THE MAIN ADVISORY

First Quarter 2016

Piecing It All Together

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Stop This Roller Coaster. Let me Off!!

> *"In a world of higher volatility, lower returns and economic uncertainty, we can expect acute market swings to continue."*
> Blackrock Investments 3/23/2016

It was interesting to receive this from Blackrock Investments in an email near quarter's end after investment markets managed to crawl their way back to nearly even on the year. So, what would prompt the statement?

There have been many themes and catalysts for market volatility in 2016. One might think the drama surrounding the Presidential election is a contributing factor, but, thus far, politics has not played into the uncertainty to any discernable degree. Pimco, a major investment company, recently reported its outlook and gave an overview of the first part of 2016. They titled their report, "Calmer C's Ahead? China, Commodities and Central Banks."

• Central Banks. Oh no…will this topic ever go away? The Federal Reserve Bank raised interest rates in December and investors did little more than yawn. For starters, this was already projected and baked into the markets, so it seemed. Suddenly, on the first day of trading in 2016 the debate began as to whether the economy would slow against the backdrop of rising rates. Moreover, there were four more rate hikes on the table for 2016. Markets tumbled.

While the Federal Reserve Bank is raising rates in the U.S., the European Central Bank is lowering rates. Not only are European rates going down, but they've gone negative, highlighting the fact that European economies continue to struggle. Instead of depositors receiving money on deposits, the central bank and some private banks will now charge a fee to keep funds on deposit. The theory is that negative rates will inspire folks to invest or spend, rather than save.

Janet Yellen, Federal Reserve Bank President, indicated she is not exploring the use of negative interest rates in the U.S. To the contrary, the four interest rate hikes anticipated in 2016 has now been reduced to two. This is definitely something to keep an eye on as rates continue to diverge across the globe. In addition, a stronger economy worthy of higher interest rates could translate into a stronger dollar and weaker profits from multi-national companies.

• China. China's growth, albeit still the strongest on the global front, has slowed to a target of 6.5% - 7% for 2016. Chinese exports plunged 25% in February, and imports declined for the 16th consecutive month. Not only does this say a great deal about China's state of affairs, but it speaks volumes about the rest of the global economy. Weakness persists worldwide.

According to a recent report published by Mauldin Economics, China is faced with "a decapitated banking industry, which has which has been far too willing to lend to all kinds of investment projects – good and bad." Like many countries around the world, China has experienced an incredible increase in outstanding credit. Credit expansion has risen from $3 trillion in 2006 to $34 trillion in 2015 (source: Hayman Capital Management, February 2016). Given the Chinese economy is $10 trillion, this leaves room for pause.

China must deal with the banking problems while at the same time changing the growth model from a manufactur-

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The Year of Change *(continued from Front Cover)*

ing economy and infrastructure building to a consumer driven economy. There isn't much room for error. Consumer confidence is down, and there is an asset flow out of China as signs of a depreciating currency ensues. China's problems migrated across continents and was certainly a contributor to market volatility in the first quarter.

• Commodities—Specifically Oil. The selloff in oil that was supposed to raise consumer confidence and contribute to extra spending power was overpowered by the staggering number of layoffs and closures in the oil and gas industry.

Oil prices fell mostly from an oversupply due to exploration and fracking in the U.S., Iranian supply coming to market and Saudi Arabia's refusal to cut production (mostly to spite Iran).

Oil revenues in Saudi Arabia constitute 90% of government revenues.

During the "go-go" boom worldwide, oil companies loaded up on debt giving little thought that oil prices would fall by 80%. As prices fell, debt burdens remained high, so the fear of defaults took rise. With memories of the consequences of the inability to pay mortgages in 2008 still branded on the psyche of investors, thoughts of a similar recurrence in the oil patch pushed bank stocks and energy stocks into retreat. Thankfully, an increase in prices back above the $40 per barrel level served to allay some of the fear. However, even $40 oil is not a recipe for long-term growth. Forecasts remain low for oil for the next 18-24 months.

Middle Eastern countries, along with Russia, fund their economies nearly exclusively from the production and sale of natural resources. According to the GeoPolitical writer, George Freedman, "the Saudi government currently provides free healthcare, free education, subsidized water and electricity, no income tax, paid-for public pensions, and nearly 90% of Saudis are employed by the government, often at higher wages than the private sector offers. Less than 20% of unemployed Saudis want a job in the private sector." As oil revenues declined, promises for social services remained high. How do they fill the gap?

Several foreign countries have Sovereign Wealth Funds (SWF) used to diversify holdings away from their concentrated revenue sources, i.e. oil. Many countries prefer to keep the investments in stocks and bonds that can be easily converted to cash. In January, as markets tumbled, reports of selling by the Sovereign Wealth Funds on a global basis filled the airwaves. Governments were selling to close the gap between revenue and promises.

Darla D. Main, CFP®

President and CEO of Main Advisory, Inc.

Volatility in oil prices can keep investment markets on edge for some time. There is a chain of consequences associated with the price of oil. An increase in price may inspire renewed production in the U.S., which can then serve to increase supply, which then may cause prices to fall. Low prices for a prolonged length of time can cause countries like Saudi Arabia to erupt with civil unrest. If the citizens become disenfranchised, civil upheaval can result. Investors don't like uncertainty, so oil may continue to fuel volatility.

WBI Investments wrote on March 18, 2016 that "494 companies in the S&P 500 that had reported earnings so far, sales growth is down 4.01% and earnings growth is down 7.58%, continuing a worrisome trend of falling revenues and earnings over the past year." The first quarter of 2016 marked the fifth consecutive quarter of declines. Despite these reported declines, the price/earnings multiples remains at historic high levels. Markets can continue to defy gravity for longer than anticipated oftentimes.

Against the backdrop of issues mentioned, and leaving out as many more, a well-diversified portfolio coupled with some caution could serve to soften some of the volatility likely to persist in coming months. Continuing to work closely with seasoned investment managers is important, too. As always, any feedback and comments is always appreciated. ■

Congratulations to our friend, John O'Leary, whose book, <u>ON FIRE</u>, made it to #1 on Amazon.

Buy, Buy, Buy!!!

The American economy is driven approximately 70% by consumer spending. We are born to shop.

For years, I've been following how demographic trends impacts spending and ultimately the stock markets. Harry Dent, is a demographic trend researcher. Harry has been around for a long while and, despite some of his forecasts having missed the mark, a great deal of his research has relevance. If we are willing to give the weatherman some slack, Harry should be extended some grace as well.

Thirty years ago, Harry, developed the concept of the Generational Spending Wave. He concluded that baby boomers would peak in their spending 46 years after they were born. After that, spending would slow. He forecasted that the peak spending year for the baby boomer generation would be 2007. Then, he projected a "demographic cliff". Given that the financial crisis occurred in 2008, Mr. Dent may have been on target with his projection.

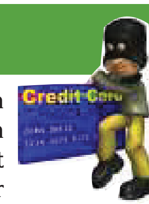
Recently, he updated his research and is describing the next wave of change that is occurring globally. He discovered that even though the majority of baby boomers did peak in their spending in 2007, the affluent continued spending. He claims the top 10% to 20% didn't peak until 2015, concluding the affluent, on average, attended school longer and started their families later. So, rather than peaking at age 46, they peaked in spending at age 54.

There are market indices that track nearly everything, so you'll not be surprised when I tell you there is an S&P Global Luxury Index comprised of 80 luxury retailers, cruise lines, etc. For a one year period ending March 29, 2016, the index is down 8.75% versus the broader S&P 500 that is up slightly at 0.99%. The latest earnings reports from the likes of Williams Sonoma, Tiffany & Company and Ralph Lauren were all down and share prices are off as much as 50% from their highs, seemingly playing right into Dent's theory.

Harry Dent recently wrote, "If the Fed thought it could fight the demographic decline and debt crisis since 2007 with endless QE and stimulus, I want to see them fight this trend. There's no way. Game over!" This has piqued my interest enough that I will definitely "stay tuned."

Investors cannot directly invest in an index.

Do You Need Identity Protection?



In today's world of identity theft and cybercrimes, I'm often asked about services offering identity protection. The most prominent that comes to mind is LifeLock.

LifeLock describes itself as an "identity theft protection" company that helps combat identity theft and also helps those who have already been defrauded. There are three tiers of service offerings with the most basic starting at $9.99 per month. The LifeLock Identity Alert System monitors your credit and sends alerts after new credit applications are filed. The Lost Wallet Protection assists in canceling and replacing payment cards if lost or stolen.

Does LifeLock live up to its promises? The Federal Trade Commission says NO. On July 21, 2015 the FTC filed a complaint in court saying that LifeLock violated a 2010 settlement made with the agency regarding deceptive advertising claims. The FTC claimed that LifeLock's promises of protecting consumers' information and alerting consumers "as soon as" there was any indication of fraud were false. LifeLock disagrees and continues to fight the allegations in court.

As with most things in life, personally being proactive rather than being reactive, LifeLock's mantra, could save many headaches from the outset.

You can request a credit freeze with the three credit reporting agencies, TransUnion, Equifax and Experian. A PIN will be provided and must be used every time you wish to open a new credit line in your name. This can also be done for children so that fraudulent credit applications may not be opened in their names, also.

For no cost, you can sign up for email or text notifications through your credit card issuer or bank that will alert you every time a charge is made. If you get an alert for a charge you didn't make, you can stop the fraud right away.

You have access to a free credit report from all three agencies annually. The LifeLock Advantage program ($219/year) offers one. These are free!

Opt out of preapproved credit offers and unsolicited mail at www.dmachoice.org. There is no cost to you. For opting out of prescreened credit card and insurance offerings, go to www.optoutprescreen.com.

Always carry copies of credit cards, front and back, while traveling abroad. Pick pockets are prevalent in most countries. It is important to notify the credit card companies right away upon discovering your wallet has been stolen. This is speaking from personal experience!

Last, check your homeowner's insurance policy to understand the protections for identity theft. These provisions have been evolving as cyber theft has become more pervasive.

STAFF NEWS

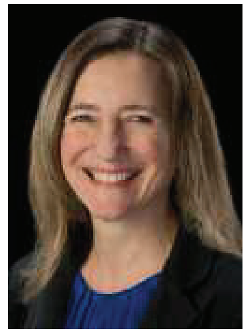
Darla Main - President, Main Advisory, Inc.

My favorite time of year is spring. The rebirth of plants and trees and the greening of the grass always brightens my outlook. Admittedly, this past winter was awesome. I tried remembering whether we shoveled the driveway even once. Hopefully, next winter won't dump extra snow onto us as payback.

The warm weather on Easter Sunday offered a perfect opportunity to hide five dozen eggs that were quickly discovered by Mac (4 ½), Elliot (2 ¾) and Mason (2 ¾). It was quite humorous watching their search strategies. Mac was like "Pac Man" filling his basket as quickly as possible. Mason's "follow through" shined as he insisted on making sure every egg (plastic) was together tightly before dropping it into his basket. And, then there was Elliot. Elliot seemed to look right past the eggs that were staring him in the eyes. Their methodologies were as diverse as their personalities.

There was too much commotion and too many surprises for any of the boys, except Micah (7 mos), to sit and eat the Easter ham. So, they likely had a snack before bedtime at their homes. We guessed they had a good time. Otherwise, there would not have been multiple protests when it came time to go home. Of course, the welcome mat is always out and there is almost always a new surprise activity, food, or game for the next visit. Sometimes, we even check "Momma's rules" at the door, especially when it comes to cookies.

Nancy Diel - Client Services



My kids keep me busy! They both are involved in their school musicals this year. My son, Jake is a junior in high school, and works the lights in stage crew. The musical this year was Curtains. The performance was wonderful! Jake will soon take a music trip to Chicago with the band/orchestra. He plays the standup base for orchestra. As soon as he returns, it will be time to sit for the SAT exams. Then, the college search is on.

My daughter, Abby is in middle school. They performed The Sound of Music. She had a small part on stage. Abby had a great time. She is also involved with a gymnastics team and keeps our calendar full with competitions. Recently, we have been to Columbia, MD, Flanders, NJ, and in May we are going to Ursinus College (near Philly) for meets. Her team qualified for Nationals which will be held in Tennessee in June. She also plays indoor and outdoor soccer, and started track as soon as the musical ended. My car gets a good workout!

There's an App for That!

One of my favorite things to do when traveling is to find charming little restaurants, pubs or coffee shops off the beaten path and away from the droves of tourists. In fact, we often ask the concierge to recommend places where the "locals" would hang out. Now, there is an app to aid in the search.

GLP—Great Little Place City Guide is available on iTunes and Google Play. The developers of GLP offer this overview "Everyone knows a great little place or two nearby – somewhere quirky with boat loads of charm. What if we got all those tip offs together and made the ultimate black book of hidden gems, everywhere?"

All the gems on GLP are real places that have been visited by real people. There is no "buying your way" onto the GLP app. In addition to descriptions of the recommended place, you will find beautiful photographs and even recommendations for favorite dishes, waiters, etc. You are able to track your favorite places and share your lists with friends. There are hidden gems in over 100 cities worldwide.

The app has caught the attention of Apple's Featured Best App, Wired magazine, Buzzfeed, The Guardian "Apps of the Week", Tech City News and even more. It gets a 5 out of 5 star rating.

Perhaps the best thing is that it is free and only takes seconds to download. This is definitely a keeper. I am already looking forward to trying it out on our next adventure.

We'd love for you to feature one or two of your favorite apps. Don't be shy. Drop us an email. ■