

## Market Observations January 2016

### ANYTHING GOES

Investment returns in 2015 were disappointing. The outcome for many well-diversified portfolios was a decline in value. 2016 has begun with something shocking - the worst first-week performance for the U.S. stock market in 119 years. Added to this has been the coarse discourse of the U.S. presidential campaign, the vagaries of China policies, and the misbehavior of notable foreign despots. Heightened concern and frustration could lead to “anything goes” investment strategies, but such strategies are ill-suited for achieving investment goals.

### Perspective

The challenging investment environment of 2015 can be seen in **Table I**. Few major market sectors provided positive returns, and those that were positive tended to be modest. Ten-year returns have been included in **Table I** to provide perspective. With the exception of commodities, returns from each market sector were more compelling over the longer horizon. The risk of investing for higher returns is evident by comparing MLP returns over ten years with the 2015 return.

### Looking Ahead

Chances for the size of loss experienced in the first five trading days of 2016 was only 1/10 of 1%, very low but not zero. Time can diminish investment risk. **Chart I** shows the risk of loss from investing in the Dow Jones Industrial Average (“DJIA”) over different time horizons. On any given day, the odds of losing money has been about the same as tossing a coin. The risk of loss over a ten-year horizon is 70% less, but also not zero. Over longer investment horizons, returns can vary considerably and even can be disappointing. **Chart II** shows how ten-year DJIA returns have varied widely around the long term average of +6.3%.

In an environment of ever-present uncertainties, key principles prevail:

- Investing has many risks.
- Each investment bears some type of risk.
- Not reaching investment goals is the #1 risk.
- Investment risk can be managed, not eliminated.

Management of the #1 risk is not an “anything goes” undertaking. It only can proceed from clearly articulated goals, horizons and tolerance for risk. These in turn must reflect realistic expectations for market returns and risks. The management process must incorporate a proven risk-reduction discipline - diversification. Through such a process, the probability of achieving investment goals can be enhanced as market events, historic or shocking, become data points not decision points.

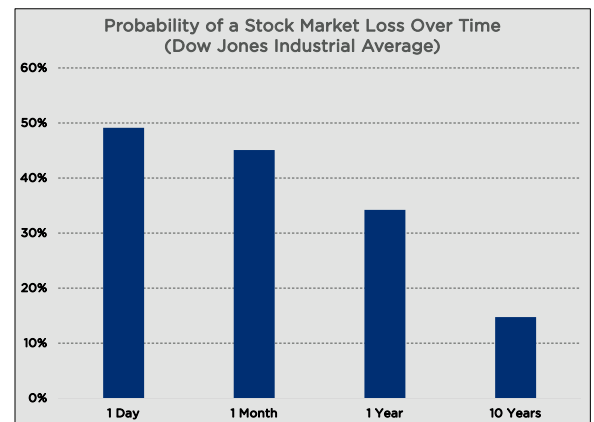
*In olden days, a glimpse of stocking was looked on as something shocking. But now, God knows, anything goes.*

Cole Porter, 1934

**Table I**

RATES OF RETURN FOR PERIODS ENDED 12/31/2015		
Sector	One Year	Ten Years
Money Market	0.0%	1.2%
High-Quality Bonds	0.5%	4.5%
High-Yield Bonds	-4.6%	6.8%
Large Cap U.S. Stocks	1.4%	7.3%
Small Cap U.S. Stocks	-4.4%	6.8%
Foreign Developed Market Stocks	-0.4%	3.5%
Foreign Emerging Market Stocks	-14.6%	3.9%
Commodities	-24.7%	-6.4%
U.S. REITs	4.2%	7.3%
MLPs	-32.6%	8.7%

**Chart I**



**Chart II**

