# Haynes Barker

## Investment Management, LLC

A REGISTERED INVESTMENT ADVISOR

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**Information Presented as of January 31, 2016**

The stock market (measured by the S&P 500 Index) entered into correction territory (sell-off of 10% or more from closing high price) in August of 2015. The last stock market correction we experienced was in August of 2011. For almost 4 years we had below normal volatility, but that may be changing. The stock market hit its new low on January 20, 2016 with a sell-off reaching -12.7% from its May 2015 peak.

**Market Commentary**

| Equity Index | Full Year 2015 | Fixed Income Index | Full Year 2015 |
|---|---|---|---|
| S&P 500 | 1.38% | Barclays US Aggregate Bond | 0.55% |
| Dow Jones 30 Industrials | 0.21% | Barclays Municipal Bond | 3.30% |
| Russell 2000 | -4.41% | Barclays US Corp High Yield | -4.47% |
| EAFE | -0.39% | Citigroup World Gov Bond (H) | 1.55% |
| MSCI Emerging Markets | -14.60% | JP Morgan Emerging Markets B | 1.23% |

The stock market (measured by the S&P 500 Index) climbed to its new record high of 2130 on the market close of May 21, 2015 and finished the year with low single digit returns after experiencing more volatility and a sell-off close to -12%. The first Fed rate hike, the slowing Chinese economy, a weak commodity market, and the strong US dollar contributed in weighing down stock prices in the US and abroad. **Large cap growth stocks was a top performing asset class for stock investors.**

The bond market (measured by the Barclays US Aggregate Bond Index) finished the calendar year with slightly positive returns. The threat of cautious rate increases by the Fed, a slowly growing economy, and investor flight to safety due to increased stock market volatility contributed to flat returns in the bond market. **Municipal bonds (measured by the Barclays Municipal Bond Index) was a top performing fixed income asset class for bond investors due to the asset class offering relative value and safety in comparison to fixed income alternatives .**

**Future Investing Outlook**

Where should we be investing now? As always, please call us for advice for your specific situation. In the meantime, we share with you our general outlook on the markets.

The European Central Bank (ECB) and the Bank of Japan (BOJ) continue to provide stimulus to their respective economies through quantitative easing programs. Also, China implemented fiscal, monetary, and administrative policies to bolster its slowing economy. While these major foreign economies are implementing expansionary policies to provide a spark for growth, the U.S. is transitioning towards policies that are less expansionary. We believe this transition will be a slow process.

The Fed raised the federal funds rate (overnight lending rate between banks for funds held at the Fed) by .25% at its December 2015 meeting. This is the first rate increase in approximately 10 years after having 0% interest rates for almost 7 years. Janet Yellen communicated that the decision to raise rates demonstrated the Fed's confidence in the US economy.

**We recognize that finding value in both the stock and bond markets is becoming more difficult. However, we do believe there are pockets of opportunity. (We know we sound like a broken record!)**

We believe it is important to:

1) **Invest for the long-term according to your unique plan and update your plan each year**.
2) **Diversify your investment holdings!** Yesterday's losers may be tomorrow's winners. While fixed income yields are still low, fixed income investments can offer some preservation if we find ourselves in a falling stock market.
3) **Rebalance your portfolio to your plan's objectives**. If you are overweight in equities, now might be a good time to increase your exposure to fixed income. If you are underweight in equities, add to your holdings during the market sell-off.
4) **Build a cash position for your near-term (next 3 years) liquidity needs**. With the stock market near record price levels, it gives us an opportunity to reduce some risk and build cash for future liquidity needs. With some cash set aside, we can also take advantage of future market volatility and investment opportunity.
5) **Dollar Cost Average (DCA) into new investments consistently**. If you have executed bullet points 1 through 4, take advantage of pockets of opportunity!

**We are concerned about the global policy divergence among the world's major central banks. Differing interest rate policies and bond purchase programs (quantitative easing, or QE) will create risks and opportunities in the global economies and financial markets. We hope that the Fed's shift in interest rate policy does not facilitate and expedite the end of the US economic expansion.**

**Concluding Remarks**

As always, we recommend that you stay invested for the long-term in a well-diversified portfolio and **encourage you to take profits and rebalance your portfolio when opportunities present themselves**. Please call us at any time to discuss risk/reward scenarios of different asset classes.

In closing, we leave you with a quote from Ben Inker, a co-head of GMO's Asset Allocation team, **"Historically, it has been a much better idea to buy companies that are priced for very bad things when very bad things are going on, than companies that are priced for good things when good things are going on."**

Best regards,

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendation for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise, and bonds are subject to availability and change in price.

Small-capitalization companies are subject to higher volatility than those of large-capitalization companies.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

S&P 500 Index statistics obtained from Yahoo Finance on January 31, 2016. Fixed income yields obtained from Bloomberg on January 31, 2016.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

The Barclays Capital U.S. Aggregate Index is comprised of the U.S. investment-grade, fixed-rate bond market.

MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. Currently, the EMBI Global covers 188 instruments across 33 countries.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt. The index was created in 1986, with index history backfilled to January 1, 1983. The U.S. Corporate High Yield Index is part of the U.S. Universal and Global High Yield Indices.

The Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year.

The Citigroup World Government Bond Index is a market-capitalization-weighted index consisting of the government bond markets. Country eligibility is determined based on market capitalization and investability criteria. All issues have a remaining maturity of at least one year.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.