SOUND INCOME STRATEGIES

June 2016

Index	Month / Year to Date
Dow Jones	+0.94% / +4.23%
S&P 500	+0.25% / +3.77%
NASDAQ	-2.05% / -2.63%
10yr Treasury	+3.62% / 1.47% current yield

Markets:

This last week of June has given the New World Order the first real road block in decades. As the Brit's took to the polling booth to vote for the ability to determine their own future, the markets became spooked and volatile. Many of the markets quickly recovered the early losses, but the British Sterling Pound has taken a 10% loss to rest at 1.33 per U.S. Dollar, which the Sterling hasn't seen since 1985. This global volatility has been pushing investors into U.S. government and U.S. Corporate debt. The 10yr U.S. Treasury note has dropped in yield to 1.47%. While we don't believe the Federal Reserve can increase short-term rates anytime in the near future, it does make it quite a burden to find bonds with a decent yield for investment purposes. We are pleased with the returns for the first half of 2016, but we are never satisfied and will continue searching for income opportunities. The main caveat for markets in the U.S. is that other European Union countries could follow the path of the British and potentially unravel the EU and their currency. Then we would see large amounts of investment capital fleeing into the U.S., forcing rates and yields even lower for U.S. investors.

We can't complain too much about yields here in the U.S. because they are still positive. The Germans and the Japanese have negative rates on their 10yr government debt, meaning you actually have to pay someone to take your money for 10 years. In other words, there is so much paper money and so little confidence in global growth that investors in those countries are willing to "lock-in" small losses as opposed to taking on any investment risk that has an unknown outcome. This doesn't speak well for the future expectations of financial markets. This tells us that, in the future, there will probably be an opportunity for investors with the ability and willingness to take risk and dip their toe in the water for a decent return on their capital. It will take a major shakeout in the markets before this opportunity arises.

The yield curve has become a little flatter during the month of June. As we've stated before, the shape of the yield curve is a fairly decent predictor of recessions, and the yield spread between the 2yr U.S. Treasury bills and the 10yr U.S. Treasury note has gotten slightly narrower. If the Federal Reserve did decide to increase short-term interest rates, the yield curve would flatten, and we could see growth in the economy slow, dramatically pushing the economy into a recession. However, if U.S. consumers continue to tighten their belts and spend a little less each month, it doesn't really matter what the Federal Reserve does because we could go into a recession regardless, but we're not quite at that point yet.