WOODARD & COMPANY

Asset Management Group, Inc.

Registered Investment Advisors

Portfolio Profile

117 Kinderton Boulevard
Bermuda Run, North Carolina 27006
(336) 998-7000 (800) 214-1144 Fax (336) 998-7050
woodard@wcamg.com

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What is happening and what are we doing about it? It was a tough beginning in the stock market for 2016. January and February saw a 10% plus decline, but then in March, we saw a rebound. As you are aware, we had a 10% correction in the 4th quarter of 2015 and we had strategically reduced equity exposure in July in anticipation of that market decline. We then reinvested in early October for the subsequent rally. That strategy worked well through year end. Unfortunately, we had another 10% decline to start the year (which we did not anticipate). This was the first time in market history that there were two 10% stock market corrections (downturns) within a six-month period. The decline appears to have been caused in large part over concern with China's economy and slowing earnings in the U.S. In any event, the correction seems to be behind us now.

We expect to have reasonably good markets this year, although nothing too exciting either good or bad until after the elections. However, as always, there are a few storm clouds. As you may have noticed, we purchased a 5% gold position in most accounts for the first time in a couple of years. The secular economic longer-term trend is somewhat deflationary and therefore we do not intend to hold the gold position long term. But in the near term, there are serious currency risks which should bolster gold's value. The foremost of which is the weakening of the Chinese Yuan. However, every central bank seems intent on weakening their country's currency. Gold is a small insurance policy to hedge those currency risks with a chance to profit.

A focus of concern for us in the second quarter besides the aforementioned currency issue is the European immigration issue and terrorism there with the concomitant influence these concerns have on the June vote in Great Britain on whether or not that country will exit the European Union (Brexit). We are studying and considering the potential impact a Brexit would have on portfolios.

Finally, the big issue this year is of course the U.S. Presidential election cycle and aside from the implications of the outcome of the race (possibly good or bad), there are known positive economic implications, which is why we are relatively sanguine about the prospects of the equity markets. These "positive" implications include central banks infusion of capital into the economic system of the country during an election year. This is usually done in order to stimulate the economy and therefore should have a positive effect on earnings with a subsequently positive effect on the stock market. That said, with the S&P over 2000, we anticipate some near-term consolidation.

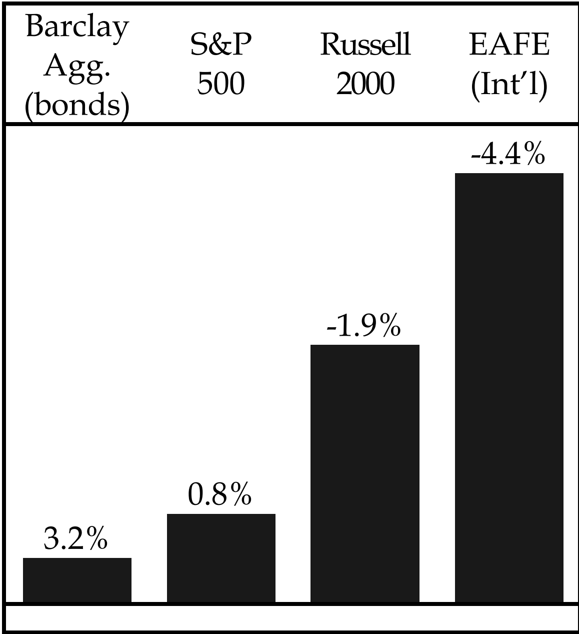
Another move we made early in the year was to significantly reduce our exposure to healthcare as we had discussed in the last newsletter. During this election year with all of the negative comments from essentially every candidate running for President regarding healthcare, it seems unlikely healthcare stocks could outperform. Since that sell, we have seen a decline in the healthcare sector and expect additional pressure over the coming months.

Lastly, we are rebalancing your portfolio by style as well. We are reducing exposure in growth and moving back towards a "style neutral" model, increasing the allocation to value stocks. Frankly, we do not look for much market drama up or down unless a foreign event (currency, Brexit, or possibly an unknown event) influences our markets for better or worse.

Email list. We are attempting to expand and update our email database in order to provide more timely information to you, our clients. Under no circumstance would we permit your email address to be accessed or used by other parties. Additionally, no confidential client data would be communicated via email. Please call us or send your updated email address to woodard@wcamg.com.

Market Review and Forecast. U.S. stocks staged a historic quarterly comeback. After declining 11% this year through February 11, U.S. stocks rallied to post the greatest quarterly comeback since 1933. The first two weeks of January – down 8% -- were the worst first two weeks of a year ever. A 7% March rally (13% since February 11) enabled the S&P 500 to edge up 1% for the quarter.

The Major Indices
Full Year -- 2015



However, small-cap stocks suffered a 2% quarterly loss while the tech-heavy NASDAQ was down 3%. The seven year bull market in small caps and the NASDAQ ended during the first quarter as both indices closed more than 20% down from last year's highs. The S&P 500 managed to avoid the 20% decline needed to officially call an end to its bull market which began on March 10, 2009. Overseas the EAFE Stock Index was basically even during the first quarter. And according to Barron's in its April 4 issue, stocks worldwide had a tiny .4% gain for the first three months of 2016.

So why the turnaround? We began the year worried over: (1) a slowdown in China (its market went down 11% the first week in January), (2) higher interest rates, (3) sluggish U.S. and global growth, (4) declining energy company profits, and (5) a strong dollar that hurt corporate profits. (It is estimated that the strong dollar cost S&P 500 companies $100 billion in profits last year.)

Although Chinese manufacturing continued to decline until last month its expanding service sector is doing well. (Apple gets one-third of its iPhone sales from China.) Last

month, Chinese manufacturing grew for the first time in seven months.

The Fed shocked the market in December when it indicated it might raise rates four times this year. It soon backed off and now most economists are predicting only one or two increases for this year. (The Dow was down 100 points March 29 when Fed Chair Janet Yellen gave a dovish speech to the Economic Club of New York, clearly indicating the Fed was in no hurry to raise rates. The market then rallied to close up almost 100 points!)

Fourth-quarter U.S. GDP growth, reported at only .7% in January, was revised upward to 1.1% in February. It is expected to be near 2% for last quarter and almost 3% by this year's third quarter. Those forecasters – most of them in January and early February when stock prices were plunging – who predicted a 2016 recession look to be a bit early.

While lower oil prices are good for the economy long-term, the market focused short-term on the negative outlook for energy companies as oil fell to $26 on February 11, then rallied back to the low $40s before ending the quarter at $38. (Our somewhat cloudy crystal ball indicates the range this quarter is between $30 and $45 per barrel.)

On the jobs front, the "official" unemployment rate ticked up .1% in March to 5%. Last month our economy created 215,000 new jobs after a stellar February when 242,000 were added.

Lower gasoline prices have helped consumer confidence and buoyed new vehicle sales which set an all-time record (17.5 million) last year. New home sales in February were up 6% year-over-year as very-low interest rates make houses (and cars) more affordable.

The U.S. economy is certainly stronger than western European nations, as well as Japan, Australia and Canada. European countries and Japan have all-time low interest rates, even negative rates for the euro countries.

Fed chair Janet Yellen has several times cited weak world economic growth as a major concern. One bright spot for both Europe (except Russia) and Japan is lower oil prices -- they import almost all their energy resources.

Given the rally in U.S. stocks since mid-February, it's difficult to believe stock prices will move much higher this quarter. It is estimated that profits from S&P 500 companies when they begin reporting will be 7% less than they were for 2015's first quarter. A weaker dollar, down 4% last quarter, should provide some help for S&P 500 company profits. (Almost 40% of their profits come from foreign sales.)

Energy sector profits are expected to fall a stunning 99% compared to a year ago. (Energy production is about 7% of our economy.) Yet lower oil prices are helping consumers – no wonder that Disney's parks are jammed packed, even after raising ticket prices twice in the last 12 months.

Stocks are selling for about 17x current earnings – about 10% above their long-term average. Yet, interest rates are low and it seems doubtful that returns from bonds can average much more than 3% this year.

Most experts believe it is likely that the U.S. economy (and the world economy) will strengthen the last half of the year. (Canada just reported its best monthly GDP growth in three years.) We believe U.S. stock prices will be higher by year-end but maybe only marginally so. (Of course, as this quarter so

aptly demonstrated, no one can accurately and consistently predict stock market moves!)

Interest Rates. The first quarter of 2016 is in the books and most investors, either in bonds or stocks, won't forget the ride anytime soon. A quick glance at a chart of the 10 Year Treasury against the S&P 500, as well as the Dow Jones Industrial Average, would tell the story. The volatility to the downside in the stock market last quarter sent investors looking for safety in fixed income. The 10 Year Treasury opened 2016 with a yield of 2.27% and closed the quarter yielding 1.78%. An interest rate move of this type in yields of course would indicate a nice move in bond valuations as fixed income yields move opposite of their price. This move of course corresponds with the downturn in the stock market from early January and into February when the 10 year yield got as low as 1.63%. Central banks across the globe all seem to have varying degrees of an "easy" monetary policy in place and with global economies giving sluggish performance at best, rates are most likely going to be in this lower range for longer.

High yield or "junk" bonds saw terrible performance in January and February as they continued their sell off into the New Year. While they did manage to bounce back some from their lows of the quarter they are still negative approximately 5.5% over the previous 52 week period. The selloff in junk bonds started last summer (as clients may recall, we sold our high yield positions last summer before the selloff accelerated). And while some investment professionals and economists are beginning to signal the "all clear" sign, we at Woodard & Company believe it is premature to rush back into the sector. The potential volatility from high-yield investments can negatively impact a fixed income portfolio if not managed carefully.

Social Security. In addition to traditional asset management, we also help our clients with a variety of financial management topics, including Social Security and Medicare. Please keep in mind we do not sell Medicare Supplemental Insurance or annuities. We simply try to help answer the questions that may arise with each individual case.

By now a majority of us understand that the opportunity to file and suspend our social security benefits will end this year. Yet the Social Security Administration has just now issued detailed rules for this process. So let's take a moment to review:

- April 29, 2016 is the date to remember – anyone who is 66 years of age and submits a request to file and suspend benefits by this date will be able to take advantage of the traditional rules. That means a worker may trigger benefits for a spouse or dependent child while the workers own benefits continue to grow until age 70.
- Under the same scenario, a worker may request a lump-sum payout of suspended benefits instead of earning delayed retirement credits. This option will NOT be available after April 30, 2016.
- Existing requests for file and suspend will not be affected.
- After April 30, 2016 the only reason to file and suspend will be to earn delayed retirement credits of up to 8% annually.

  Example: A worker began taking reduced benefits at age 62. That worker may decide to suspend their benefits at age 66 and not collect until

age 70, thereby increasing their monthly benefit.

So, if you and your spouse or parents are at or near the age to consider Medicare or have questions regarding your own Social Security benefits, please give us a call. Ask for George as he is our expert on these issues.

We have also begun offering a series of Medicare and Social Security seminars for existing clients and guests. You will be hearing more about these seminars over the coming months.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.