SOUND INCOME STRATEGIES

December 2015

Markets:

2015 has turned out to be a bumpy ride for investors across all asset classes. The Dow and S&P 500 would both be negative for the year if it weren't for their dividends placing them at +0.98% and +1.3%, year to date. Japan and Europe have had better results, until you adjust for the U.S dollar's increase, which places their returns in negative territory as well. The asset class winners turned out to be bonds and preferred securities, with the 10-Year U.S. Treasuries returning +3.95% and our basket of preferred names returning +6% for clients invested from the beginning of the year.

We were expecting an increase in interest rates at the Fed meeting Wednesday, December 16th, and this time, they didn't disappoint. The new Fed Fund's target is .25% - .50%. We also expected the Fed to suggest they'd be patient in their next move, and again, the Fed's dovish talk seems to indicate they will be slow to increase rates in 2016. This increase will be the first one since 2006. Rising rates will have various ramifications for debt and equity securities. The bond market has already priced in another 25 bp (basis point) increase, and bond traders will look to the comments the Fed makes on future increases before buying/selling more bonds. As for equities, companies that have low leverage and somewhat inelastic demand for their products and services, such as healthcare and technology, should be okay in a rising rate environment. Mining and E&P energy companies will continue to have strong headwinds in an increasing interest rate environment, along with an economically slowing China, which will continue to pressure commodity prices.

During this economic cycle, we believe companies that pay investors better-than-average dividends and interest should weather any storm better than the markets will, in general, and we will focus our efforts on those companies.

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