



THADDEUS M. O'BRIEN, MBA
tobrien@soundviewfa.com

ROBERT J. BORONSKI, MBA, CFP®
bboronski@soundviewfa.com

Mid-Year 2016

Where We've Been

The U.S. Stock Market closed the first half of 2016 up 3.8%.¹ It was a bumpy ride. Investors seeking stability bid up prices in defensive areas: Utilities (+22%), Real Estate (+13%), and Consumer Staples (+12%). Riskier areas such as Technology and Biotech lagged badly.

Developed international markets fell -3.3% weighed down by the Brexit vote. Emerging markets did much better gaining 7.3% buoyed by rising energy prices.

Broad fixed income markets did well up 5.3%.² Long term Municipal bonds gained 4.3% while High Yield Corporates extended gains from the 1st quarter up 8.3% at the mid-year mark.³

Commodities prices overall moved up 12.9% as Energy increased 12.9% and Gold surged 26.1%.⁴

Where We Are

Last quarter's Earnings per Share (EPS) expectations declined in 9 of 10 equity sectors. Rising stock prices with falling EPS resulted in loftier valuations. The market's Price/Earnings (PE) at mid-year stood at 26.1 which is significantly higher than its historical average of 16.3.⁵

International stock markets sport lower valuations but also lower growth prospects in general.

Broad fixed income interest rates are at or near historical lows. The US Treasury 10-year note

recently fell to its lowest rate ever at 1.37%. German government bonds have a negative yield of -0.19%. A failed experiment to be sure.

Where We Are Going?

Analyst expect earnings and revenue to increase in the 2nd half of 2016. U.S. economic data generally supports that view. Consumer confidence just hit its highest level since last October. Rising personal incomes supported a 0.4% increase in consumer spending. Existing home sales increased 2.4% year over year with a surprisingly strong May report.

Risks are not hard to find especially overseas. Stock markets have been resilient in light of those risks.

Our diversified portfolios are participating in the selected markets our research points to: full weight U.S. stocks, large underweight International stocks, slight underweight Treasury & Corporate bonds with recent increase in High Yield bonds, significant hedge positions, underweight in Real Estate, and increasing weight in Precious Metals/Commodities.

As always, please contact us if you have questions about your specific portfolio account(s).

Sincerely,

Robert J. Boronski, MBA, CFP®

Thaddeus M. O'Brien, MBA

¹S&P 500, ²Barclays Capital Aggregate Bond, ³S&P National AMT-Free Muni, Markit iBoxx USD Liquid High Yield Index, ⁴Hays World Wrap 7/5/16, ⁵Normalized 10-year trailing real earnings (popularized by Robert Shiller, Yale)