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First Quarter 2016 Review *4/1/2016*

- **Stocks: mixed, rebounded from substantial early quarter decline**; S&P 500: +1.3% in Q1.
- **Treasuries: rallied as yields declined globally**; 10 Year Yield: 1.79% vs 2.27% at year-end.
- **Corporate Bonds: big recovery gains**; slightly outperformed Treasuries.
- **High-Yield Bonds: solid gains following two negative quarters**.
- **U.S. Real GDP: +1.4% in Q4** (annualized) from +2.0%, +3.9% and +0.6% in the prior three Q's, respectively.

	% Below		Average Annual % Returns					Income
Benchmark Index Fund	**1 yr High**	YTD %	12 Mos	3 Yrs	5 Yrs	10 Yrs	15 Yrs	**Yield %**
Vanguard Short-Term Treasury Bond	0.1	1.2	1.2	0.7	1.1	2.7	3.0	0.7
Vanguard Interm-Term Treasury Bond	0.5	3.4	3.1	1.9	3.7	5.1	5.0	1.3
Vanguard Interm-Term Investment Grade Bond	1.1	3.6	2.9	3.1	5.1	5.9	5.8	2.7
Vanguard High-Yield Bond	7.5	2.3	-1.0	2.8	5.6	6.2		5.7
Vanguard 500 Stock	3.6	1.3	1.7	11.7	11.4	6.9	5.9	2.2
Vanguard Small-Cap Stock	11.1	1.0	-7.3	8.4	8.6	6.7	8.8	1.6
Vanguard Total International Stock	16.5	-0.2	-8.2	0.7	0.6	1.9	4.8	

Data thru 3/31/16. Returns include reinvested income. Income/dividend yield shown is SEC format.

First Quarter Market Developments

Changes in the price of crude oil continued to drive volatility in risk assets, most notably stocks and high-yield bonds, both of which rebounded sharply from selloff lows set mid-quarter. From $100 per barrel in mid-2014, oil bounced off a $26 February low. Stocks and high-yield bonds followed to recover from deep losses. U.S. Treasuries and high quality corporate bonds posted solid gains to lead all core asset classes as investors sought safe havens in the face of volatility in other financial markets. The U.S. Dollar lost significant ground against key currencies.

Volatile markets continue to reflect multiple contributors to near-term uncertainty and anxiety. The modest pace of global economic growth and continuing fears of further slowing in China rank high on the worry list.

We think the U.S. economy should see a pickup in growth in the quarters ahead as we cycle through the front-end negative impacts of the substantial slide in oil, natural gas and other basic commodity prices over the past eighteen months. Companies in oil services, production processing and transportation are feeling serious pain, while supporting industrial companies adjust to the collateral damage of lower revenue and earnings. The economy should see flow through positives to consumers generally and to companies that benefit from lower energy input costs.

The U.S. Fed raised the base short term interest rate in December, and then left rates unchanged at their March 16th meeting. While the Fed's forecast for the U.S. economy remains generally positive, they reduced their projected path of interest-rate hikes this year to total just 0.5%. **Fed Chair Yellen has since reinforced a more dovish view that "lower for longer" is justified by global uncertainty**. Sensitivity to the negative competitive impact a stronger Dollar has on U.S. companies was also implied. While markets appear to expect one or two rate hikes in 2016, rates will likely remain low longer assuming moderate global growth and tame inflation. Most key central banks outside the U.S. continue to implement interest rate cuts and/or other stimulus actions.

Since year-end, the U.S. Dollar has weakened materially against other key currencies. If current levels hold, U.S. multinational companies should see a positive impact on sales and earnings as soon as the June quarter. We continue to think that dollar levels reached in the spring of 2015 may have been the highs for this cycle.

S&P 500 Stock Index

High-Yield Bonds

10 Year Treasury Yield: 1.79%

Stocks ended the quarter mixed. 2,669 or 50% of all 5,369 U.S. stocks ended the quarter higher. Six of ten S&P sectors advanced. Key indices performed as follows: S&P 500: +0.8%. Dow Jones 30: +1.5%. NASDAQ Composite: -2.8%. Russell 2000 Small-Cap: -1.9%.

High-yield bonds (HYB) ended the quarter with solid gains. The first five weeks of the quarter saw a continuation of heavy outflows and lower prices, but like stocks, as the price of oil bounced, so did the high-yield market with strong inflows. 2015 was only the second down year for the broad HYB market since 2001.

Intermediate U.S. Treasuries and high quality corporate bonds posted substantial gains. Treasuries and corporate bonds saw aggressive buying and yields fell sharply on a broadening belief that the U.S. Fed will leave rates lower for longer in the face of slow global economic growth. In a key March 29 speech, Fed Chair Yellen reinforced that dovish view while also reminding that rate decisions will be data dependent. Longer-term interest rate direction globally and here at home will be influenced by economic developments and the potentially offsetting forces of stimulus by key central banks outside the U.S. and the Fed's goal of gradually raising abnormally low base rates.

First Quarter Review of GPM Portfolios:

GPM growth portfolios tracked the broader stock market; down in first six weeks, followed by a sharp rebound in March to end near breakeven. At quarter-end, portfolios were weighted about 68% in large-caps, 14% mid-caps and 18% small-caps, only slightly changed from year-end. Foreign stocks stood at about 6%, down from 7%. During the quarter, we sold out of five stocks. One company, Precision Castparts was acquired by Berkshire Hathaway. We put cash reserves to work by increasing the size of several long-term core stock positions and added two new companies. Our core stocks are *GPM Grade Companies*; successful, high ROE businesses, small, mid and large, that we believe have a high probability of delivering rewarding long-term growth in revenue, earnings, dividends and ultimately, stock prices.

GPM balanced portfolios ended the quarter with respectable gains. Stocks and high-yield bonds declined through mid-quarter and recovered nicely in March. In broad terms, contribution to positive performance was led by investment grade and high-yield corporate bonds, government and mortgage-backed bonds and less so by stocks. Performance was negatively impacted by our long-held global bond fund, which was liquidated during the quarter. We believe the sharp upward reversal in high-yield bonds from February lows represented a key oversold turning point. Valuations reached compelling levels as oil, gas and materials sector bonds were pummeled, pushing the yield on the BofA Merrill Lynch U.S. High-Yield Master Index to 10.0% in February, similar to what occurred in late 2011. Since February lows, prices have rebounded nicely, pushing the index yield back down to 8.4%. We think the broader HYB market will reward investors well in the years ahead.

Please feel free to contact us for any reason. Thank you for being a GPM client.

We are honored to work for you.

Sincerely, the *GPM Team*