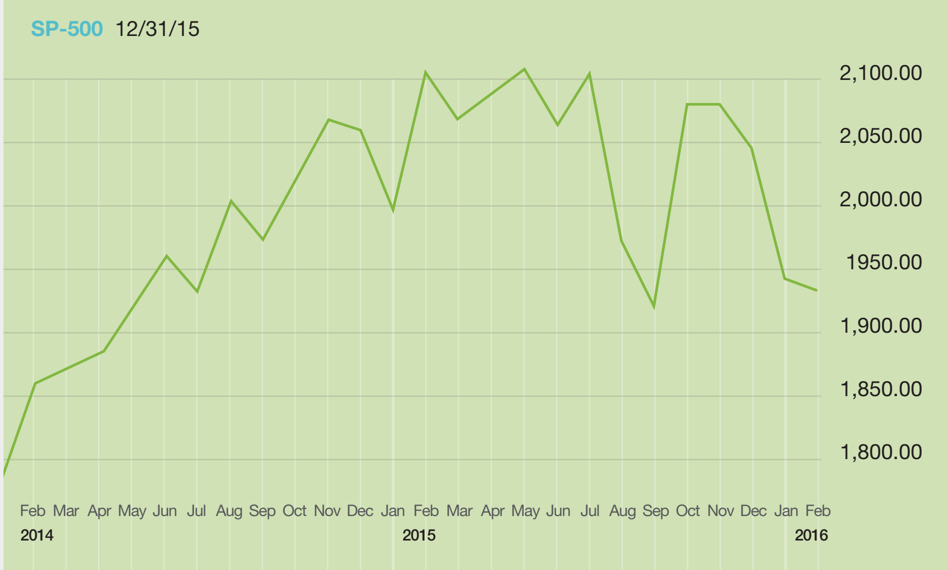
Q1 2016

Wealth, Happiness, Purpose

Investor Advice_

How to Approach a Volatile Market

Rhonda Ducote, *President*



When managing your wealth, it is important to have a prepared approach for volatile markets. By definition, volatility is a statistical measure of the dispersion of returns for a given security or market index. Volatility can be measured by the variance between returns from that same security or market index. The more volatile the security or index the riskier it usually is.

Last year, 2015 was a year of volatility for most market indices (S&P 500, DOW and Emerging and Developed International Markets). The S&P 500 ended the year up +1.38% and the DOW up +0.21%, although we had a -12% decline midyear.

Most investors ask the proverbial question, “How do I prepare and protect my portfolio from volatile markets?”

Here are some simple guidelines:

- Follow your investment plan. Don’t veer from the plan based on fear
- Look at your financial goals: income need/capital preservation/growth, risk tolerance and time horizon at least annually.
- Markets go up and down, some years worse than others. Don’t panic. Volatility can be your friend. Don’t try and time the markets.
- Asset Allocation and Diversification are key. Don’t make any one big bet. Quality and consistency of investments make a difference.
- Don’t listen to all the noise on the news and take emotion out of investing.
- Don’t look at your portfolio daily as fluctuations will occur.

Volatile markets usually end up being insignificant in the long run. They can be painful to watch, but are the best time to invest. Corrections will occur. ■

Source: www.investopedia.com, www.MarketWatch.com

Inside this issue

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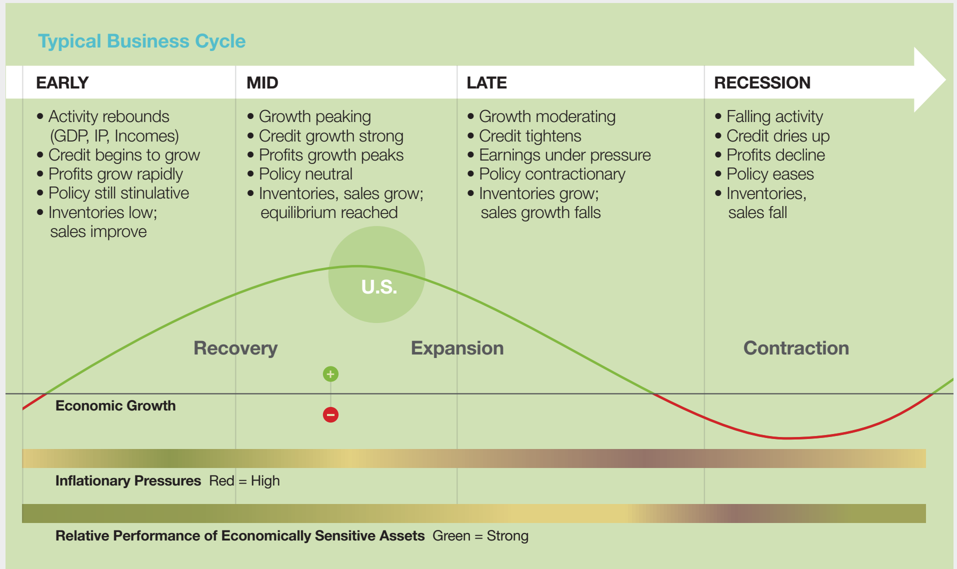
Market Update_

Economic Outlook for 2016

Benjamin Lau, *CFA®, Co-Chief Investment Officer/Principal*

Markets have given investors a surprise this year. After delivering strong performance over the past few years, markets around the world saw a selloff in the first two months of 2016. The selloff caught many investors, from large mutual managers to ordinary retail investors, off guard as we haven't seen such a big move down in a few years. All told, the S&P 500 is down about 6% from the highs set in May 2015 and down about 2% in 2016.

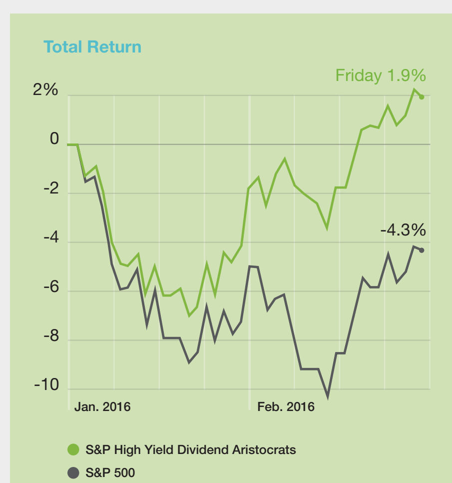


What has happened to our reliable market? For the past few years the market has acted quite calmly. We haven't seen a correction of this size in a few years. And now in less than six months, we've seen two 10% corrections. There are many culprits for this recent spat in volatility. Concerns are numerous. Worries about the slowdown in China, rising interest here in America, and (of course) the upcoming Presidential election. Also the dramatic decline in energy prices have added complexities to an already delicate situation.

While all these stories are important, we feel that they paint a bigger picture of a U.S. economy that is in transition as the business cycle matures. Six years into the recovery from the 2008-09 recession, the economy is now closer to the mid-late stage of the cycle. In this stage of the recovery, economic and corporate profit growth slows down from previously strong levels. Growth is still positive but at a slower pace than before. Credit conditions also tighten; banks are less generous with loan underwriting and covenants. When growth slows down, inventories start building up with unsold goods. And with a stronger economy expect monetary conditions to tighten; interest rates will start to normalize and move higher from previously low levels.

Well, how do we invest during this stage? Investors tend to pay less for growth companies when growth is slowing down. Growth companies that trade at high valuations are the most susceptible and tend to get marked down substantially. Given the uncertainty, investor favor business that tend to be more tried and true. Dividend payers in the utilities, telecommunication, and consumer staples sectors tend to garner more investment dollars. These sectors tend to have very stable growth but not the exciting growth that many investors were more interested in the earlier stages of the cycle.

So far this year, this type of strategy has paid off. Dividend paying companies have come back in style. After a long period of underperformance, high dividend payers have been performing quite well. Comparing the S&P 500 to it's sister index, the S&P High Yield Dividend Index, you can see there's been a sharp difference of performance this year. If the economy continues this path of a slowdown, we expect high quality, dividend payers to outperform the broad market.



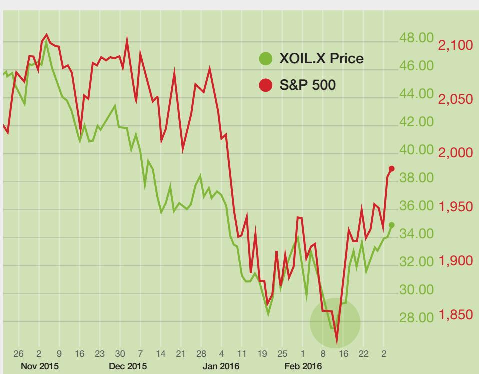
Source: Wall Street Journal and Fidelity Investments

As we enter this stage of the cycle, the obvious question arises, is there a recession looming? The mid to late stage of the cycle can last quite long. Current economic data in the manufacturing sector and interest rates support the scenario of a slower growth environment, but not a recession. Other data points indicate the same direction. Real time GDP analysis from the Federal Reserve Bank of Atlanta show, that the US economy is regaining steam and estimate the US GDP growth for the first quarter around 2%. That's almost double the growth seen in the last quarter of 2015. A far cry from the robust growth we've been used to, but strong enough to push back any immediate recession fears. All consistent with symptoms that we are in the late stage of the business cycle. ■

Stock Market and Oil

Landon Yoshida, *CRPC®, Wealth Manager*

Is the movement in the price of oil driving the United States stock market? In recent months, the price of crude oil (Green line) and the United States Stock market (Red line, represented by the S&P 500 Index) certainly seem to be tightly correlated.



As the price of oil continued its fall in November of 2015, the stock market started to trend lower. Crude oil started 2015 priced at $53.27 per barrel. The clues offered in the chart above show as oil goes, so moves the stock market. Oil prices found a bottom on February 11 of 2016 and at that time the stock market also reversed course. It has moved higher since. Will this continue? The market is telling us this will be the case for now, based on the last 4 months of data. ■

Backdoor Roth IRA Contributions

William Pugh

Many investors are enticed by the long term benefits of a Roth IRA. Unfortunately for those who do participate in an employer sponsored retirement account, such as a 401k, and earn a high annual income (over $116,000 for single filers and $183,000 if you are married, filing jointly), you are unable to make a Roth contribution.

Fortunately, there are ways around this. There are steps outlined below that can be taken, which would allow a high income earner to move after tax funds into their Roth IRA. This is only possible because there are currently no income limitations for those who are looking to convert to a Roth IRA.

Step 1 Determine whether or not there are other pre-tax IRA's

Step 2 If there is an existing pre-tax IRA, roll this account into a 401k (if available) to avoid the IRA aggregation rule. It is important to check whether or not the 401k allows for a rollover. You are also only able to roll over pre-tax funds.

Step 3 Contribute to a non-deductible IRA (You must have earned income for the year)

Step 4 Invest funds in the non-deductible IRA

Step 5 Keep invested (this is the step where you/CPA must be aware of the step transaction doctrine)

Step 6 Convert to a Roth IRA

A CPA should be consulted prior and along the way as there are important obstacles to be prepared for. Obstacles such as the IRA aggregation rule and the "Step transaction doctrine".

It is worth noting that this opportunity might not exist forever as the President recommended in early 2015 (as part of his budget cuts) that after tax funds in a retirement account be prevented from being converted to a Roth IRA. ■

By the Numbers

Index	YTD Return
S&P 500	▼ 2.66%
MSCI EAFE	▼ 6.07%
Bloomberg Comodity	▼ 1.10%
US Treasury Yields	
5 Year	1.22%
10 Year	1.74%
30 Year	2.61%

Yields = Treasury.gov
Information as of 2/29/16.

Don't Forget_

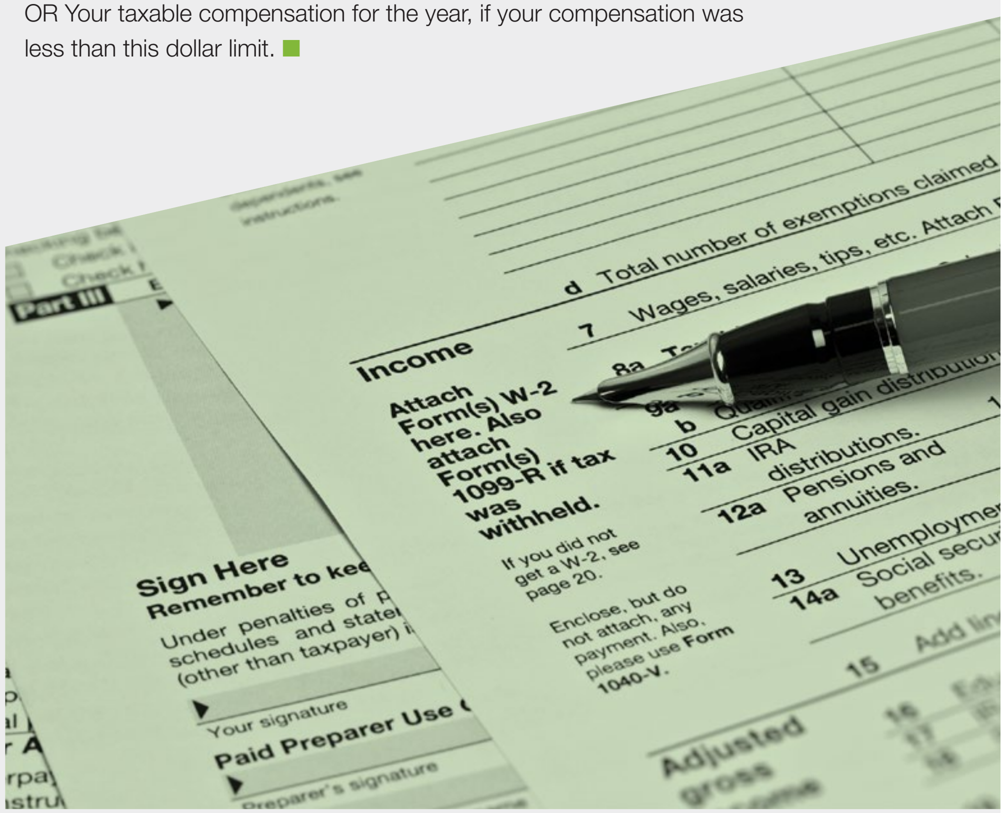
Tax Filing Deadline, April 15th

If you need any of your Schwab Tax Reports (1099's) please email or call our office.

Retirement Plan Contribution Deadline April 15th for SEP IRAs, Roth IRAs and Traditional IRAs.

Maximum Contributions for 2015:

- **SEP IRA:** $53,000 or your taxable compensation for the year, if your compensation was less than this dollar limit.
- **Traditional and Roth IRAs:** Not more than $5,500 ($6,500 if you're age 50 or older) OR Your taxable compensation for the year, if your compensation was less than this dollar limit. ■



WOW

Women of Wisdom Upcoming Events_

March 22, 2016 | 11:30-1:00 PM
Let's Talk Taxes

April 6, 2016 | 11:30-1:00 PM
Social Security Overview

April 28, 2016 | 11:30-1:00 PM
Financially Free

May 25, 2016 | 11:30-1:00 PM
Later is Too Late

Register at www.apriem.com or call the office.

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