June 30, 2016

The overall US Equity Markets were up 4% for the 1st six months of 2016

Large Cap Stocks - +4%
Mid Cap Stocks - +9%
Small Cap Stocks - +2%

Foreign Stocks
Developed Economies (1%)
Emerging Markets - +6%

Fixed income interest rates continued to drift downward remaining at historically low levels.
Short/term rates - +0. 3%
Long Term rates - +1.5%

Real Estate was up 13% year-to-date

Commodities continued to improve and are now up 10% so far this year

The Investment Letter is mailed periodically to our clients and friends. This letter was prepared from material provided by Bob Veres, Morningstar, The Wall Street Journal, and other sources that we believe to be reliable).

1st Six Months 2016: Profitable, But Volatile

With all the notoriety of the "Brexit" vote in the UK, the dismal first few days of the year and increased volatility across the board, it sure feels like we're in a bear market.

The market results however are different story. So it may come as a surprise that the second quarter of 2016 earned positive returns for all but one of the U.S. market indexes, and all of the U.S. market indices have positive gains over the first half of the year.

US Equity Markets Summary

The Russell 3000 Index, one of the broadest measures of U.S. stocks, was up 2.6% for the quarter, and is now up 3.6% for the first half of the year.

Large Companies- The Russell 1000 large-cap index gained 2.5% in the second quarter of 2016, putting it at a positive 3.7% since the beginning of January. The widely-quoted S&P 500 index of large company stocks posted a gain of 2.50% in the second quarter, and is up 3.8% for the first half of 2016.

Midsize Companies - The Russell 1000 large-cap index gained 4.8% in the second quarter of 2016, putting it at a positive 8.9% since the beginning of January.

Small Companies- The Russell 2000 Small-Cap Index, gave investors a 3.8% return during the second quarter, up 2.2% so far this year. The technology-heavy Nasdaq Composite Index lost 0.56% for the quarter and is down 3.29% for the first half of 2016.

Foreign Equity Markets

The reporting surrounding the UK decision to opt out the EU has been so loud and so negative that you would think that the foreign markets are in free fall. But, the broad-based MSCI ACWI index of developed foreign economies only lost 0.6% in the second quarter of the year, and is now down 1.0% for the first half of the year. European Union stocks, however, lost 7.60% in the first half of 2016.

Emerging markets stocks of less developed countries, as represented by the MSCI EM index, gained 0.7% for the quarter, and are sitting on gains of 6.4% for the year so far

Commodities and Real Estate

Looking over the other investment categories, real estate investments, as measured by the S&P REIT index, was up 6.6% for the second quarter, with a gain of 13.3% for the year.

Commodities, as measured by the S&P GSCI index, are up 9.9% for the year so far. The biggest mover, unsurprisingly, is Intermediate Brent Crude Oil, which has risen more than 15% in price over the quarter.

Interest Rates

Meanwhile, interest rates have stayed low, once again confounding pundits, myself included, who have been expecting significant rate rises for more than half a decade now. Short-Term Treasury yields are stuck near the bottom of historical rates; 3-month notes yielded 0.3% at the end of the quarter. Long term rates (ten years) have a 1.5% annual coupon yield. Low, yes, but compared with rates abroad, these yields are positively generous. If you're buying the German Bund 10-year government securities, you're receiving a guaranteed -0.13% yield. The 5-year yield is actually worse: -0.57%. Japanese government bonds are also yielding -0.3% (2-year) to -0.23% (10-year).

Outlook – In The Shadow of Brexit

On the first day of July, the Dow, S&P 500 and Nasdaq indices were all higher than they were before the Brexit vote took investors by surprise, which suggests that, yet again, the people who let panic make their decisions lost money while those who kept their heads sailed through. There will be plenty of other opportunities for panic in a future where terrorism, a continuing mess in the Middle East, a refugee crisis in Europe and premature announcements of the demise of the European Union will deflect attention away from a sluggish but mildly positive economic story in the U.S.

How positive?
The American economy is on track to grow at a 2% rate this year, slow by historical standards, but probably sustainable.
The unemployment rate remains around 5% although this rate is misleading since many people are underemployed (low wages), and a sizable number of working-age men are no longer participating in the labor force.
Inflation is low: running around 1% this year.
Interest rates continue to stay at historically low levels.

This slow growth and low wage economy is better, for most of us, than recession and loss of jobs. Despite this modestly good news, market volatility continues to threaten gains made so far this year and questions remain about the future impact of the UK exiting the EU.

Will the European Union break up now that its second-largest economy has voted to exit? With active political movements in Eurozone countries agitating for an exit, it's possible that someday we'll view the UK as the first domino and if so, is that good news or bad news?

One thing we can count on is that we will continue to see dire headlines, if not about Brexit or the Middle East, then about China's debt situation and the Fed either deciding or not deciding to raise rates in the U.S. economy. Oil prices will probably bounce around unpredictably.

The remarkable thing to notice is that with all the wild headlines we've experienced so far, plus the worst start to the year in U.S. market history, the markets are up here in the U.S., and the economy is still growing.