JJ BURNS

2016: 1st Quarter Summary

"When I was a kid I got no respect. When I went on the roller coaster, my old man told me to stand up straight." ***Comedian Rodney Dangerfield***

The first quarter of 2016 gave investors a jaw-dropping ride that reminded us of a rollercoaster. Stocks, U.S REITS and oil fell into correction territory during the first six weeks of the new year through February 11, only to sharply rebound for the next six weeks to the quarter's end. A rollercoaster ride is a great analogy for many things in life, including the markets, but we do not offer the same advice to our clients as Rodney Dangerfield's dad. The thrill ride will be our guide this quarter.

Concerns about oil's continuing slide, slowing global growth and a misreading of China news contributed to the year's rocky start. Recession fears, some of which were promoted by leading market pundits, rose to an almost fever pitch. This pushed risk assets to sell off sharply; then, just as crisis fears were peaking, a relative bottom formed and the market rebounded. Here's a return summary of the quarter:

Index	DECLINE 12/31/15 to 2/11/16	REBOUND 2/11/16 to 3/31/16	YTD 2016
Fixed Income			
Barclays US HY 2% Issuer Cap TR	<5.16%>	8.97%	3.35%
Barclays Municipal TR	1.94%	<0.26%>	1.67%
Barclays Global Aggregate TR [Hedged]	2.12%	1.13%	3.28%
Barclays US Agg Bond TR	2.25%	0.76%	3.03%
U.S. Equities			
Russell 1000 TR [Large-cap Stocks]	<10.91%>	13.56%	1.17%
Russell 2000 TR [Small-cap Stocks]	<15.93%>	17.14%	<1.52%>
S&P 500 TR	<10.27%>	12.95%	1.35%
International Equities			
MSCI ACWI Ex USA NR [All Stocks]	<11.96%>	13.16%	<0.38%>
MSCI EAFE NR [Developed Markets]	<12.78%>	11.21%	<3.01%>
MSCI EM NR [Emerging Markets]	<10.15%>	17.65%	5.71%
Real Assets			
Morningstar US Real Asset Index TR	<3.26%>	5.63%	2.19%
Bloomberg Commodity TR	<5.83%>	6.63%	0.42%
S&P GSCI Crude Oil Spot	<22.17%>	32.99%	3.51%
S&P United States REIT TR	<10.19%>	18.37%	6.32%
S&P Global Ex US REIT TR	<3.27%>	12.50%	8.82%

Source: Morningstar, Inc. All data are USD total returns with dividends and interest.

As we've been writing for a while, the global markets are processing a lot of new data; uncertainty, the market's enemy, is very high this late in the recovery cycle from the Financial Crisis. One pundit has described the market's focus areas as the 'Three Cs': commodities, China and central banks. Let's look briefly at each:

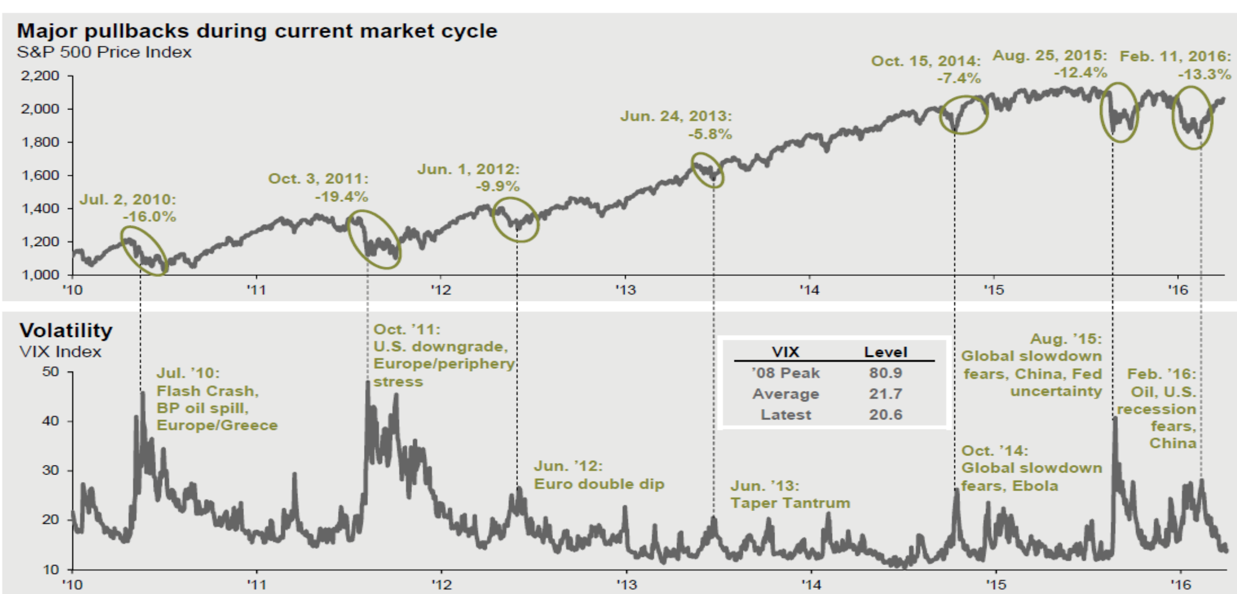
1. Commodities of all types – industrial metals, precious metals, oil – have been buffeted by a number of factors, primarily slowing global growth and an oil war with OPEC producers. Signs of a bottom for oil, a weakening in the U.S. dollar and more stability from China (which affects other emerging countries) have helped form better growth expectations. Although there is a time lag for low commodity prices and their effect on growth, lower prices are generally stimulative.

2. China's economic transition is going to progress in fits and starts for years. The shocking news that the apparent strength investors perceived in the growth story was perhaps misplaced shouldn't be a surprise; sadly, the knock-on effects, especially with respect to emerging markets, have been sharp. It's too early to give up on this story, but many emerging markets – including China – are now on their own rollercoaster ride.

3. Central banks, with the exception of the U.S. Fed, have been moving more aggressively to stimulative policies. These include something scarily known as NIRP, or 'negative interest-rate policy.' In essence uncharted waters for policy-makers, NIRP should prove stimulative and drive investors to risk assets, especially stocks.

"Life is a rollercoaster; you have your ups and downs, unless you fall off." ***Author John Updike***

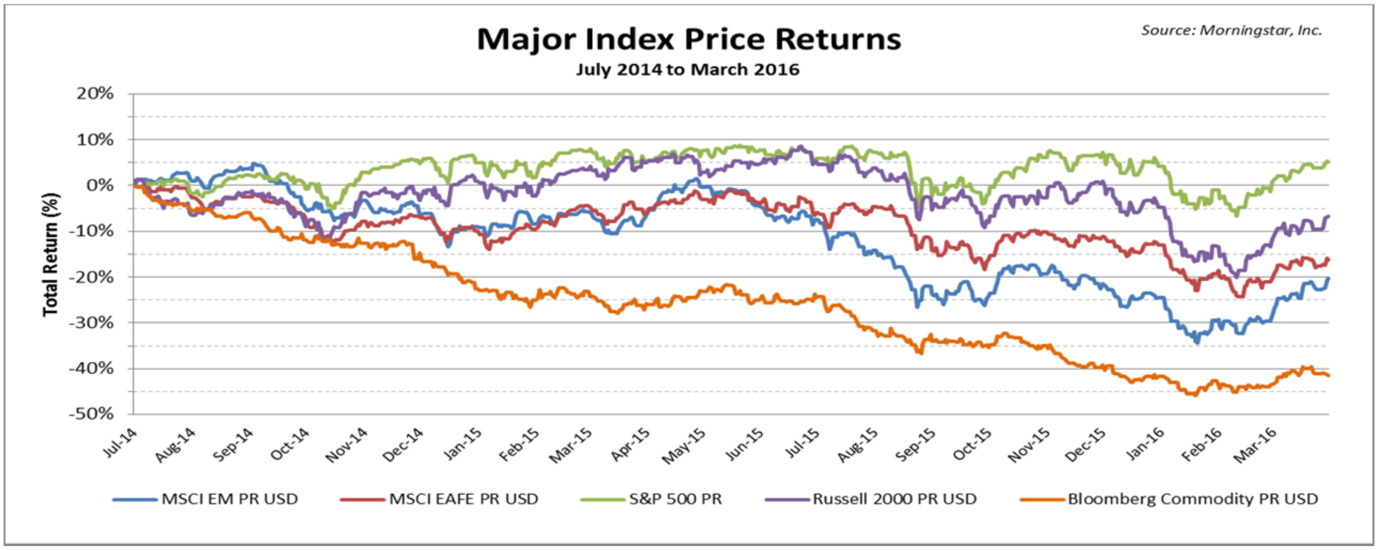
The graph below demonstrates the return and volatility history of the S&P 500 price index and the VIX index during the post-crisis recovery. The market has had three drawdowns in 20 months, two qualifying as corrections (more than a 10 % decline). Normal volatility has returned after a long three-year period of low volatility, mild pullbacks and steadily rising returns.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) CBOE.
Guide to the Markets – U.S. Data are as of March 31, 2016.

“Many traders ride an emotional roller coaster and miss the essential element of winning: the management of their emotions.” ***Professional trader Alexander Elder***

It has been, without question, a challenging time for equity and commodity markets since the summer of 2014. As this graph shows, diversified investors have been riding up and down on the rollercoaster with little time to catch their breath. The returns from various hedge-fund and strategist portfolios indicate that trying to ‘time’ trades through this period has been largely futile; portfolio insurance, in the form of liquid alternatives, hasn’t really helped either. One fact to keep in mind is that a roller coaster ride is *supposed* to be bumpy.



“Stay in your seat come times of trouble. It’s only people who jump off the roller coaster who get hurt.” ***Broadcaster Paul Harvey***

Our thinking is that U.S. recession fears are overstated, and the economy will continue to grow at a steady but low rate. We are still modestly bullish on global stocks, think U.S. rates will stay lower for longer, expect the dollar to stabilize or weaken slightly, and expect global growth to be low but positive. The trickle-down effects of these events will help all regions and most asset classes, with a caveat that we’ll be going through sections of the rollercoaster that may cause your stomach to flip.

We take a long term approach to planning and investing. When we create your financial plan, we consider a variety of circumstances and strategize for a number of possible outcomes. Periodically, some changes to the plan are needed to stay on track. During the recent bout of market volatility, we took advantage of market weakness and rebalanced accounts and made other adjustments as necessary. While these changes may not bear fruit right away, we expect them to benefit us in the future. Finally, we believe in capitalism, the virtue of patience and letting time work its compounding magic. Often good news – especially about the U.S. economy – is ignored to focus on everything that MIGHT go wrong. We’re optimistic about the future, with the caveat that some hairpin turns or ‘zero gravity’ rollercoaster moments may be on the course ahead.

If you’d like to discuss your plan and consider some changes in light of the ride ahead, please call us.

As always, we welcome your comments, questions and feedback.

-Your Wealth Management Team at JJ Burns & Company

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Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 S&P data provided by Standard & Poor's Index Services Group. Barclays data provided by Barclays Bank PLC. Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value indexwide on a pro rata basis. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Barclays' FX hedging methodology takes rolling one-month forward contracts that are reset at the end of each month and hedges each non-reporting currency-denominated bond in the index into the reporting currency terms. No adjustment is made to the hedge during the month to account for price movements of constituent securities in the returns universe of the index. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The Standard & Poor's 500, often abbreviated as the S&P 500 is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI™ Crude Oil Spot index is based on the three GSCI indices that are published: excess return, total return and spot. The excess return index measures the returns accrued from investing in uncollateralized nearby commodity futures, the total return index measures the returns accrued from investing in fully-collateralized nearby commodity futures, and the spot index measures the level of nearby commodity prices.

The MSCI ACWI index captures large and mid-cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.