Market Review and Outlook—March 4, 2016

The Roller Coaster Continues, Painfully All nine stock sectors listed below have 3– and 12-month losses. Nonetheless, the balanced Moderate Allocation approach has outperformed bonds for the past 3, 5, and 10 years, and this is why we advise that investors take a long-term, balanced approach to investing. Such a long-term approach requires patience and discipline, and putting up with short-term, paper losses.

The global price of oil has plummeted over the past two years, dragging down most stock markets with it. Despite making up less than 7% of the S&P 500, the Energy sector has produced losses in the past year that have kept the S&P from maintaining the upward trajectory it has enjoyed since 2009. This 'monopolizing' of the S&P occurs periodically, in 2008 by the financial sector, and by the technology sector in the late 1990s (and in 2000). The key point is that oil will stabilize at some point (it now trades at where it was in early January), and **an S&P recovery doesn't need the energy sector to become profitable**, but to just stop losing money. If/when oil prices actually climb, the S&P will have a tailwind.

In the meantime, the stock market losses shown below have produced **attractive stock prices**. The S&P 500 yields 2½%, well ahead of 10-year treasuries which yield only 1¾%. JP Morgan presents six 'valuation measures,' and every one of them shows that US stock prices are cheaper than their 25-year average. Foreign stocks are similarly cheaper than average, and emerging market stocks are sharply cheaper.

The current theme for bonds is "**Lower for Longer**"; interest rates are expected to take longer than we expected to return to 'normal levels.' It is interesting that the last time the Fed rate was very low was in 2004. The Fed boosted the Fed rate by over 4% in 17 steps over two years. During this time, the S&P 500 returned +12% (annually, without dividends), while at the same time bond investors were lucky to earn their interest without price declines. Quality bonds hold up when fear rises, as you can see in the 3-month figures, below. Opportunity bonds should fare much better than quality bonds when fear subsides, given their low prices and higher yield. This is the reason that we couple the two together.

Any time the markets move sharply, up or down, **you should rebalance**. If stocks have risen sharply, it is good to seal in some gains. If stocks have fallen, as is the case now, we have a good opportunity to buy stocks on sale. While there are many figures in red below, long-term investors should see green.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.00%	+0.01%	+0.01%	+0.01%	+1.26%
Intermediate Term Bond	+0.59%	-0.32%	+1.51%	+3.28%	+4.27%
Intermediate Muni Bond	+1.74%	+3.00%	+2.49%	+4.62%	+3.88%
Large-Cap Stock	-7.62%	-9.10%	+8.67%	+8.28%	+5.48%
Mid-Cap Stock	-8.87%	-12.71%	+6.77%	+6.63%	+5.42%
Small-Cap Stock	-11.39%	-13.55%	+5.27%	+5.62%	+4.77%
Foreign Large-Cap Stock	-9.97%	-14.93%	-0.18%	+0.02%	+1.26%
Foreign Small/Mid Cap Stock	-8.09%	-9.28%	+2.91%	+3.33%	+3.20%
Diversified Emerging Markets	-8.77%	-21.51%	-8.05%	-4.95%	+1.48%
Technology	-10.93%	-8.83%	+11.83%	+7.14%	+6.76%
Real Estate	-3.30%	-5.10%	+7.04%	+8.41%	+5.23%
Natural Resources	-12.07%	-27.67%	-10.69%	-8.70%	-1.34%
Moderate Allocation (60% stocks)	-5.37%	-7.87%	+4.35%	+4.96%	+4.58%

The data in this table comes from Morningstar and is as of February 29, 2016

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