



No sugar coating it, 2016 is off to a rough start for investors. A tug of war between negative events in the global economy and a relatively benign domestic backdrop has created a heightened level of anxiety about future economic prospects. This has resulted in a pullback in stock prices that really began in the spring of 2015, but has recently taken on a more accelerated pace. As investors evaluate the numerous headwinds buffeting the economic landscape, prices are resetting to reflect the new uncertainty surrounding global growth.

Unfortunately, if there is one thing the market doesn't like, it is uncertainty, and we are certainly getting a heavy dose of it at the moment. China's economy is weakening after years of strong growth. The Federal Reserve has just begun to raise interest rates after years of more accommodative monetary policy. Energy and raw materials prices are plummeting. It's an election year, and are *any* of the candidates fit to be the next president of the United States?

So where are we now and what does all this mean? Below, I have listed several undeniable facts about current market conditions:

- A majority of markets around the world are down more than 20% from their peaks.
- The average stock in the U.S. is down over 25%
- The Russell 2000 index of small companies is down 25% and is at a 3 year low
- The Dow Transportation Average is down over 25%

At times like these the noise from the financial press grows louder every day. Everyone has an opinion and every now and then, these opinions turn out to be accurate. Not surprisingly, most of the time they prove to be reflections of the moment, steeped in emotion and woefully off the mark.

No question, the market is sending us a message that something is amiss. Recognizing that we, too, are not infallible in our analysis, we do believe that the severity and swiftness of the decline this year is suggesting that we are reaching a near term bottom in the selling. At the risk of oversimplifying, we believe that markets had been fully priced and are now repricing at lower levels to reflect higher levels of uncertainty. The Great Recession of 2008 is still fresh in everyone's mind and the fear of a repeat is likely contributing to some of the panic we are experiencing today. While the speed of the decline in prices has captured our attention, we suspect that we are most likely experiencing a growth scare and not the beginning of another 2008-like event.

Some clarity is on the way in the form of corporate earnings. This week marked the beginning of earnings season for the 4th quarter of 2015. Thus far, the news has generally been neutral to positive. The 4th quarter is ancient history to the stock market, however, and most attention will be paid to the company outlooks for 2016.

We will also be looking for any signs of stabilization coming out of China and the rest of the world. For better or for worse, we are a global economy, and it is extremely difficult for the U.S. to remain an island of strength in a world of growing instability.

On a constructive note, the current environment provides a great opportunity to truly assess one's tolerance for risk. Whether prices are moving higher or lower, stocks are inherently risky. The appropriate asset allocation is your best weapon to weather the storm of a bear market. Fixed income

reduces returns during bull market periods, but they provide ballast when equity prices are falling. Similarly, the decision to hold cash is a difficult one when stocks are moving higher, but it allows us to take advantage of lower prices and it also provides liquidity during turbulent times.

As advisors, we try not to be overly optimistic in good times or pessimistic in bad ones. Prices have a strange way of making investors feel that things can only get better or only get worse depending on how the wind is blowing on any given day. Stay focused on the long term. It is a cliché, but one we happen to believe is true. A long term focus, combined with the proper asset allocation is the best approach to navigate all markets and stay on course.

This is our general market summary. If you have any questions or concerns, or would like to speak with us in depth, please do not hesitate to give us a call, and we will be happy to set up a meeting.