



ALPHA CUBED INVESTMENTS

Q4 2015 Market Update

October 13, 2015

For the second quarter in a row, global stock markets experienced losses across almost all sectors and continents with levels of volatility that we haven't experienced since 2011. Last quarter, the New York Stock Exchange Composite index on a price return basis lost 9.3%, which we believe is a good representation of all US stocks, while the MSCI World Ex-US Index lost 10.6%. For the last 9 months of this year, the S&P 500 index was down 5.3%, and the Dow Jones Industrial Average was down 6.96%. We find it interesting that domestic dividend stock returns, as measured by SDY—the SPDR S&P Dividend ETF that dropped 5.31% in Q3 2015—, underperformed the higher-beta growth stocks as measured by QQQ, which is an ETF that tracks the performance of the Nasdaq 100 Index and fell 4.96% in the same period. This recent downturn hit all sectors of the market, not just the high growth names. Fears of a global economic slowdown, primarily in China and emerging markets, created the most worry among investors. With stocks in the US trading at above average multiples, investors began to question the strength of Q3 corporate earnings in light of downward revisions to global GDP. Stock sectors that were hit the hardest were commodity-related industries in the oil and materials space, which we have generally been avoiding since last year.

The last time the US market experienced a 10%+ drop was back in 2011 when the government shutdown was the primary worry. However, the market quickly recovered and went on to new highs as fundamental economic conditions continued a slow improvement. This recent drawdown to US stocks began in May, and at one point in September, US stocks as measured by the S&P 500 index were down 13% from their highs. So far in October, we are seeing US and global stocks recovering some of the losses: the indices are now down in the low single digits, and the technical patterns are showing strength. Based on current information, we are hopeful that the worst of the losses are behind us and that the US stock market can finish positive by year-end as long as earnings meet expectations over the next few weeks and the fundamentals of the economy continue to slowly improve.

Here are the current consensus estimates and statistics according to Bloomberg for the market and the US economy:

- GDP is forecasted to grow 2.5% in 2015 and 2.6% in 2016.
- S&P 500 earnings are projected to grow 10.06% over the next 12 months
- Unemployment is down to 5.1%

In August, the technical chart patterns of the S&P 500 went negative, and we raised some cash to avoid downside risk in our Tactical program. The market then traded for about five weeks in a sideways pattern, and our focus was to the downside risk and a possible retest of the August 25th low of 1867 on the S&P 500 index. In late September, the market almost broke below that support but then rallied strongly back up, and as of last week, had closed above the higher resistance at 2000, which we see as a positive sign. Some sectors that we feel recently took a hit and are worth adding to are healthcare, technology, and financials. We began the earning season last week and will watch the announcements closely over the next week.

We remain constructive on the markets as long as fundamentals continue to support that view. We expect the Fed will raise interest rates within the next 3 to 12 months but only in a positive market environment. There remain plenty of catalysts for volatility, but solid GDP, good earnings growth, and continuing improvement in the labor picture should allow for moderately higher rates along with solid market performance.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd", with a long horizontal flourish extending to the right.

Todd & the rest of your Alpha Cubed Portfolio Management Team

Source: Bloomberg LP. Economic Forecasts. Retrieved October 12, 2015 from Bloomberg database.

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