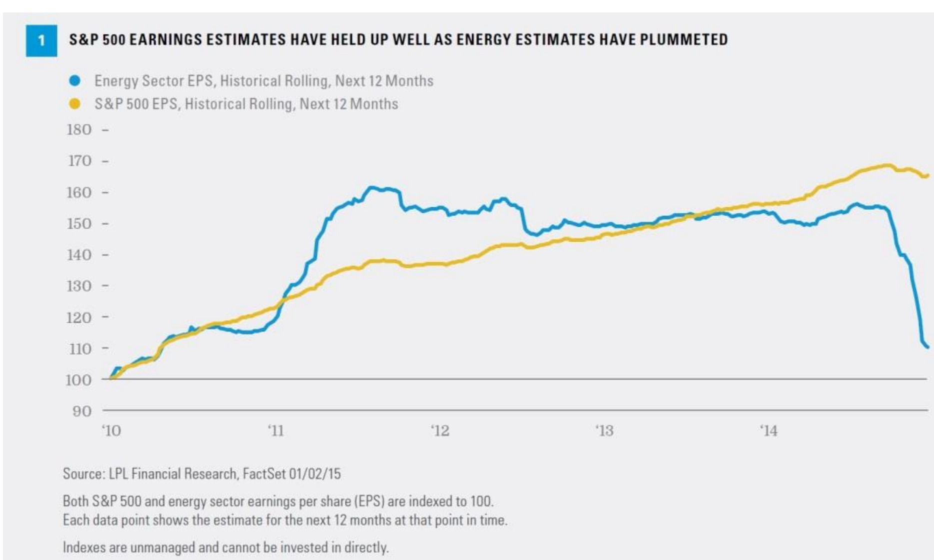
**Monthly Market Returns**

| Index | 1 – Month Return | Year to Date Return | 1 Year Return |
|---|---|---|---|
| S&P 500 | -4.98% | -4.98% | -4.14% |
| Russell 2000 | -8.58% | -8.58% | -13.62% |
| MSCI EAFE | -5.52% | -5.52% | -10.69% |
| Barclays Aggregate Bond | 1.24% | 1.24% | 0.19% |
| Brent Crude | -4.00% | -4.00% | -39.54% |
| Gold Spot Price | 5.02% | 5.02% | -8.23% |
| MSCI Emerging Markets | -6.52% | -6.52% | -22.80% |
| Morning Star Global Allocation | -2.77% | -2.77% | -7.40 |
| Morning Star Global Tactical | -2.68% | -2.68% | -10.88% |

As the monthly returns for major indices above indicate, we are off to a rocky start thus far in 2016. Bonds and gold are providing some measure of solace in what has otherwise been a difficult and volatile market thus far in 2016. While market volatility in the present tends to capture the most attention, there were a number of notable developments in capital markets that can help us in understanding where we're going from here.

Earnings are rolling in for the Fourth Quarter of 2015 with 63% of S&P companies having reported thus far. 70% have reported earnings above the mean estimate and 48% have reported sales above the mean estimate. Earnings declined for the quarter by 3.8% with the Energy sector being responsible for most of that figure. Six of the ten major sectors have seen earnings surprises to the upside including Materials, Health Care and Info Tech. Based on current market levels and current earnings expectations, the Forward P/E of the S&P is 15.4 which is neither expensive or cheap. The earnings picture highlights an economy that is not taking off but is also not fully contracting. This will likely cause volatility to persist in the weeks and months to come as the market seeks to establish a trend, either good or bad, for the direction of US corporate earnings. The impact of the Energy sector on the aggregate earnings data is illustrated well below:



2015 US GDP data came in at 2.4% which is essentially the annual rate at which the economy grew for the full year. This is neither robust nor is it considered stall speed. To underscore the "not too hot, not too cold" nature of our present economic growth, the pace of jobs growth slowed in January but was still enough to push the official, U3 unemployment rate to 4.9%. Average hourly earnings rose .5% in January and were up 2.5% for the full year, 2015. Again, this is neither robust nor is it indicative of an economy slipping into recession. It does however beg the question as to how the Fed will justify additional rate hikes in 2016 given the fact that the US is far from being an economy requiring a central bank to tap the brakes with higher rates. We continue to believe rates will be lower for longer providing opportunities in portions of the fixed income markets, materials and energy.

Speaking of central banks, Japan has followed in the footsteps of their European counterparts and actually instituted a negative interest rate of .1% on certain deposits in its banking system. This is how desperate the Japanese are to spur lending and get money invested into the economy. Japan and Europe both are caught in a quagmire of flagging economic growth and excessive debt levels made worse by demographic trends of aging populations. The US is more dynamic in its economic outlook but is also saddled with similar woes that cheap money cannot fix.

February will have us continuing to watch levels of support for the S&P which presently continue to hold with near term volatility continuing to be more likely than not. We will also be looking at minutes from the Fed for any shift in their rhetoric as it relates to rate hikes. By the way, there's a Presidential election this year which will become more meaningful as candidates are whittled down but we continue to look for clues as to how the market could be positioning and handicapping certain political outcomes. Those are not apparent to us today but they will likely emerge as the year progresses.

Until next month,

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