ALPHA CUBED
INVESTMENTS

Q1 2016 Market Letter

January 4, 2016

"G.V.R.U."

Major world markets in 2015 had generally poor to negative performance as illustrated by the table below. It was an unusual year in which none of the major US asset classes performed well. This is a rare occurrence and has not happened since 2001.

	2015
S&P 500 Total Return	1.4%
NYSE Composite Total Return	-6.4%
Barclays Aggregate Bond Index	0.5%
Barclays 1-3 Mo. U.S. Treasury Bill Index	-0.1%
Commodities	-24.7%

We titled this letter "G.V.R.U." because we think many of the same macroeconomic forces that drove last year's markets are still in place. We believe that US/World **G**DP, **V**aluations in the current US stock markets, the probability that the Federal Reserve will continue to raise Interest **R**ates, and potential continued strength in the **U**S Dollar will be the driving factors governing returns in the US stock markets in 2016.

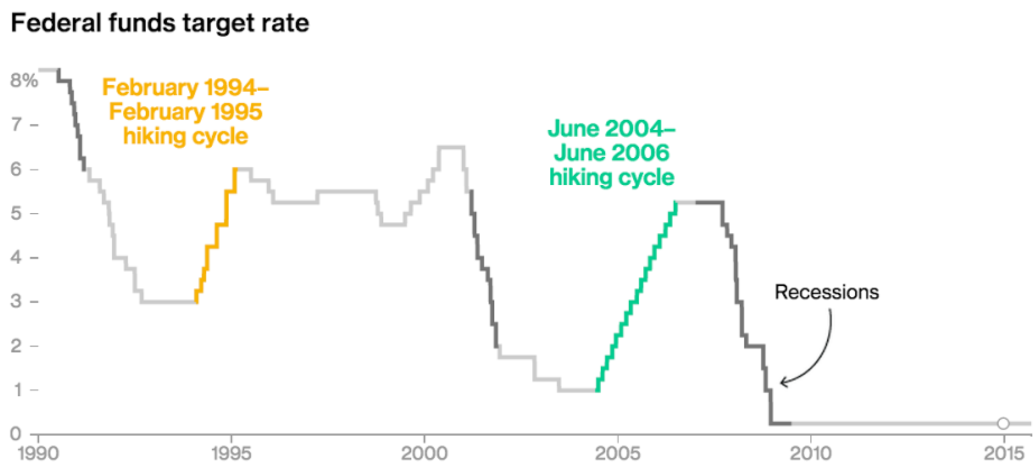
Let's start with GDP growth estimates for the US and the world. US GDP estimates are relatively low and suggest stable, consistent growth in the US. EU & World GDP numbers are also relatively low.

	2015	2016	2017
U.S. GDP	2.7%	2.8%	2.4%
European Union GDP	1.5%	1.8%	1.6%
World GDP	2.8%	3.3%	3.2%

This suggests to us that US larger capitalization companies with primarily domestic revenue streams should generally outperform other sectors of the equity markets. We have been focusing on this sector for over a year, and it has served our portfolios well.

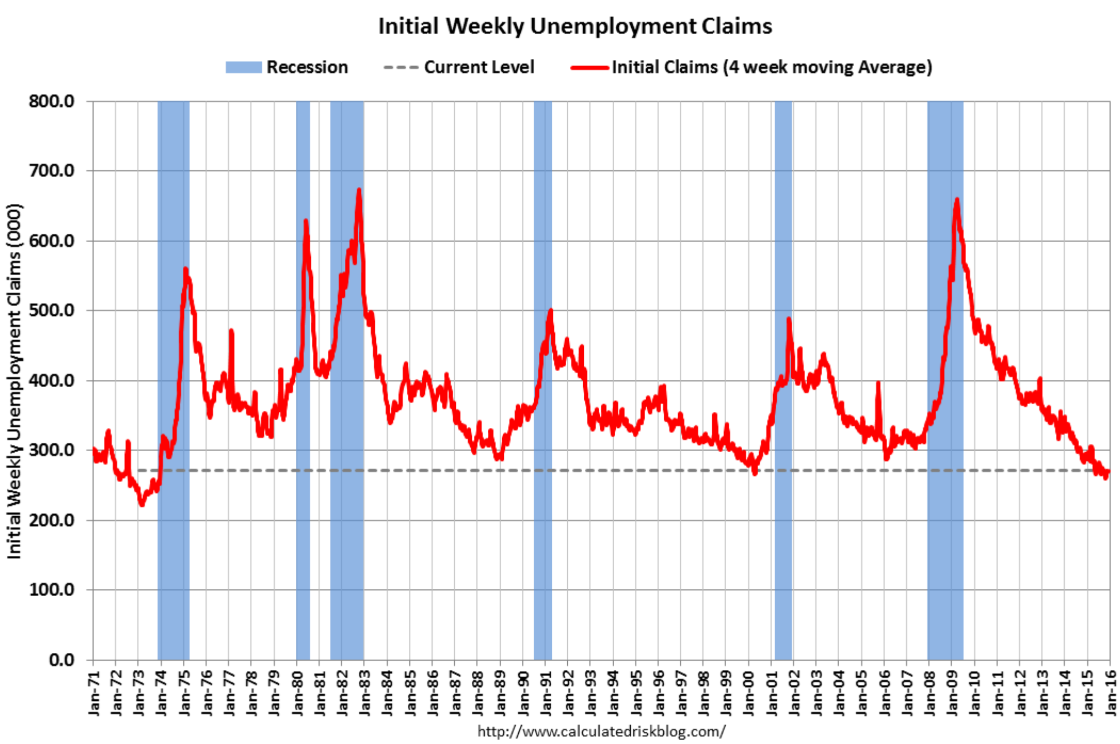
Also, current US equity valuations remain generally high by historical standards. The Price/Earnings ratio for the S&P 500 is just over 20 and is one of many internal metrics that suggest market valuations toward the higher end of the range. Current estimates for 2016 S&P 500 earnings are coming in at 7% and, after a relatively flat year, could have a much easier time beating estimates in 2016.

As anticipated, the Federal Reserve raised rates the fourth quarter. Many people are unsure of the Fed's next move as we enter 2016, but we think it is illustrative to look at prior rate increasing cycles for some measure of guidance. Although there are many economic cross currents, historically the Fed has raised rates multiple times once they have started the process, as evidenced by the chart below:



Source: Whiteaker, Chloe, Jeremy Scott Diamond, and Jeanna Smialek. "Hiking Without a Map." *Bloomberg Business.* 16 Dec 2015. Web. 4 Jan 2016. < http://www.bloomberg.com/graphics/2015-new-fed-hike-cycle/ >

Many of the indicators that the Fed uses to determine whether or not to raise rates have continued to improve, including unemployment, which we can see in the chart below has continued to steadily improve:



We believe that interest rate hikes by the Federal Reserve could be the defining factor behind equity market returns in 2016 with the primary influence manifesting in the second half of the year.

We believe that stability and some growth in the US economy, rate increases by the Federal Reserve, and lackluster growth outside the US will collectively allow for stability and/or continued strength in the US dollar. Therefore, we continue to underweight sectors that will do poorly in that environment including International, Emerging Markets, and Commodities such as energy and mining. With regard to energy, we think that there will be a reorganization cycle that rolls through the industry this year that may end up putting in a bottom for the sector. We will continue to monitor these developments for an optimal re-entry point into this asset class generally. We also think that continued US dollar strength may lead China to devalue its currency which could lead to an intra-year spate of volatility as other emerging market currencies are forced to follow suit.

Other issues we have identified include geopolitical events and politics. While geopolitical events are difficult to forecast, we know for certain we are in an election year, and there will be some fireworks as we approach Election Day. No matter who wins, we think there will be some pressure on the healthcare sector of the market so we are generally avoiding new acquisitions in that sector.

All of these factors lead us to believe that generally continuing to focus on larger cap, US companies that derive the majority of their revenues domestically will be the best path forward in 2016. In addition, for many of our models, we favor larger dividend paying stocks. At some point, the US dollar will peak, GDP in the EU and globally will pick up, and many of the sectors that have been out of favor will come back strongly. But for now, we think the preponderance of evidence suggests that we stay the course and generally stay with high quality companies in the US.

Sincerely,

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

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