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*"We have met the enemy and he is us" – 1970 Earth Day Poster*

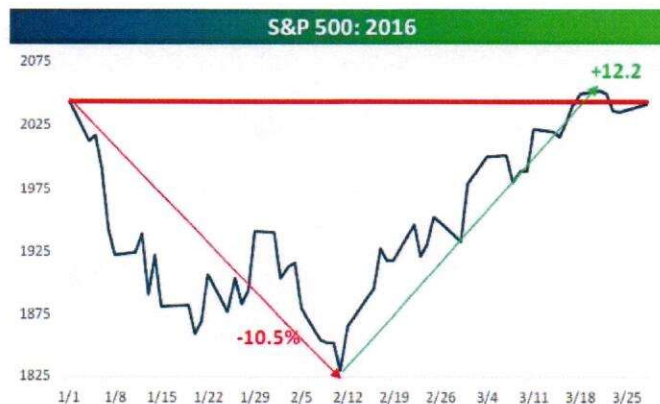
Dear Clients and Friends,

It is the time of the year again when our firm is required to send out several disclosure documents for your review. Please know that these documents are for your benefit and we are required to make them available to you each year. Accordingly, please find the following items enclosed in this reporting package:

1. Your quarterly portfolio report as of March 31, 2016
2. Annual Offer Letter of our Form ADV
3. Our Privacy Policy
4. State of New Jersey Disclosure Document

Now that we have completed our housekeeping items, let us look back at the First Quarter of 2016. To say that it was a wild ride would be something of a gross understatement. The markets were beaten down almost immediately when trading opened in January. As we previously discussed in our 2015 year-end letter, falling oil prices, rising interest rates, slowing growth in China and a possible U.S. recession were spooking investors and creating fear in the markets. Investors were bailing out of stocks during January and February at a furious pace and seeking the apparent safety of cash and fixed income regardless of paltry yields.

By the second week of February, the S&P 500 was down over 10% and the Russell 2000 Small Cap Index was down 16%. Then, just as fear was overcoming the market, the markets reversed and rocketed upward, leaving those with short positions in a panic and those who moved into cash wishing that they had remained invested. As you can see from the chart below, the S&P 500 more than recouped its losses by the end of March and finished the quarter up 1.3%. The Russell 2000 recovered even more and finished the quarter down by only 1.5%.



What then caused such a rapid recovery in the markets? Surely it was a myriad of reasons, but it was primarily driven by a series of improved economic news reports, oil bottoming at $26 per barrel and appreciating 50% to $41. In March, the European Central Bank (ECB) promised additional stimulus and Fed indicated that there would be no further rush to increase interest rates. Normalcy has seemed to be restored in the markets as we sit here in late April.

This recent fast and furious roundtrip that markets took reinforces the difficultly of trying to time the markets by deciding when to get out and when to get back in. There was no bell that rang on February 11th of this year, signaling that the markets had bottomed and were about to rapidly appreciate. The quote mentioned at the beginning of this letter certainly describes the behavior of many investors, including professional money managers.

An interesting study conducted by Fidelity Investments of prominent mutual fund investor, Peter Lynch, reinforces this notion of how we can become our own worst enemies in the management of portfolios. Lynch managed the Fidelity Magellan fund from 1977 – 1990 and amassed an amazing 29.2% average annualized return over this time period. In other words, an initial investment of $10,000 would have turned into $279,520 at the end of that 13 year period. Yet, the study determined that the average investor who owned the fund during that time period actually lost money. How could this have happened? Simply, most investors bought at the wrong time and sold at the wrong time versus holding onto to their investment through good and bad markets.

We take this information to heart and remind ourselves and our clients that investing is much more akin to a marathon than a sprint. Up, down and sideways markets are a certainty in the future. Without some volatility, opportunity cannot exist.

We along with our boutique managers attempt to take advantage of these dramatic periods by investing when others are fearful and taking money off the table when others are greedy. The bulk of our managers took the opportunities presented to them in January and February to buy great stocks that others were selling. Our portfolios held up well during the downturn and are now benefitting from the upturn in the markets. Had we and our clients panicked and moved into cash, significant gains would have been missed. As tempting as may be to jump in and out of markets when fear arises, we remain mindful of history and steadfast in being disciplined investors.

As always, we thank you for your continued support and confidence and we look forward to writing in the summer. Meanwhile, please feel free to contact us anytime with questions or comments.

Best regards,

Bob

Robert W. Joel, CFP
Chief Investment Officer
Salvus Wealth Management