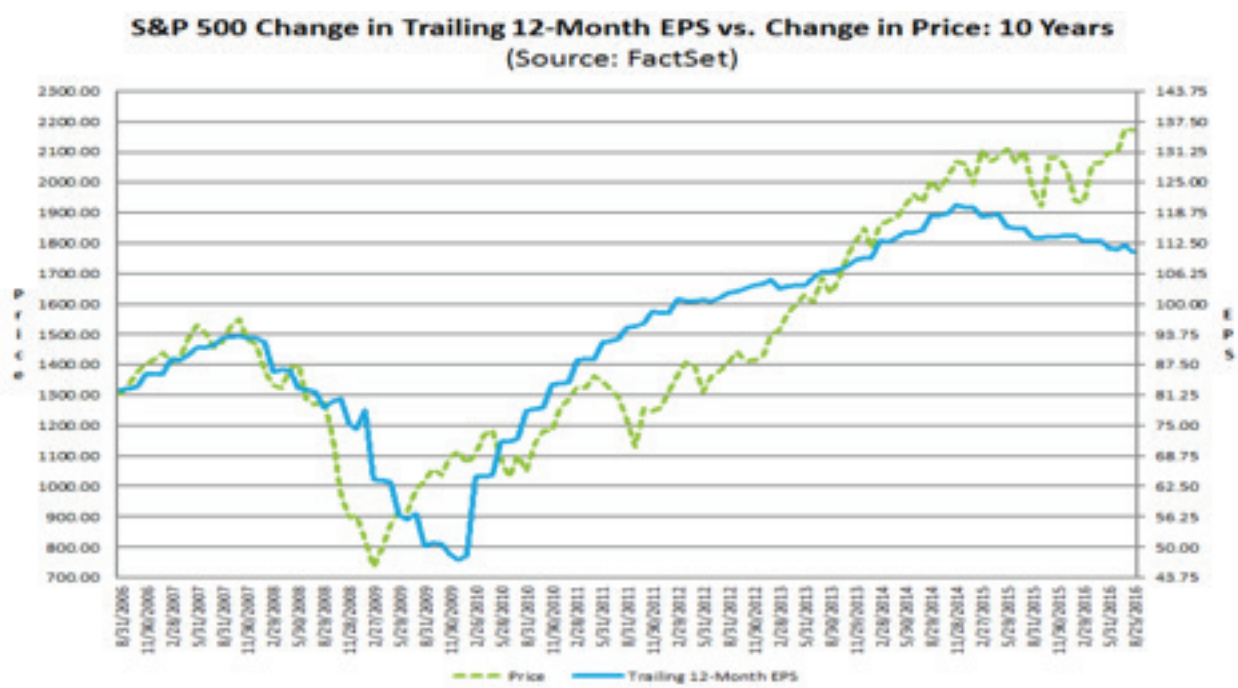
SOUND INCOME STRATEGIES

August 2016

Index	Month / Year to Date
Dow Jones	+0.26% / +7.53%
S&P 500	+0.14% / +7.71%
NASDAQ	+1.17% / +4.11%
10yr Treasury	1.58% end of August; 1.45% beginning of August

Markets:
With the exception of some Information Technology and Health Care companies, August was a blah month for equities. Earnings growth for the S&P 500 during the second quarter of 2016 was -3.2%, and this marks the fifth consecutive quarter for declining earnings growth. Just four of the ten S&P 500 Industry Sectors showed earnings growth during the second quarter: Consumer Discretionary, Telecom, Health Care, and Utilities. (FactSet)



Negative rates — I remember the first time I was quoted a negative rate. It was when I was trying to purchase $50 million in U.S. Treasury bills, and I printed the Bloomberg screen and saved it! That was 2008, and it was only negative by one basis point, (1% = 100 basis points). Today, however, there are several governments that are in negative-rate territory: Japan, Switzerland, Denmark, and the European Central Bank/ (ECB). The idea of saving your money only to get back less than your principal, let alone any interest, is amazing. Yet that is the market in which we find ourselves, and it doesn't appear to be changing any time soon. This leads me to the discussion of how to invest new and additional capital going into the last four months of 2016. While our individual securities have been performing great so far, since the surprise Brexit vote in June, it has been a bit challenging to purchase securities after such a run-up in returns in certain areas. After much discussion, Eric and I have agreed that rates won't increase materially anytime soon. Therefore, we will look to purchase some individual investment-grade bonds at slightly less favorable levels as the need for income is growing stronger every day, especially in a negative interest rate environment. While some names might only yield 3–4%, a positive 3–4% is considerably higher than cash or sub-zero levels. The majority of the SIS-approved securities have considerably higher yields, which will off-set levels at 3-4% in the Investment Grade area.

We will all have to accept lower rates as Central Banks globally fight the deflation they have caused by lowering interest rates to a bare minimum when they all ran into trouble during the ‘07/’08 market meltdown. In essence, they have cannibalized future growth, hence lower earnings and interest on savings. There is always a tug-of-war between return OF principal and a return ON principal, and this is the situation we currently find ourselves in.