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K&S, LLC Financial fitness Winter Newsletter February 2016 "Patience is a Virtue"

During the first quarter of 2016, the stock market has been very volatile due to declining crude oil prices and concerns over China's slowing economic growth. We expect the stock market to continue to be volatile over the next few months. However, if you look further out over the six to twelve months, we believe the stock market is going to slowly move back higher. The U.S. economy is slowly growing, the housing market is solid and analysts have been projecting that non-energy sector corporate earnings will improve this year. The critical question that no one has an answer to is when will crude oil prices begin to recover. Energy companies throughout the world are slashing their capital expenditures for future energy development projects. We anticipate that this activity will eventually reduce the excess supply of crude oil which should enable prices to stabilize and move back to higher levels hopefully in the next year or two. If energy prices recover it could be a relief to investors who own individual energy securities whose prices have significantly declined in value. There is a good chance that rising crude oil prices may cause the prices of energy related securities to move back higher.

The following is commentary from *Kiplinger's* Personal Finance magazine in their January 2016 issue:

Where to Invest in 2016

In a world of muted economic growth, investors can expect modest gains and more volatility. But the bull lives on.

As the bull market heads into its eighth year, investors will have to contend with heightened volatility as the Federal Reserve Board nudges interest rates toward more-normal levels, election-year rhetoric boils over, and economic growth—here and abroad—starts and stutters. Corporate profits will grow tepidly, and price-earnings ratios, a measure of how much investors are willing to pay for each dollar of a company's earnings, are unlikely to expand.

As a result, investors can expect stock prices to appreciate on average by mid-single-digit percentages over the coming year, commensurate with the modest earnings gains expected from corporate America. Add in two percentage points to account for dividends and that brings the expected total return for U.S. stocks to roughly 8%.

That doesn't mean you can rule out more pullbacks of the sort that agitated investors last summer. Expect rolling corrections within sectors and industries

The China factor

The chief worry for investors in 2016 is whether a global economy that's already in low gear will downshift further. For now, improvement in the developed world, albeit lackluster, is partially offset by the bleak picture in emerging markets. All eyes are on China, as it navigates a transition from a fast-growing manufacturing economy to a slower-growing, consumer-driven one. IHS Economics expects global economic growth of roughly 3% in 2016—within the 2.5%-to-3% range the world has been stuck in since 2011.

The U.S. economy will strengthen, but only modestly. Kiplinger expects gross domestic product growth of 2.8% in 2016, up from an expected 2.5% for 2015. Commodity prices will continue to languish due to lack of demand, but oil, at least, will stabilize, averaging between $45 and $55 a barrel in 2016, up from its August low of $38 a barrel. The dollar, already up nearly 20% since July 2014, will tack on another 5% to 7% against a basket of major foreign currencies as the Fed embarks on a course of modest, gradual rate hikes, while central bankers in Europe, Japan and China go in the opposite direction. A beefier buck will continue to bedevil U.S. multinational companies, as their goods become more expensive overseas and foreign sales translate into fewer dollars.

What could go wrong

For pessimists looking for a worst-case scenario, it's not hard to imagine the stock market derailed by some kind of economic shock.

There's plenty to worry about, for sure. But we still think the weight of the evidence favors the bull. For one thing, neither the economic recovery nor the bull market is as old as it might seem. Economic expansions last 58 months, on average, and this one is 78 months long at the start of 2016. But the three recoveries since 1981, which occurred during periods of relatively low inflation, may be more comparable, and they lasted an average of 95 months. "Recoveries aren't over because of a 'sell-by' date," says economist John Canally, of LPL Financial, a brokerage firm. He thinks the economy won't contract until 2018 or 2019 because we have yet to see the excesses of overbuilding or runaway inflation that typically precede a downturn.

"The market is not expensive, but it's not cheap, either," says Darrell Cronk, president of Wells Fargo Investment Institute. "It can go up as much as earnings can grow." Cronk is calling for average earnings growth of 6.5% for companies in the S&P 500, while analysts on average expect 8%. We think 6% to 8% is a fair range.

Investors should consider bumping up their allocations to foreign stocks in 2016, but they'll have to choose carefully. Fears of a hard landing for China's economy (which is what threw the U.S. market into a tailspin last summer) are overblown. The jury is out on whether Japan can climb convincingly out of its funk, but Europe is attracting a fair share of bulls, including us. Intrepid investors who are ready to embrace their inner contrarian can explore emerging markets in 2016.

Eyes on central bankers

More than anything else, the fate of overseas markets—and to some extent, ours, too—depends on actions taken (and signals telegraphed) by central bankers in foreign lands. A bullish sign for investors is that those bankers are likely to maintain easy-money policies and low interest rates throughout 2016.

Even here, where rates will creep higher, Wall Street's mantra remains "lower for longer." Still, fixed-income investing will remain a challenge. "Rates will remain low enough that it will be hard to find decent returns, but it will be dangerous to stretch to find that return," says Scott Clemons, chief investment strategist at money-management firm Brown Brothers Harriman.

Here is some commentary from the American Funds in their 2016 Outlook Investment Insights publication titled "Seek Bright Spots in Uncertain Markets."

Just when market volatility was starting to feel like a fading memory, it resurfaced in a big way in 2015. Markets were buffeted by slowing growth in China and emerging markets, depressed commodity prices, instability in the Middle East and a focus on the Fed in the US. Yet, despite the turbulence there was ample opportunity for patient, long-term investors.

We expect further volatility in 2016, as major world markets are being pulled in different directions.

Can the US sustain its growth while China slows? Will consumption in China pick up enough to offset slowing infrastructure spending? What will opportunity look like in low growth areas like Europe and Japan? As the year unfolds, investors who can see beyond macroeconomic headlines and seek out bright spots across the investment landscape stand to benefit.

I. Seek growth amid volatility

"Crosswinds send world economies on the diverging paths"

Can US expansion pack enough punch to offset headwinds from China and Emerging Markets?

Some areas of the global economy are strengthening but overall growth remains muted.

Any prospects for unified robust global recovery appears to be in one word definitely on hold.

China's growth has slowed as it grapples with the transition from an investment led to a consumer driven economy. Fears that a protracted slowdown could derail the broader global recovery have sparked market volatility. Growth has likewise slowed in a number of emerging markets, in part due to weak global demand and depressed commodity prices.

Despite these headwinds many developed economies remain on a path of growth. While recovery is somewhat tentative in Europe and Japan, both are showing signs of modest improvement and central bank policy remains highly supportive. The US remains the brightest spot in the global economy, in large part due to a healthy American consumer. Many wonder if the US economic engine can pull the rest of the world onto a firmer growth path.

Growth slows, but the great wallet of China remains

"Resilient consumer demand has continued to support sales growth among leading firms"

Even at times of shaky market confidence, individual firms have continued to do well in China.

Sure, Chinese growth has slowed, but behind the headlines there's a bigger story: economic evolution. China's transition from an investment lead economy toward an economic structure more reliant on consumption is well underway. Chinese consumers have continued to serve as a relatively resilient source of sales and earnings growth for market leaders. In a variety of sectors, high-quality domestic firms and multinationals have continued to thrive. As the economy transitions, further market setbacks are possible. Meanwhile, broader confidence in the emerging markets story remains fragile as investors fret about the global impact of higher US interest-rates. And yet, for active investors, market weakness may create the possibility of investing in high-quality companies at compelling valuations. Arguably, the environment is ripe with opportunities for selective investors who maintain a long-term perspective.

Healthier consumers bolster US growth against external pressures

"Expansion remains on track, despite week export command, industrial production"

Weakening global demand has cast a long shadow, but US company earnings overall appear to be in good shape. For that, corporate America can thank the US consumer. While earnings expectations have plummeted for industrial and energy related areas, such as oil and gas drilling, a broad array of consumer focused companies, like home-improvement and Internet retailers, are generating stronger profits.

In fact, for the 12 months ended September 30, 2015, consumer spending rose 3.2%, household debt service at multiyear lows, wages rising and the employment picture improving. American consumers, which account for 69% of GDP, may just be getting started.

Of course, in today's global economy no country is an island. Capital expenditures and not export growth have weighted overall GDP. These headwinds will likely remain until conditions improve in China, Europe and elsewhere.

In Europe, recovery elusive, but valuations look attractive

"Attractive valuations found amid currency weakness and central bank stimulus."

Europe's economy continues to follow a familiar path of low growth and low inflation. The 19 member euro zone is recovering from global and local financial crises; however it is doing so at a significantly slower pace than United States and United Kingdom. Economic growth around 1.5% has become the norm, along with an unemployment rate hovering around 11%.

Stubbornly low-inflation and occasional bouts of deflation have the European Central Bank virtually promising more quantitative easing in 2016. A resulting decline in the value of the euro should help boost exports, tourism and consumer spending.

Despite the challenges, potential opportunities are merging in various corners of the continent, including homebuilders addressing pent-up housing demand, and toll road operators expanding amid Spain's economic recovery. What's more, valuations appear relatively attractive in a number of areas. In many instances, European companies are trading at significant discounts to their US counterparts.

II. Pursue Sustainable Income - "Look to overseas markets for dividend payers and growers." Many non-US markets offer relatively attractive dividend yields.

Want dividends? Go global

In many ways, globalization has made the world a much smaller place but for dividend- focused investors, adopting a global perspective expands the possibilities. Today, companies and industries are increasingly global in terms of their markets, revenue, competitors and means of production. Likewise, the investment universe for blue chip, high dividend equities is global.

The current dividend yield of major equity indexes in Canada, Australia, the UK, Singapore and Germany compare favorably with the yield in the US.

Of course, not all dividend opportunities are equal. Investors should look for companies with attractive competitive positions in their markets that have the ability to sustain dividends. What's more, with the Fed raising rates in the US, investors may want to focus on companies that can grow their dividends, as they stand in the fare better in a rising rate environment. While rates are likely to remain low in many other markets, dividends and dividend growth have traditionally been regarded as hallmarks of good corporate governance.

Who said this is a low yield world?

"A step up in 11 plus sector yields suggest greater return potential for long-term investors."

Recent weakness in emerging markets and high-yield sectors has resulted in attractive yields.

Hungry for-yield? If so, fragile market confidence in emerging markets and high-yield bonds could be viewed as a great opportunity to invest selectively.

Broadly speaking, high-yield corporate bonds offer relatively attractive yields. But there is a clear division in the market. As oil and commodity prices decline, yields for US energy sector and metals and mining sector issues have risen much more than the rest of the market. But while financial stresses have become more apparent among commodity- related issuers, in other sectors solid fundamentals are more prevalent. Meanwhile, depending on an investor's net tax burden high-yield munis may offer even higher-yields.

Show me the Muni's!

"Yields appear attractive given potential tax advantages, but that's only half the story"

Attractive yields are on offer, but research is vital – this is not your father's Muni market.

How attractive are muni bond valuations? Very. With ratios – a measure of the relative "size" of before tax muni yields compared to similarly rated corporates or Treasuries- high, many investors are taking a closer look at munis. Depending on investors' net tax burden, investment grade muni's have recently offered after-tax yields that are comparable to those of similarly rated corporate bonds, while lower rated munis have consistently offered a substantial yield advantage.

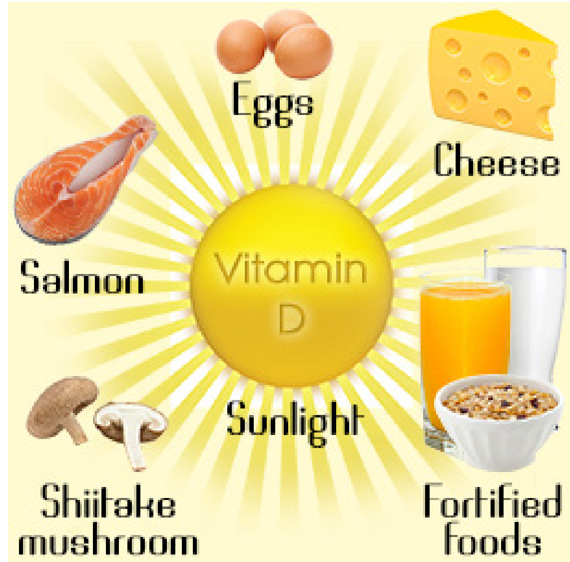
But there's more to the story. In addition to offering steady income potential, municipal bonds have tended to offer a great source of diversification. For instance, investment-grade and, to a lesser degree high-yield muni's showed a low correlation to US stocks over the ten-year period ended September 30, 2015. In other words, an investment in muni's may help smooth out the overall volatility of stock-heavy portfolios.

Health and Nutrition – Elite Athletes try a new training tactic: More Vitamin D.

Pro and college teams, including the Steelers, Red Wings and USC, think the nutrient may help players avoid injury, among other benefits.

THE ABCS OF VITAMIN D

- **How can you get vitamin D?** Through certain foods such as fatty fish and eggs, or sun exposure. More than 1 billion people world-wide are estimated to have insufficient or deficient vitamin D levels. Vitamin D3 is the preferred form of the nutrient in a supplement because of its similarity to the form produced by the body.
- **Who's at risk?** People at higher latitudes and in colder climates such as the northern U.S. and Europe are at risk because of their lack of sun exposure. Those with darker skin are at risk because pigmentation slows vitamin D production in the skin. Those who are older, overweight or obese also are at higher risk.



- **How much is necessary?** The Institute of Medicine recommends 600 International Units (IU) daily for most adults (800 IU for those over 70). That's equivalent to six cups of milk, most of which in the U.S. is fortified with 100 IU. Some sports dietitians encourage athletes to get 1,000 to 2,000 IU daily. Adults shouldn't take more than 4,000 IU daily, the Institute says, though vitamin D toxicity is rare.
- **What are the risks of vitamin D deficiency?** Low D levels have been associated with higher risk for diabetes, heart disease, many cancers and bone loss, among many other conditions.

Sources: Institute of Medicine, Mayo Clinic Proceedings, Harvard T.H. Chan School of Public Health

Summary: We greatly appreciate your patience as we navigate the volatility in the financial markets. We believe that reinvesting your quarterly dividends while the market is low is a good strategy. Doing so may enhance your portfolio value when the stock market eventually moves. . . hopefully this year.

We hope that you and your family are having a good winter season and look forward to talking to you soon.

Sincerely,

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