

LANDMARK FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

JAN
2016

CRYSTAL BALL READING FOR 2016

Unfortunately, we don't have a crystal ball to forecast into the future. However, we would like to opine on several key factors going into the New Year, as this is the most common question that we receive. Let's begin by looking at how we fared in 2015:

- Fragile global growth [Correct]
- Fed will raise rates [Correct] Does this derail the US economy? [TBD]
- Volatility will emerge again [Correct]
- Better returns overseas [Wrong]... more on this later
- No rise in bond yields [Correct]

Once again the Fed will dominate the headlines in the coming year in our opinion. Chairman Yellen has repeatedly argued that the disappearance of inflation is a temporary phenomenon and will reverse in the coming months and years. We worry that the lack of inflation (deflationary factors) creates some more lasting factors. We think technology productivity continues not being properly tracked and is a major disruptive force, which has been clearly visible in the energy space. China's economic slowdown and low growth in all of the developed world economies (due to the excesses created over decades) will continue to create a shortage of demand. The lone possible inflationary threat could be wage growth, which is starting to show signs of possibly breaking out of hibernation. The end result is an overly aggressive Fed which could spell major problems for our economy. Our hope is that they will be much slower with rate increases than they communicated at their December meeting.

We are finding Treasury Inflation-Protected Securities (TIPS) attractive. A quick education on TIPS; They pay a lower interest rate than normal Treasury securities, however their principal

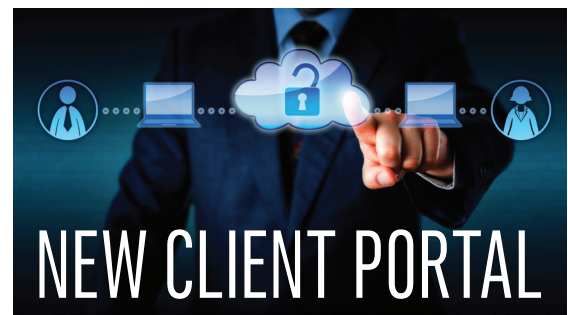


is adjusted up each year with inflation. As of December 23rd, the markets are pricing inflation to run only at 1.52% over the next ten years, which is well below historical averages as well as the Fed's 2% preferred level of inflation. Inflation has rarely averaged below 1.7% over a 10-year period back as far as the '50s, so we feel that this is an attractive valuation point in the event that inflation does edge higher over the long term.

This past year has been a tough one for US investors in overseas markets—especially emerging markets. This is not the first bad year for international stocks, or the second, or the third. Things have actually been quite bad for half a decade now. A dollar invested overseas has grown to \$1.16 and a dollar in the S&P 500 to \$1.96. We are starting to hear some investors and media asking whether holding non-US stocks is at all necessary! As market historians, we can say that timing the markets with such sentiments tends to turn out poorly. No one ever seems to give up on an asset call after it has just had good performance, likewise, the most recent burst of “why bother with non-US stocks” occurred just before the top for the S&P 500 in 2000. We continue to believe that international stocks provide diversification and belong in balanced portfolios, so let's not throw in the towel on this asset class just yet.

In summary, we expect more volatility with the key to 2016 likely being driven by the frequency of US rate hikes and increasing earnings per share in publicly traded companies. Energy stocks considerably hurt EPS across the globe this year, but this is unlikely to continue into 2016. We expect to earn the stated coupon on bonds next year, as we anticipate rates to remain in the current trading range.

We are rolling out our new overhauled client portal with the goal of providing a more interactive experience. The new portal is a mobile friendly application that works on any desktop, laptop, smartphone and tablet. The new site provides your data with rich graphics, interactive charts, a document center and easy to read reports. The portal does not yet have all the functionality that we ultimately have in mind, but the new platform will enable us to bring enhancements to the site quicker in the future.



We will be redirecting traffic to the new portal on **JANUARY 1st**. If you are a current user of our site, we will be calling to guide you through the new portal. If you are a new user, we will plan to add you during your next client meeting, or you can call us anytime to get access earlier.

Wall Street never changes, because human nature never changes.



It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.

LANDMARK FINANCIAL ADVISORS WEIGHTINGS AGAINST THE S&P 500

