy had only 30% in cash. This represents a neutral position on the risk/reward spectrum. The strategy was off .44% for the quarter.

BTS Bond Allocation Strategy:

BTS is a strategy that is designed to achieve equity-like returns with bond-like risk. The portfolio moves among high yield bonds, government bonds, and money market mutual funds or ETFs. This quarter the strategy used its full range and provided outstanding results. The strategy began the year in cash, moved to government bonds on 1/12/16, held that position until 2/22/16, on 2/23/16 bought high yield bonds and is still currently holding that position. The strategy was up 7.1% for the quarter.