ALPHA CUBED
INVESTMENTS

Investment Letter

April 1, 2016

"Guardrail to Guardrail"

In our last Investment Letter we focused on the likelihood of higher volatility in the domestic and world stock markets, but we did not anticipate that we would have the worst January in the history of the US stock markets. During the month of January the S&P 500 Total Return Index dropped -8.04% and ultimately bottomed for the quarter in February down -10.27%. This unprecedented downside volatility was followed immediately by an equally rapid recovery to the upside, leaving us with the following performance for the quarter in the major indexes:

	2016 Q1
S&P 500 Total Return	1.35%
NYSE Composite Total Return	0.63%
Russell 2000 Index	-1.92%
Barclays Aggregate Bond Index	3.03%

Source: Bloomberg

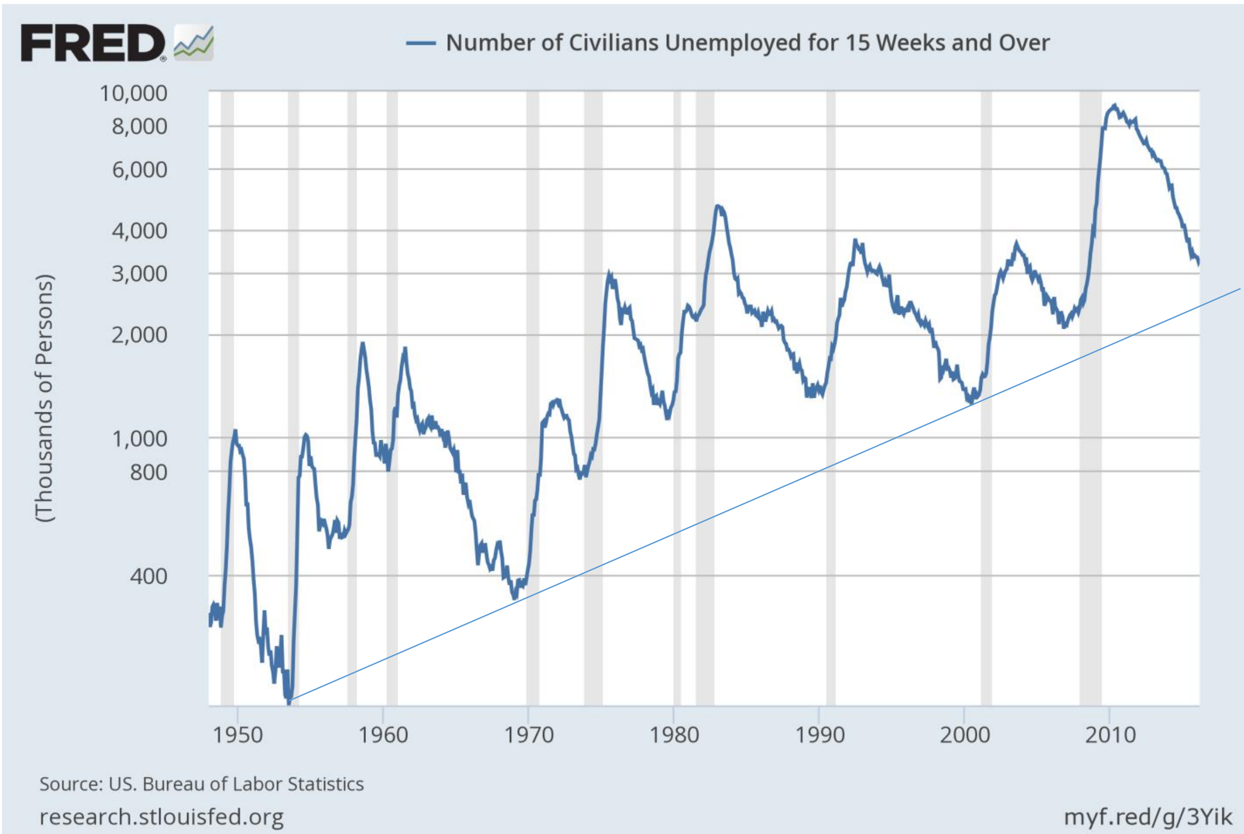
We titled this letter "Guardrail to Guardrail" because of this almost unprecedented volatility and the impact it has on investors pursuing their long-term investment goals. It is quite unsettling to see such rapid swings in the markets, but we stuck with our investment process throughout the quarter. Our focus at the beginning of the year was on four major factors: GDP, Valuations, Rates, and the US Dollar. We think those are still the main variables to consider, and our position has not changed on any of these factors relative to our last update. GDP estimates continue to be revised slightly lower, valuations on the US stock market remain relatively high, the Fed is still looking to raise rates as they are able, and the US Dollar is consolidating at a relatively high level for now.

	1/1/2016	3/31/2016
U.S. 2016 GDP Estimates	2.5%	2.1%
S&P 500 P/E (Current)	18.4	18.4
S&P 500 P/E (Forward)	17.4	17.1

Source: Bloomberg

So, while there has been a lot of volatility, not much has changed with regard to the major variables we have been monitoring.

There has been a lot of talk about a potential recession because of the GDP revisions and all of the recent volatility. One of the indicators we follow is the number of unemployed for 15 weeks and over. This indicator has reversed direction higher before every recession in the past and tends to bottom several months in advance. As you can see from the chart below, this indicator is not signaling a recession at this time:



We do not see a recession at this point although there are several catalysts for higher volatility going forward. As we move forward, it is likely that there will be some uncertainty around the presidential election. The Fed will also use any positive market environment as an opportunity to raise rates. While they stress data dependence around inflation, unemployment, and global growth, we continue to feel that they will use strength in the US stock market as one of the main considerations around the timing of rate increases (unless there is an extreme reading in one of the other factors like inflation for instance).

Additionally, we continue to feel that there will be an acceleration in the bankruptcy & reorganization cycle in some of the lower tier energy and commodity based companies. Due to decreases in energy and commodity prices in general and lower profitability across the industry, the debt market has become increasingly unfavorable for these companies. This makes it difficult for these companies to refinance their debt as it comes due. The chart below illustrates the challenges many of these companies are facing as they attempt to meet existing debt payments and maturities:

While there may be headline risk around this potential activity, we do not believe there is systemic economic risk to the US economy. The exposure of the largest US banks is limited to under 10% generally and most have already taken loss provisions against the majority of their exposure to these vulnerable sectors. We continue to have very limited exposure to any of these sectors.

As we stated in the last letter, all of these factors lead us to believe that generally continuing to focus on larger cap, US companies will be the best path forward in 2016. In addition, for many of our models, we favor larger dividend-paying stocks. There may be generally higher levels of volatility ahead over the next several quarters, but we continue to believe that high-quality US-based investments will be rewarded in 2016.

Sincerely,

Todd Walsh & the rest of your Alpha Cubed Portfolio Management Team