

Tip-toeing through a minefield

For a flat stock market 2015 sure packed plenty of pleasure and a whole lot of pain. In short, if you were a risk taker, you may have done very well. The most aggressive stocks like Netflix and Amazon returned 135% and 119% respectively. On the other hand, if you were investing in blue chips (Exxon/Mobil (-12.61%), Berkshire Hathaway (-12.48%), Walmart (-26.59%), American Express (-24.18%) Chesapeake Energy (-76.77%) it was downright awful. Income investors didn't fare much better. MLP's, traded REIT's and high yield bonds all suffered negative returns last year, in some cases in excess of 50%!

So what do we make of it and what does this mean for 2016?

Well we just don't know. We do know that it is often toughest to invest at the most opportune time. Think about it. How many of us really wanted to invest in March 2009. The world was coming to an

end. If you don't believe me, just watch TV at that time. Banks were going bankrupt, countries were next and the new normal meant it would be years until the economy started humming again. While all of that was true, in hindsight, that was the best possible time to invest. All that pessimism and uncertainty bred discount share prices. Buying profitable quality companies, or mutual funds who buy those companies, proved the most prudent course. The S&P 500 hit a low of 666 and closed this year just a smidge above 2000. That's a pretty good return for six years and a few months of investing.

So after a bad year for some investments, and not a very good return for almost all, how should one invest?

Fundamental Analysis: Long term investors focus on this measure. Warren Buffet made this approach famous, but its roots are in Graham and Dodd's investing classic, "Security

Analysis". The position they took is that stocks should be valued on the present value of the future income stream of dividends. This approach takes into account growth stocks (future potential dividends) and value stocks (current dividends). The analysis is focused on a rational approach to investing.

Technical Analysis: These individuals tend to be more tactical in their approach. If Fundamental analysis is the approach of investors, technical analysis is used by traders. Think of the urge to sell a losing stock if you could "just get back to even" or the desire to sell when you double your money. This emotional impact weighs on all individuals and can be used to try to predict short term stock movements.

So what does all this have to do with our investing environment today?

The volatile movements of the stock market are being caused mostly by the buying and selling of technicians. Long term investors using fundamental analysis attempt to take advantage of the discounts that this emotional investing creates.

Doug Lagerstrom

Managing Expectations

The idea behind asset allocation is simple: When one investment category struggles, it's OK because that is offset by another category that is thriving. Not so in 2015. After embracing everything from Treasuries to high-yield bonds and technology shares amid seven years of 0% interest rates, investors found themselves with nowhere to run at a time when the Federal Reserve's campaign of stimulus drew to an end. Will this be our new normal? We'll come back to that. It certainly has not been the normal in the past. Since 1995, practically every year has seen some asset class deliver returns exceeding 10%. According to Bianco Research, the S&P500, 30-Year US Treasury bonds, 3-month Treasury bills, and the CRB Commodity Index make up the 4 most common asset classes investors consider when designing and allocation strategy. So why didn't anything work last year? It could be that there are simply too

many choices and alternatives within the four broad categories tracked by Bianco Research. According to the study, gains from the best performing assets had surpassed 10% in all but one year since 1995. During the last 9 decades, 23 years, or a quarter of the time, at least one asset class returned more than 30%, and only four ended with gains of smaller than 4%. After all, this gave rise to our 2 most popular alternatives of ETF's (exchange traded funds) and Hedge Funds. According to Bloomberg, the Hedge Fund industry was headed for its worst annual performance since 2011, with Fund closures rising. ETF's have not fared much better. Many investors use ETF's to invest in different asset types as a way to diversify risk.

Uncertainty over the timing of the Fed's first interest rate increase in almost a decade and its potential impact on the economy weighed on the markets

throughout 2015. The Fed has finally broken that cycle by beginning policy normalization, and hopefully this will provide the markets with some clarification and resolve in a more solid direction. We finally have execution of a game plan in place. Will this change in game plan take shape over night? The performance of the financial markets so far this year are indicating that it will take some time. According to Michael Arone, chief investment strategist at State Street Global Advisors, "...if the market feels comfortable at the pace of which the Fed moves interest rates and the economy is recovering, risk assets like stocks as a category could perform well". I for one am very excited for this new normal. Investor expectations for stocks, bonds, and the ever growing list of new alternative products have been elevated by recent history. Last year may be a wake-up call to investors to perhaps lower their expectations about returns and pay more attention to the overall risk of their portfolio.

Allen Minassian

Hello Clients and Happy New Year!

With the New Year upon us, many of us have set resolutions, myself included.

In looking into the definition of the word resolution, I came upon two meanings.

1. A firm decision to do or not to do something.

"She kept her resolution not to see Anne anymore"

2. The action of solving a problem, dispute, or contentious matter.

"A satisfactory resolution of the problem"

I decided to combine the two definitions and, make a decision to take the action of solving a problem.

Many times we make a firm decision to do something yet we do not take the necessary action to accomplish it. Or we take action that does not provide a resolution.

Keep this in mind as you make and strive to accomplish your personal New Year's resolution or resolutions.

So I will share, I have two problems that I will be taking the action towards resolving for myself.

- 1. I do not get enough exercise.
- 2. I do not spend a lot of time on myself.

I am happy to share that I have joined a gym, close to our office that also as the amenities of a spa. My membership includes two spa treatments every month and the gym has all the latest equipment and classes.

So I am off into this New Year already feeling better. I look forward to hearing what your resolutions are when we have time to chat at the office.

Andrea Baird

Quotes & Funnies to Think About!

If we are not meant to have midnight snacks, why is there a light in the Fridge?

Humans are the only creatures in this world who cut the trees, make paper from it and then write "Save the Trees" on it

Some of the most wonderful people are the ones who don't

fit into boxes.

It's funny how all the trust goes away when you're looking for the remote, "are you sitting on the remote?" – "No"..... "Stand Up"

Promote what you love Rather than bashing what you hate

Being honest may not get you a lot of friends, but it will get you the right ones!

No matter how you feel, Get Up, Dress up, Show up, and never give up!

Lynn Hillyard

Political Picture

For purposes of this article we will focus just on the economic policies of the candidates likely to get the nomination and the effect these policies will likely have on the economy as a whole. All information has been taken from the candidate's website.

Currently the democratic candidates for President are focusing their message on the fairness of our economy. Bernie Sanders is supporting an increase of taxes on the wealthy to pay for free tuition for college students. He is also supporting an increase in the Federal minimum wage to \$15 an hour. Hillary Clinton also supports a higher minimum wage, although her preferred rate is \$12 an hour. She also would use tax policy to support college students by providing a tax break of \$2,500 for co-eds.

The Republican candidates seem more concerned with using tax policy to spur economic growth. Donald Trump would simplify the tax code

and lower rates for individuals. He would also cut the corporate rate to 15%. Ted Cruz would institute a 10% flat tax for all taxpayers (with an exemption for lower income earning individuals). He also supports cutting the corporate tax rate to 16%.

None of the four candidates address the national debt directly on their website. Trump and Cruz believe that economic growth will pay for the lower tax rates. Clinton and Sanders plan to pay for their additional government programs with increased taxes on the wealthy and on Wall Street.

Economists differ, imagine that, on the impact these policies would have on our economy. Most believe that the increase in the minimum wage and the increase in taxes that both Sanders and Clinton propose will lead to a slower economy. Economists differ on the degree of the slowdown. The lower tax rates and simpler tax

code that Trump and Cruz put forward should stimulate economic growth, but analysts differ on the impact the reduction in rates will have on the national debt. Will the increase in economic activity outweigh the loss in revenue from the lower rates?

It's not surprising that the candidates are proposing policies that appeal to their party's base at this point. I would expect the eventual nominees to "refine" their message when they are running for the general election in September. All candidates must appeal to the base of their parties at this point and then can "pivot" to the center in an attempt to garner independent voters support.

Client Corner

Our client Eleanor Peltz celebrated her 100th birthday on 11/20/15!

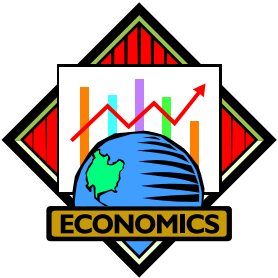
Congratulations Eleanor!

Winter 2016



PRIVATE WEALTH SOLUTIONS

Generational Wealth Management



2015 was dominated by declining oil, a rising dollar and an ongoing discussion of will she, won't she, should she? She did. I'm speaking of Janet Yellen of course and rising interest rates.

Now that the uncertainty of Fed's first move is past, we can move forward. Just where we are going remains to be seen.

Typically the Fed begins raising rates in response to a strong economy. The theory is that higher interest rates encourage more saving and less spending

About the only source of comfort for our economy is "it could be worse".

and borrowing. This slows the money supply and also economic growth and inflation. However, this time the Fed is starting with interest rates at 0%! Because there is no room for the Fed to move in the event of an economic crisis, they are forced to move rates off of 0%. This move doesn't signal economic strength as much as it signals economic stability. To use a

medical analogy, the patient (Economy) is now out of ICU, but has not been released from the hospital by the doctor (the Fed) just yet. If the Fed continues to raise rates next year in response to stronger employment, manufacturing and corporate investment, the patient may indeed be released. Until then, the doctor will be checking in on a regular basis.

About the only source of comfort for our economy is "it could be worse". Earlier in this article I said the Fed can't go lower than 0%. Well, negative rates has been tried by the Japanese central bank, and most recently the ECB.

We may be sick, but those economies are halfway to the morgue. The patient isn't just in the ICU, the doctor is charging the hand paddles. Being in the hospital doesn't seem so bad in comparison. Our patient will limp along much like a partially paralyzed patient trying to learn to walk again. It is a LONG SLOW process.

Aside effect of higher interest rates is a stronger US dollar. Is a strong dollar good or bad for our economy? Yes. All economics are good for some people and bad for others. A strong dollar is great for consumers and travelers (using valuable dollars in exchange for Euro's and Yuan), but not so good for US based multi-nationals trying to sell their goods (to buyers using cheaper Euro's, Wan, and Yen) overseas. So go visit Europe, while it's cheap!



5850 Canoga Ave #315
Woodland Hills, CA 91367

Securities offered through Kovack Securities, Inc. Member FINRA/ SIPC. 6451 N. Federal Highway, Suite 1201, Ft. Lauderdale, FL 33308 (954) 782-4771. Doug Lagerstrom and Kumbie Mtunga offer Advisory services through Kovack Advisors, Inc. Private Wealth Solutions is not affiliated with Kovack Securities, Inc. or Kovack Advisors, Inc.

Volume 3, Issue 1

Inside this issue:

Tiptoeing	2
Resolutions	2
Managing Expectations	3
Quotes and Funnies	3
Client Corner	4
Political Picture	4