Market Overview Update

Markets in Flux – Data is mixed, neither good or bad

Recent volatility has reminded us that markets behave "in animal spirts" in the short term. The S&P 500 fell more than 10% last August and again early this year, only to regain most of its value in a matter of weeks both times. With a wild first quarter behind us we can surely say we managed to curb our portfolios from the most recent market volatility quite well. As the current data stands, we might not be out of the woods just quite yet. Oil prices that were part of the fear contagion in January have since stabilized but geo-political factors remain uncertain. This is a reason for us to keep an overall moderately defensive posture for the near term.

What explains the stock market's wild ride thus far this year? The answer: fear. Fear of recession, fear of global slowdown – especially in China, fear of the ramifications of oil falling to the mid 20's per barrel, fear of the possible outcomes in the presidential elections, fear etc. On Jan. 12, the Royal Bank of Scotland warned of a "cataclysmic'" year and advised clients to "sell everything" ahead of the crash. Since their sell-everything call, the S&P 500 is up by about 12%.

Treasury Yields – Inflation

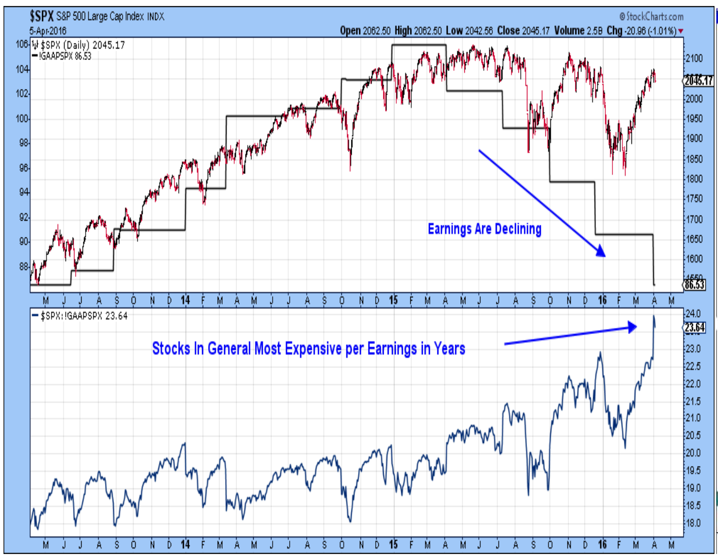
The Treasury market is signaling inflation expectations are rising. One metric we monitor shows the market anticipates price increases will reach Federal Reserve Chair Janet Yellen's 2 percent target.

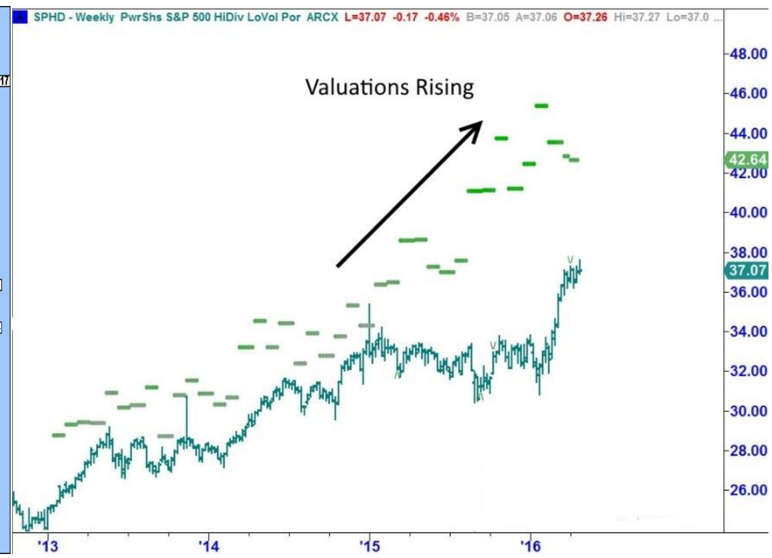
The difference between yields on one-year U.S. government securities and same-maturity Treasury Inflation Protected Securities, a gauge of expectations for consumer prices over the life of the debt, climbed to as high as 2.11 percentage points Tuesday. That was the highest in two years.

This is something we are watching very closely because it affects how we will tactically allocate to different durations of the bond market. With the current wobbly global economic growth coupled with slumping oil prices and fears from a hard landing in China, this has lowered the markets expectations for substantial rate hikes by the FED beyond what is currently planned. Our data suggests that if the economy does start to slow down this could support treasury prices. Our shift from high yields to high grade corporate bonds is also a strategy to take advantage of the forecasted low inflationary environment and potential US economic slowdown.

Stocks - Earning Quality and Risk Management

In the last few months there have been many questions regarding our overall position in stocks. Since we reallocated in April to the SPHD in place of the PowerDividend Fund, I wanted to share a few points on why we made this tactical reallocation and why we still have a very defensive cash position currently. As showed in last month's newsletter as more and more companies report earnings its becoming very clear that overall stock valuations are falling despite the impressive rally we have seen since the February lows.

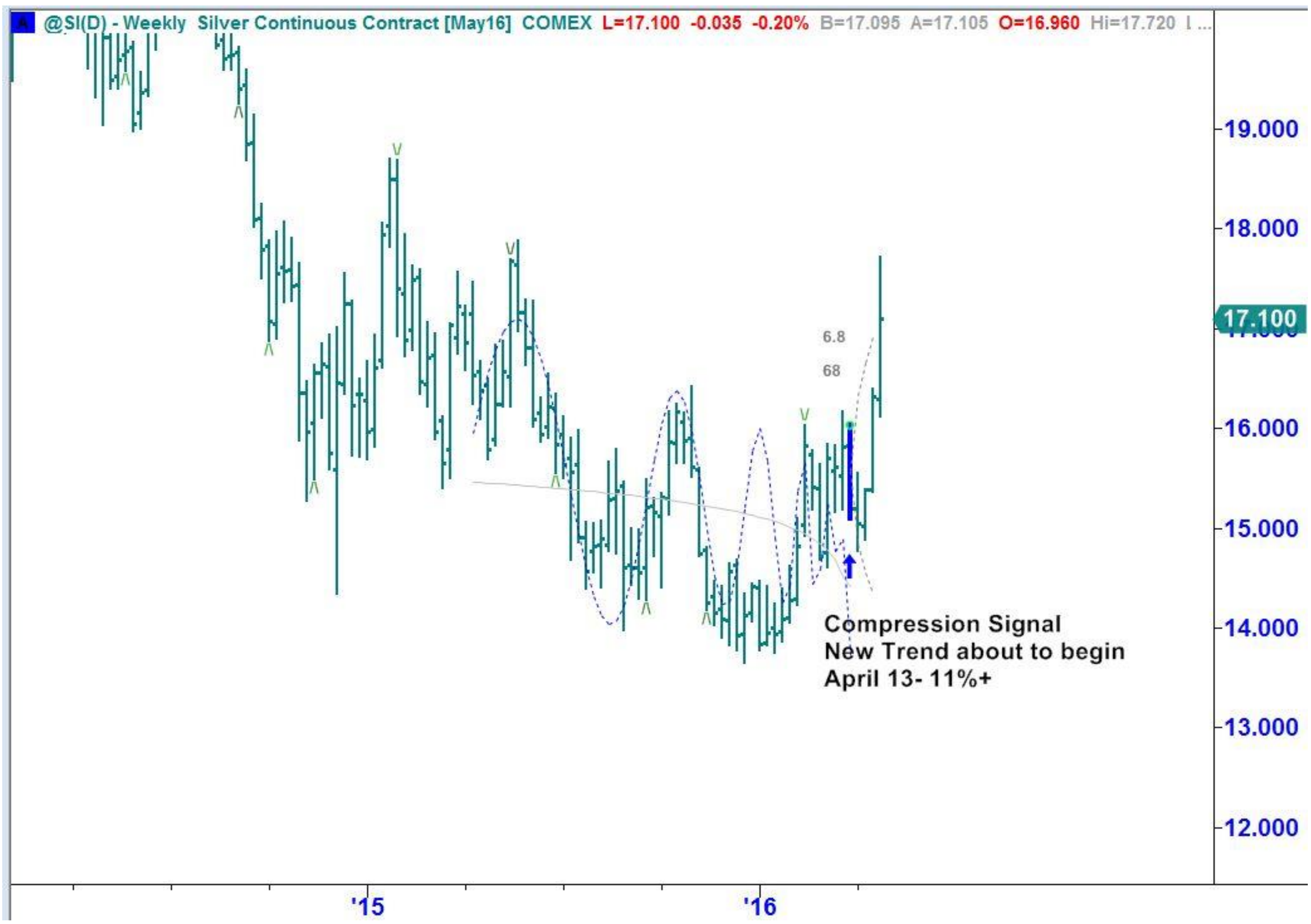




Some of you whom follow the markets with us notice that when we re-entered back into the market (SPHD – SP500 High Dividend Low Volatility ETF) because our risk management system signaled it was safe to do so in a moderate amount. It was also noticed that we bought "at the high" vs "at the lows" in January. Yes that may be true, but as you will come to learn in our Speakers Bureaus price is only one element of how our investment model and risk management operates. Another major factor that our model uses is valuations. With the mixed economic landscape, it is very clear that we need to be very prudent in our equity holdings. Our aim with the switch to SPHD was to keep our High Dividend strategy but also to help with keeping our overall portfolio volatility minimized. As you can see in the graph on the right the green hash marks represent the valuations of all the stocks collectively in this SPHD ETF. The fact that they are steadily rising even while the entire stock markets earnings are falling tells us that the stocks in this ETF represent quality. Meaning despite the mixed economic data and recent landscape these stocks are still showing strong earnings and rising valuations. We intend on staying with SPHD as part of our core equity exposure as long as the model allows us to do so.

Gold and Silver

Part of portfolio strategy is to evaluate not only the US economic landscape but the global one as well. One current headwind in this market is the effect of negative interest rates on the US Dollar and on US Interest Rates. There are more global government bonds yielding negative rates than ever in history. The effects of this long term are largely unknown, but what is known is that when rates do become negative it becomes a large “currency risk” and typically is very strong supporting environment for precious metals and hard asset commodities. This is mainly because with negative interest rates, countries are essentially trying to debase their local currencies through very drastic efforts of “quantitative easing”. Any holders of these negative interest bonds have no choice but to pursue flight of their capital to places where they can protect from the taxing effect of those negative rates while still keeping some form of safety. Gold and Silver provide some of that safe haven. While you all know we are not the sort to ever say “put all your money in gold and bury it in the back yard” it is very clear to us that a moderate exposure of this asset class will help if future volatility of the US dollar and other developed currencies starts to unravel. We intend on keeping our allocation percentage very modest and if we see an opportune time to profit will most definitely do so. We have since been very pleased with our decision to make this allocation because SLV has already seen a gain of almost 7%.



Economy & Outlook for the Rest of the Year

It cannot be ruled out that the stock market could eventually break out to new highs this year– but its long term returns are still going to be valuation-dependent. In the short term, there remains the fact that while some indexes are close to their previous highs and internals have strengthened, other indexes continue to diverge noticeably and overall earnings of US companies are starting to slow.

We are fully confident that in today's near zero interest rate world there can be much higher risks than commonly perceived and if there becomes suddenly an overvalued market it can be highly vulnerable to a change in perceptions. If the Fed raises rates to quickly while central banks keep lower or negative interest rates this could increase the risk of capital outflow from those countries to the US, causing a major decline in those countries stock markets, which can spill over to ours. This is the currency risk to Stock Market domino effect that our small position in precious metals is aimed to hedge down the road.

We remain cautiously optimistic to how the rest of the year will unfold for stocks. Typically in election years it often yields positive seasonal returns from about mid-summer on forward till January . Only time will tell. Our long term forecast still remains flat to down through 2018, but that does not mean we can't see some modest gains in the meantime. In order to do that we have to remain with quality and be careful not to chase returns just for the sake of doing so.

We stand firm on protecting capital first, diversity where we can and only take calculated risks when we can clearly see the opportunity is safe to do so. There is little evidence to suggest moving away from our cautionary allocation for now.

View Across the Landscape : Peer Group Performance

From time to time it's important for us to take a look at how we are performing versus our peer group and versus the industry as a whole. And as we do this it's very important to measure apples with apples, as opposed to apples and oranges. Our specific model types in comparison would be in what Morningstar as labeled "allocation funds" where we are a blend of some % of bonds and some % of stocks. We wanted to share the performance of the top 3 mostly widely held growth funds in 401ks and IRAs in America to demonstrate how difficult the investment landscape has been. **Source :** https://www.google.com/finance

Fund	1 Year Return (as of April 28th)
American Funds Growth (AGTHX)	**-10.74%**
Fidelity® Growth & Income Portfolio (FGRIX)	**-6.1%**
Pioneer - Balanced Fund Class (PIDCX)	**-15.01%**

To be fair we also wanted to show the average performance of all the thousands of funds in our peer group as well. Keep in mind to achieve this average you would have had to purchase equal amounts of each fund as well. Below is what as of April 28th Morningstar has reported as the average return past 1 year for our like- kind peer group. **Source :** http://news.morningstar.com/fund-category-returns/

Allocation Funds	1 Year(Return%)
Allocation –50:70% Equity	**-4.16%**
Allocation : 70:80% Equity	**-6.29%**

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Closing Thoughts

As we visit going forward I am asking that you help me to do something that is very important to me. Without a doubt you have read on our letterhead “Enabling others to have a life they otherwise would not have had”. This is important and in fact the very reason I opened my practice 12 years ago.

I am currently writing a book with a tentative title of “How To Have The Life You’ve Yet To Dream”. I had what some may consider a difficult childhood but I learned much from it. As I reflect back on each day, it occurred to me that I should use the same tools I share in the book with all of my clients. In this way I will be positioned to do a better job.

The first step in having the life you have yet to live is to start at the end. Each day I do this. I imagine I am at the last four hours of my life. What at this time is most important to have occurred in my life. I came upon this notion years ago and I have found it to be immeasurably helpful. In quiet moments consider just this. It is very important that none of us wish to get to that point in our lives and be met with “could have, should have or would have”.

Each of us may have different ideas or goals, there is no right or wrong. This is about you and what matters to you. For me, I came up with only three things that are most important to have occurred. To be the spouse that I would have liked to have had. To be the parent that I would have liked to have had. I thought about those two, I thought about my young life and some of the bad things that occurred. I then realized there is a third thing that is most important to me. I want to have enabled others to have a life they would not have other had.

Yes I take this to the office each day. However it doesn’t stop there. I find ways throughout the day to help others. It is to be very courteous and friendly to the clerk at the store. I make it part of my “mojo”. If you will help me to help you we will both benefit. Let’s discuss more about what is important to you and your family as we continue to visit.

Sincerely,

John Neyland

John Neyland

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