STOLPER ASSET MANAGEMENT
1924 S. UTICA, SUITE 805
TULSA, OK 74104-6516

www.stolperassetmanagement.com

918.745.6060
866.692.3066 Toll Free
918.745.6583 Fax

Stolper Asset Management
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Portfolio Comments
For the Quarter Ending March 31, 2016

During tumultuous times the words of stalwart leaders past, who oversaw the fortunes of whole nations, may help put things in perspective. As the British wartime Prime Minister Winston Churchill once remarked: "This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." And so, as the close of this quarter brings to an end the beginning of 2016, many investors in the U.S. equity markets are greeting this end with a hearty "thank goodness." Indeed, although the origin of Churchill's now-ubiquitous 'V for Victory' sign had nothing to do with financial market oscillations some three-quarters of a century later, an erratic, steep V is the exactly the shape traced by the major domestic equity indices since the start of the year.

The S&P 500 ended the first quarter of 2016 at 2,059, eking out a meagre, but nonetheless positive return of 1.35% for the year to date. The Dow Jones Industrial Average (DJIA) ended March at 17,685 for a first quarter return of 2.20%. The year got off to an inauspicious start, with the financial press already lamenting by mid-January that U.S. stocks had posted the worst 10-day start to a year in history. A late January rally, spurred by an unexpected rate cut in Japan and an upward spike in oil prices, was quashed by another drop that led to year-to-date bottoms on February 11th leaving both indices down around 10% since the start of the year. Then came the reversal, a 'relief rally' of sorts, to bring us to the end of the quarter and, by the numbers, practically back to where we began 2016. The S&P 500 and the DJIA are now all the way back up to the upper end of the range they have been in since the all-time highs of 2015.

Culprits cited for the declines that led to the February lows included the seeming impotency of a Federal Reserve which had exhausted their arsenal of obvious weapons intended to spur the economy into self-sustaining growth, another pull back in in oil prices at the beginning of February, continued worries about the Chinese economy, wider global recession fears, and a looming European banking crisis. Adding to these qualms, some also believed that the stock market was beginning to price in the potential economic uncertainties posed by two U.S. presidential contenders – Donald Trump for the Republicans and Bernie Sanders for the Democrats – both of whose agendas would

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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.

rock the current status quo of the global trading system.

The subsequent quick recovery of over 13% off the February lows may owe more to the fact that history may label the beginning-of-year dip (alongside that of last August) as a "panic plunge" in the midst of broader bull market trend. In this light, and with hindsight, such dips may be categorized as opportune buying moments. Given our focus on bottom-up analysis and company fundamentals, broad market pull backs can indeed bring to light opportunities to acquire quality assets that are not immune to the downturn. Market timing, however, will always remain secondary to our value-oriented investment criteria.

Never far behind talk of market-driving forces is speculation about Federal Reserve policy, options, and future actions. Imparting momentum to the sustained bounce off the February dip was a rally in crude oil prices to above $40 a barrel, coupled with the indication by the U.S. Federal Open Market Committee ("FOMC") of the likelihood of two interest rate increases by the end of 2016, instead of the four intimated in statements last December. The explanation for the downward adjustment was linked to the rate of economic growth, which although positive, was not yet as robust as the Committee would like to see.

The truth is that Janet Yellen, the Fed chair, and her colleagues would prefer to move at a more accelerated rate away from the zero interest rate environment that prevailed for so long. With the benchmark rate still at an artificially low 0.25%, financial stability is easier to undermine and the Fed's potential intervention methods are limited to less palatable options such a negative interest rates or further quantitative easing. The issue being faced, however, is worldwide rather than domestic in nature. A raise in the benchmark interest rate by the Fed would cause a flow of global money, now on the sidelines, to higher-paying U.S. safer assets, precipitating a strengthening of the dollar. The result would put further pressure on exports, and hence growth, as well as a drag on inflation. At the same time, riskier assets around the world would lose some of their value, sparking further fears surrounding global recovery.

Ms. Yellen is indeed navigating a narrow path; one that she referred to in a speech at the end of March in which she conceded: "developments abroad imply that meeting our objectives for employment and inflation will likely require a somewhat lower path for the federal funds rate than was anticipated in December." The Fed remains as vigilant as ever in monitoring inflation, with the Committee's current estimate of core inflation (which strips out the prices of food and energy) standing at 1.6% for 2016. While inflation remains stubbornly low, the Fed will have a hard time justifying any significant rate rises regardless of other metrics such a full employment.

In political news, it is now impossible to ignore that U.S. presidential election fever is upon us. The message from those who have turned out to vote in the primaries so far is that the electorate has some issues with the old guard in both parties and is toying with ushering in some radical change. On the Republican side the news is, of course, largely focused on the unlikely rise of Donald Trump from an outside maverick figure to a serious nominee contender. Despite the presence of two other remaining party candidates, Ted Cruz and John Kasich, in many ways that battle has devolved into two camps: Donald Trump supporters and those trying to stop him bagging the 1,237 delegates he needs to secure the presidential nomination. In a broad sense, Mr. Trump's campaign is playing on the growing sentiment of protectionism and nationalism that go hand in hand with uncertain economic times. The only states in which Mr. Cruz has been able to soundly triumph are those considered ultraconservative and there are few of those left to go to the polls.

The Democratic nomination looks like Hillary Clinton's to lose although the leftist senator, Bernie Sanders, is proving a worthy adversary and has delivered some embarrassing defeats to Ms. Clinton, including victories of around 80% in Idaho and Utah. Although it's still too early to predict a Trump-Clinton showdown in the final race for the White House, if that were to transpire Mr. Trump would have his work cut out for him in uniting his own party, let alone the broader electorate. His support may be best described as "deep but narrow", which has served him well so far given the mechanics of the nomination process, but one wonders how gracefully he might assume the title of 'loser' that he so freely bestows on his opponents.

In the corporate sphere, there was a potentially precedent-setting stand-off between **Apple Inc. (AAPL-Nasdaq)**, the most valuable publicly traded company in the world, and the American Federal Bureau of Investigation ("FBI"). The issue was the unlocking of a terrorist's iPhone belonging to the deceased perpetrator of a mass shooting attack in San Bernardino, California, last December. Tim Cook, Apple's CEO, refused to co-operate with the FBI's demands, which were backed by a federal court order, to devise a solution for gaining access to the phone's data, stating that to do so would have dangerous consequences. In question was the issue of how to balance public safety with privacy rights.

Apple argued that a tool to circumvent the iPhone's password security feature did not exist and that to create one could lead to its use by law enforcement in less justified cases, as well as pave the way for similar requests by foreign governments. On March 29th, the stand-off came to an unsettling close when the FBI dropped its case against Apple on the basis that it had found other means to gain access to the phone. Apple responded with continued criticism directed at the FBI for having ever brought the case and committed to fortifying the security features of its products.

In Europe, the news once again was tragic. On March 22nd another series of murderous attacks perpetrated by jihadists took place in Brussels, Belgium at Zaventem airport and an hour later in the city's metro system. The death toll now stands at 35 with over a further 300 injured. Charles Michel, the country's prime minister, echoed the world's sadness and outrage as he called the bombings "blind, violent and cowardly". In the wake of the attack comes a sickeningly familiar cascade of grief, anger, questions surrounding policing and intelligence gathering, and the sobering conviction that these headlines will not likely be the last of their kind.

Despite coordinated and concerted efforts to quash their agenda, the Islamic State (IS) remains robust and full of vitriol against its opponents. There can be little doubt that the governments whose citizens are coming under attack are doing all they can to fight this nebulous enemy, but it is one that is extremely difficult to engage at its root. In the meantime, the rise in fortune of Western politicians who preach extreme nationalism and sweeping intolerance toward whole ethnic and religious groups only serves to help the IS recruitment process for everything from sympathizers to bombers.

And so we come to the end of March, and already attention is being drawn towards the encroaching first quarter earnings season as investors look for barometers of economic health. The 'good' news, in terms of buffering any negative surprises, is that expectations are set at a low hurdle rate compared to 2015. As Jeffrey Saut, the Chief Investment Strategist for Raymond James, reports: "consensus earnings estimates for the S&P 500 companies have expectations of a decline of 7% to 8% from profits a year ago." He goes on to say that while the energy sector is a major contributor to the soft numbers, the only three S&P macro sectors that are anticipated to show an increase in earnings are: Consumer Discretionary, Telecoms and Healthcare.

That said, Jeffrey Saut's sentiment, which was echoed in a recent *Barron's* article featuring John Manley, a strategist for Wells Fargo, is that corporate profits are set to reignite in the second half of 2016. Mr. Manley's rationale is that an improving job market coupled with low gasoline prices will drive consumer spending growth that will translate to companies' bottom lines. Moreover, Raymond James' chief economist is adamant that "while it is clear that economic growth has slowed (at least in the near term)…The data do not suggest we are in a recession." The message is that while GDP growth may be sluggish, it is sustainable, which bodes well for the long-term.

Given the volatile ride of late we think that any claims of predicting how the markets will behave for this coming quarter, let alone the remainder of the year, should be met with a healthy dose of skepticism. It has been said that the most logical way to view performance over the past seven months or so may be that the stock market has been going through an "internal correction" with a select few mega-cap stocks buoying up the indices until the start of this year. Here at Stolper Asset Management we continue to apply ourselves rigorously and diligently to do our best to achieve results that align with your financial goals, with a focus on identifying true value in a range of market conditions. We are grateful for the continued opportunity to serve you and hope you enjoy this beautiful springtime.

The S&P 500 is an unmanaged index of 500 widely held companies and over 80% of the U.S. equities market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 companies maintained and reviewed by the editors of the Wall Street Journal. The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the investment adviser representatives of Stolper Asset Management and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investing involves risk and you can lose principal. There is no assurance any strategy will be successful. There is no guarantee that any forecasts made will come to pass.

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