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Portfolio Comments
For the Quarter Ending December 31, 2015

In the wake of the November terrorist attacks that targeted Paris a Latin phrase, *fluctuat nec mergitur*, appeared in massive graffiti letters in the city's Place de la République and was later projected onto the Eiffel tower. This enduring motto of the French capital, which translates as "tossed about but not sunk", managed to capture both the shock and resilience felt by those most closely affected by the abominable acts. While the perils of the markets bear no comparison, many investors may have ended 2015 feeling as if they had been buffeted by outside events with no asset class offering a truly safe harbor. For all the perceived interim volatility, however, the U.S. equity markets were certainly not sunk, managing at least to regain enough equilibrium to end the year only fractionally below where they started in January.

After a bumpy but fairly range-bound twelve months, The S&P 500 closed on December 31st at 2,044 representing a return of 7.5% for the final quarter of 2015, and reversing the losses of the third quarter to achieve a slight gain of 1.41% for the year. Similarly, The Dow Jones Industrial Average (DJIA) ended December at 17,425 for a return of 7.70% in the past three months and 0.21% for 2015. While the final figures are far from impressive compared to the bull market numbers of preceding years, investors with a longer-term view may derive satisfaction from the fact that the negative corrections suffered by both indices in the middle of the year did not herald the onset of a bear streak for the remainder of 2015. While the memory already seems distant, it should also be noted that both indices registered record closing highs in May of 2015.

The forces driving this year's lackluster performance for U.S. equities as a whole included tepid global growth, falling commodity prices, a strong American dollar, political and religious unrest abroad, and waning corporate profits. While it would be convenient to bid goodbye to these negative influences along with the departing year, they continue to weigh on markets resulting in divergent performances and prospects among different sectors and individual stocks.

The near-flat average return for the indices this year masks the fact that, according to Raymond James analysis, the average stock in each of the ten S&P 500 sectors is down more than 10% from its 52-week high. Headline market return numbers for 2105 were effectively

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We utilize a disciplined, fundamental approach, applying rigorous, independent research with the objective of delivering long-term performance that achieves the investment goals of our clients. We offer managed equity programs with a value-oriented focus, in addition to a balanced managed program with a higher current income priority, as well as tailored fixed income advisory services.

propped up by a limited number of growth stocks with heady valuations as exemplified by the group that has gained the acronym FANG, standing for **Facebook, Inc. (FB-Nasdaq)**, **Amazon.com, Inc. (AMZN-Nasdaq)**, **Netflix Inc. (NFLX-Nasdaq)** and parent company of Google, **Alphabet Inc. (GOOG-Nasdaq)**. We believe it is at times like this that fundamental approaches to the valuation of assets, such as we employ, take on an even more critical role in investment selection, with the identification of tangible value over momentum or popularity providing a better indication of sustainable returns over long periods.

Putting a dampener on the practically traditional "Santa Claus" rally that stock market investors have come to enjoy in the final weeks of the year was the Federal Reserve's decision to raise interest rates for the first time in nine years. Around the time of the December 16th announcement stocks rose only to experience a brief sharp fall, although this tightening of monetary policy could hardly have blindsided even the least astute participant given the unprecedented level of anticipation. Indeed, the American central bank's move to raise its target range for short-term interest rates by a quarter of a basis point, to 0.25-0.5%, may best be described as anti-climactic, notwithstanding the landmark nature of the decision.

Those hoping that the announcement would be accompanied by hints about the timing and magnitude of future moves were disappointed by a stoic Fed chair, Janet Yellen, who is focused on ensuring a smooth transition back into non-zero rate territory as she emphasized "we have very low rates and we've made a very small move". The impetus for the timing of the move was the fulfillment of the Fed's dual conditions of an improved labor market and confidence among those setting rates that inflation is on track to return to the target rate of 2%.

In Ms. Yellen's opinion, key targets have been met, with unemployment at 5%, stagnant wages starting to grow again, and the Fed's rate setters seeing inflation moving away from its current low level of 0.2% (or a core rate of 1.3% excluding volatile energy and food prices) and forecasting it to reach 1.9% in 2017, rising to 2% the following year. Factors which could aid inflation growth include a halt in the ascending value of the dollar, which is up almost 20% since mid-2014 and has made imports cheaper, and the fact that energy prices have less room to plunge given their already precipitous fall. Brent crude oil prices started the year at $60 a barrel, already significantly off mid-2014 highs over $110, but have now slumped close to 11-year lows at around $36 a barrel as oversupply continues unabated for now. The energy slump has proved especially hard for Russia, where oil and natural gas sales account for more than two-thirds of export revenue, tipping its economy into recession.

Those focused beyond the headline numbers point out that the workforce participation (those employed or actively seeking work) among the key 25-54 demographic is at its lowest level in over thirty years and currently declining, exerting a downward skew on the headline unemployment figure. Moreover, the yield difference between ordinary and inflation-protected five year bonds, which stands around 1.2%, indicates that markets have a more constrained view on the future pace of inflation growth. The Fed has given itself scant maneuver room for further monetary easing with rates still extraordinarily low so the inflation trajectory will be very closely monitored. Rate rises ordinarily come at times of obvious inflationary pressure and when investor risk appetite shows signs of robustness, but these have not proved ordinary times for monetary policy setting. It appears the anticipation period for investors is not yet behind us and faith must be placed in the Federal Reserve that they prove to be masters in the art of timing.

In other investment related highlights, the beginning of December marked a new high level for yearly global mergers and acquisitions (M&A) activity with announced deals of $4.3 trillion surpassing the prior record set in 2007. The final figure for 2015 topped $5 trillion, with the volume fueled by inexpensive debt financing, efficiency motivations in a slow-growing economic climate, and managements driven to keep pace with consolidating rivals. Three of the biggest transactions in history included the $160 billion purchase of **Allergan plc (AGN-NYSE)** by **Pfizer Inc. (PFE-NYSE)**, **DuPont Inc.'s (DFT-NYSE)** $130 billion merger with **Dow Chemical (DOW-NYSE)**, and **Anheuser-Busch InBev's (BUD-NYSE's)** $110 billion acquisition of **SABMiller plc**. Around half of the deals, about $2.5 trillion, involved U.S.-based companies with healthcare and tech industries leading the pack in terms of sector activity. **Dell's** $67 billion takeover of **EMC Corporation (EMC-NYSE)** was the biggest technology M&A deal to date.

The news from abroad this quarter was dominated by the atrocities carried out by terrorists affiliated with the Islamic State (IS), which is determined to perpetrate acts of violence far beyond its bases in Syria and Iraq. Specifically, IS claimed responsibility for coordinated attacks by jihadists carried out in Paris on November 13th, which left 130 dead and hundreds injured after gunmen and suicide-bombers claimed victims at a concert venue, a football stadium and three restaurants. The attack came in the same year as twelve were killed by Islamic terrorists who stormed the offices of the satirical magazine Charlie Hebdo in Paris on January 7th.

In the aftermath of the November tragedy, which was the deadliest of its kind on French soil and Europe's worst terrorist attack since the 2004 Madrid bombings, France's president, François Hollande, declared that France was at war with IS and vowed to "destroy" it. In turn, IS insisted the events were in retaliation for the French airstrikes on IS targets in Syria and Iraq. France's capacity for such strikes was immediately tripled, strengthening its position as America's main ally in this respect.

Mr. Hollande acknowledged the difficult fact that "it was Frenchmen who killed other Frenchmen" as the nationality of a number of the perpetrators became known. France's staunch measures to counter jihadism, its secularism that works to ban public displays of religiosity, and the country's Muslim population of over five million among which minority extremist cells fester, were all factors that contributed to it being a target. If IS can provoke a general backlash against Muslims, its recruiting position will be considerably strengthened. An indicator that such a backlash is brewing has been the resurgence in support for far right politics in Europe.

Dealing with the fallout of the attacks that involved cross-border coordination among terrorist cells is particularly challenging as Europe still struggles to cope with the influx of hundreds of thousands of migrants fleeting economically disadvantaged and unsafe regions, with Syria accounting for about half the numbers. Progress towards a more integrated plan was achieved in mid-December when the European Commission devised a proposal, endorsed by Germany and France, that involved the creation of a new European border and coast guard that is intended to toughen border controls. Such an agency would be granted the authority to intervene in immigration decisions without seeking permission from individual member states. Naturally this has met with some resistance and, in any case, majority voting support in Europe does not always translate into definitive action.

It has been a game of leadership musical chairs for a number of governments this year. In a surprise victory, Britain's Conservative Party, which has been in power as a coalition for five years, secured an outright majority for the first time since 1992. In Canada, a Liberal government ousted the incumbent Conservative Party, and Benjamin Netanyahu confounded predictions when he was re-elected as prime minister in Israel. Australia gained its fourth prime minister in five years when Malcolm Turnbull ousted Tony Abbott as leader of the ruling Liberal Party. January elections in Greece resulted in the far-left Syriza party coming to power. The prime minister, Alexis Tsipras, is tenuously maintaining his position after a national referendum rejected International Monetary Fund and EU austerity measures but Mr. Tsipras was forced to capitulate shortly after and agree to another Greek bail-out plan.

The coming year is a big one politically in the U.S. with the November presidential elections looming. Hillary Clinton remains the front-runner for the Democratic party having largely moved past potentially damaging questions concerning her use of private e-mail servers for official business while serving as Secretary of State. The Republican old guard are still combating the unpalatable surprise of business mogul Donald Trump achieving and maintaining the lead in the race for his party's nomination despite him having made incendiary remarks concerning a number of groups including women, Muslims, and Mexicans. Election fever will soon be in full swing with the primaries starting in February. In other domestic political news, on October 29th Paul Ryan somewhat reluctantly became the 54th Speaker of the U.S. House of Representatives in the wake of the defenestration of John Boehner.

Looking ahead to 2016, the known questions largely surround how much, if at all, the major headwinds for investors last year will abate. We remain optimistic. Oil prices may have yet to bottom, but should at least stabilize, the recent ramp up in the value of the dollar appears to have run its course and a number of metrics indicate that the stall in corporate revenue growth should reverse. The magnitude and pace of rate hikes by the Federal Reserve are unknown quantities and could cause further market uncertainties, although all indications are that the central bank will proceed with extreme caution and take cues from inflation pressures. Investor confidence remains somewhat anemic and it will take some positive surprises, major global growth, or at least a reversal of Chinese economic woes, to spur overall U.S. equity upside performance beyond single digits in the coming twelve months. As 2015 proved, however, averages hardly paint the whole picture, and we continue to see and seek upside in individual opportunities that we consider under- or fairly-valued with demonstrable solid future prospects.

The end of year is both a time for reflection and anticipation, and we at Stolper Asset Management reflect with much gratitude on the confidence and patience you show in entrusting us to act as your financial advisor. For the coming year, we anticipate both challenges and opportunities, as always, but the discipline and rigor we apply in our investment decision making is always carried out with the commitment to best serve your investment needs and goals. We wish you, and those close to you, a safe, happy and prosperous 2016!

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