2015: A Whole lot of nothing. Will 2016 be the same?
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How can a year where most of our clients were up or down a smidgen be satisfying to me? That's a good question and I can answer it with two words: “land mines”. There were stock and bond land mines lurking beneath the surface waiting to explode and hurt our clients’ portfolios all over the place! The largest one was investments in the energy sector.

2016 Outlook

Equities

Most major investment-house forecasters are predicting not much return in U.S. equities this coming year. The most common reasons they give are rising interest rates and the market being fully valued when compared to the earnings growth projections. Who knows if they are going to be correct? Most forecasters last year were too optimistic with their predictions. Hopefully this year they will be wrong too and the market will do better than most people think. I still believe that this year like the latter, will be a “stock picker’s” market. My favorite sectors are technology, healthcare, financials, and consumer discretionary. One last thing on energy stocks: no one knows what oil prices are going to do in 2016. My first thought is that they are going to stay down longer than most people think. If, though, signs of equilibrium between supply and demand begin to appear going into the summer, I would allocate more funds to the energy sector. I still like developed country equities (Europe and Japan). I believe both areas compared very well to domestic equities and that it is a good bet they can outperform our market this year as well.

Fixed Income

The biggest news effecting bond investors last year was obviously the Federal Reserve raising interest rates a quarter of a point in December. Now a quarter of a point isn't much - especially since the rates are starting from zero. However, it is an inflection point that can't be ignored. Like oil prices, the opinions by professional interest-rate forecasters vary greatly. They all do agree that the extent of any further increases in short-term rates will be directly correlated to the strength of the U.S. economy. My personal opinion is that the Fed will do very little in 2016. Consequently, I like bonds, especially tax-free ones that have a maturity range between 12 to 15 years. I don't think longer rates will rise enough to greatly depress the value of those bonds and investors can get at least a 3% tax-free income stream along the way, which isn't that bad.
Final Thoughts

2015 was very challenging for investors. There wasn't much money made anywhere around the world. I think 2016 will be very much the same. That is not to say that I think the world is about to end and we will see assets lose value like they did in the Great Recession. On the contrary, the U.S. economy looks like it is in pretty good shape. So I’m not too worried about a 20% or more drop in the stock market. What does keep me up at night is the lack of return potential for my clients. I am always looking for opportunities to enhance the return of the portfolio without taking an undue amount of risk. That has not been an easy feat. I have tried different types of investments over the last couple of years to enhance the returns to our clients - to no avail. I do think, though, when planning for the future, that return expectations should come down. I would be thrilled if my clients made 3% to 4% this coming year. That is a far cry from the 1990s when I used to get upset if my clients didn't make at least 10% to 15% a year. Oh how I long for the good ol' days! Now that really sounds like something our parents or grandparents would say, doesn't it?

In closing, I hope that you and the ones you love have their health and can accomplish great things in 2016. Those are the two things I pray for every day. We all at The Millner Group thank you for being our clients. We never take you for granted.

Regards,

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