

NATIONAL WEALTH ADVISORS Inc.
Business & Personal Financial Planning

Michael A. Caputo, MSFS, AEP®
President

SUMMIT FINANCIAL RESOURCES, INC.

Investment Newsletter First Quarter 2016

National Wealth Advisors Inc. President. Michael A. Caputo. MSFS. AEP® offers securities and investment advisory services through Summit Equities, Inc. Member FINRA/SIPC, and financial planning services through Summit Equities, Inc.'s affiliate Summit Financial Resources, Inc. 4 Campus Drive, Parsippany, NJ 07054. Tel.973-285-3600 Fax.973-285-3666.

20160411-0324

EXECUTIVE SUMMARY

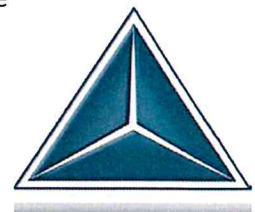
For global investment markets, the quarter's destination was modestly inconsequential. The journey to get there, however, was one for the record books. The quarter's roller coaster ride began on day one when ham-fisted stock market controls by the Chinese government had anything but their intended outcome. By the time newly minted circuit breakers were deemed not such a good idea, the Chinese stock market had suffered two declines of 7% in the first week. Looking for causes beyond the obvious, investors collectively inferred such market behavior could only suggest an all out collapse of the Chinese economy. So began the hunt for confirming data of a hard landing and a quest to de-risk portfolios and insulate against Chinese influenced markets, such as oil and other commodities.

By mid-February, pandemonium reigned. Investor sentiment was lower than during the financial crisis, and investment markets were six weeks into a nosedive that left the majority of global stock markets down at least 10% and in some cases much more. The markets were in need of triage and central banks, once again, came to the rescue. Prompted by a stunning combination of unconventional monetary policy out of Japan, promises by the European Central Bank, further monetary accommodation by China, and assurances of restraint by the U.S. Federal Reserve, investors took a much needed step back to reassess economic fundamentals.

The ensuing multi-week rally may have been kicked off by central banks, but it was fueled by economic fundamentals. Domestic labor

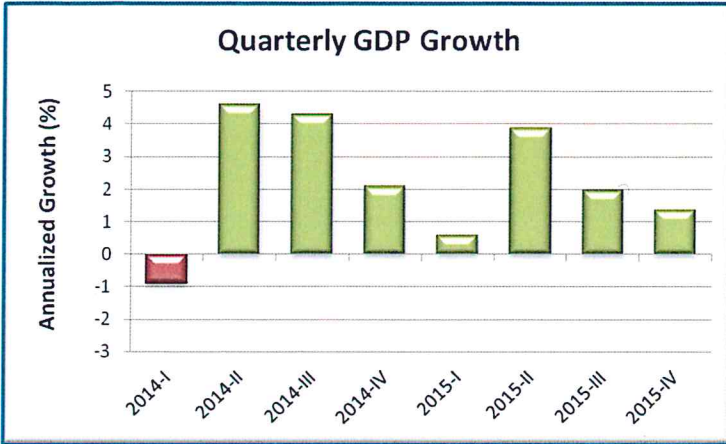
market dynamics are positive, as are those for housing. Oil looks to have bottomed as supply and demand move closer to balance. U.S. inflation (currently desirable) has ticked higher, and perhaps most importantly, the dollar's unrelenting 18 month rise reversed in recent weeks. This single factor has multifaceted benefits ranging from an assist to U.S. GDP growth, a boost to inflation and commodity prices, improved profitability of multinational companies, and greater returns for globally diversified investment portfolios.

Despite the recovery, or because of it, risk remains. Interest rates are low and falling, and the yield curve has not been this flat since the great recession. Credit spreads have also widened and inflation expectations are diminished. *All are economic red flags.* Moreover, market stability and higher inflation can be self-defeating if the U.S. Federal Reserve becomes more hawkish. Even the *anticipation* of a less accommodative Fed would likely push the dollar higher — reversing many of the previously listed benefits. Corporate performance and stock prices have also gone in opposite directions. The recent rally, sending stocks within reach of a new all time high, comes at a time when S&P 500 companies have collectively registered five quarters of year-over-year revenue declines and four quarters of negative earnings growth. This includes expectations of an 8.5% decline in earnings for the just completed quarter! Higher prices on lower earnings translates into less attractive valuations, less opportunity for gain, and less downside support when challenges are encountered.

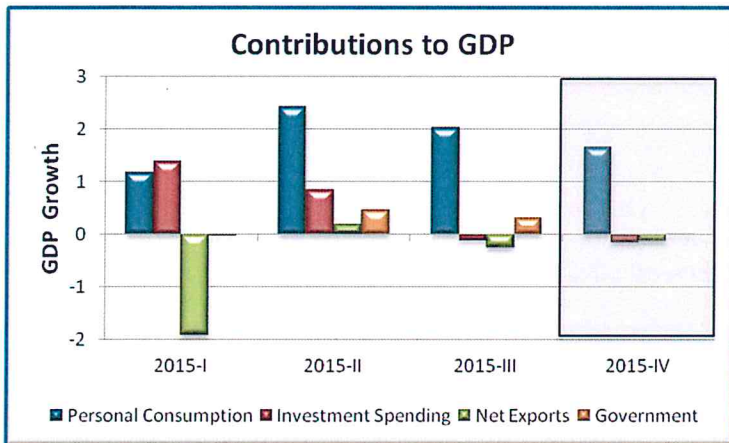


ECONOMIC REVIEW AND OUTLOOK

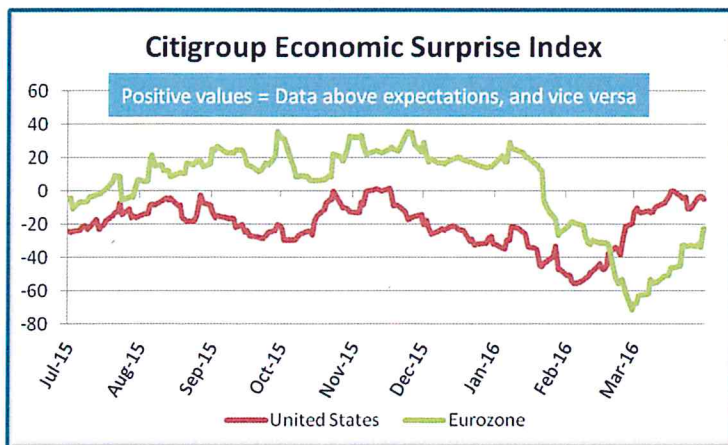
Key Economic Fundamentals



Data Source: U.S. Department of Commerce



Data Source: U.S. Department of Commerce



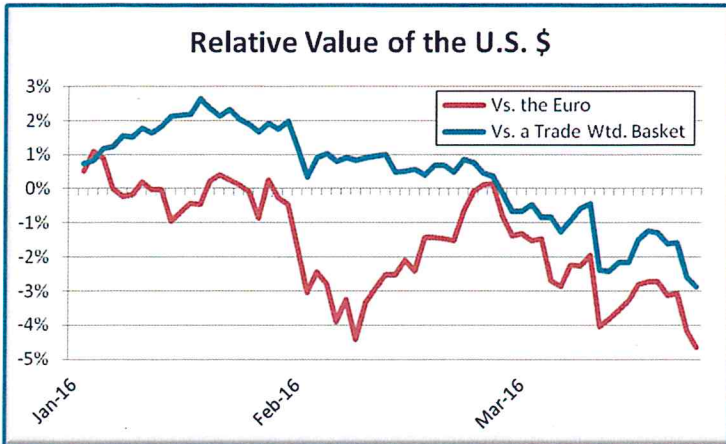
Data Source: Citigroup

U.S. growth outpaced many other developed economies last year, but 2015 was not the breakout period many hoped it would be. Dollar strength and weak global growth weighed on an otherwise resilient domestic economy last year. Driven by similar themes, growth will likely slow modestly in 2016.

As with the third quarter, the final three months of 2015 were driven exclusively by the consumer. Outside of continued favorable growth in housing, investment spending was a drag, and dollar strength weighed on trade dynamics. Forecasts suggest first quarter growth will slow, possibly to less than 1.0% annualized.

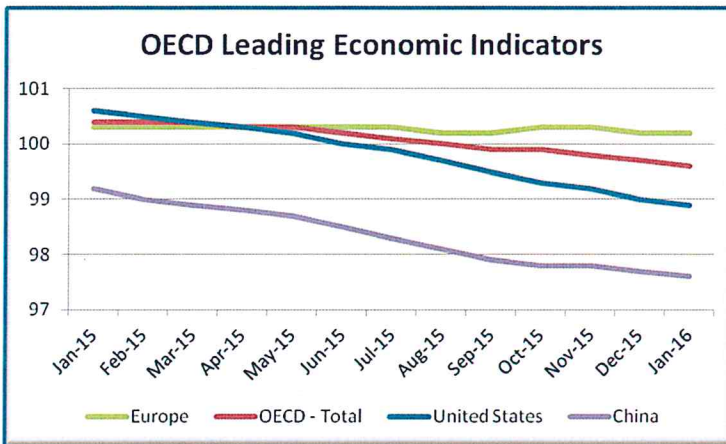
Following a period when economic data came in more or less as expected, results in the initial weeks of Q1 proved disappointing. By mid-month, however, outcomes began to more closely match recalibrated expectations. Early period capital market weakness and the subsequent recovery were fueled, in part, by these factors.





Data Source: U.S. Federal Reserve

A reversal of the dollar's previously unrelenting year and a half climb also brought relief to investors and many pockets of the economy. Commodities, particularly oil, emerging markets, manufacturers, and multinational companies all benefitted from dollar weakness.



Data Source: U.S. Department of Commerce

Aside from a few outliers, such as France, India, and various Eastern European countries, leading economic indicators have been trending lower. The absolute level and pace of decline is most concerning for China, but U.S. trends have been unfavorable as well. Dollar weakness would help to ease domestic economic pressure.

Global Growth Rates¹ (%)

	Q4 2015	Q1 2016	Q2 2016	2015	2016	2017
Advanced	1.7	1.6	1.7	1.9	1.7	2.0
Euro ²	1.3	1.5	1.7	1.5	1.5	1.5
U.S. ²	1.4	1.2	2.3	2.4	1.9	2.2
Japan ²	-1.1	0.6	1.7	0.5	0.6	0.7
U.K. ²	2.8	2.9	2.5	2.2	2.5	2.6
Canada ²	1.9	2.1	2.2	1.2	2.0	1.8
Emerging	4.0	4.4	4.6	4.3	4.7	5.3
China	6.8	6.7	6.4	6.9	6.4	6.3
India	7.3	7.8	7.8	7.5	7.8	8.0
Russia	-2.9	-0.4	-0.6	-3.5	1.5	3.2
Brazil	-5.9	-6.1	-4.4	-3.8	-3.6	1.0
World	2.9	3.0	3.1	3.1	3.2	3.7

Data Source: Goldman Sachs, Central Intelligence Agency

¹Q4 2015 and 2015 are actual, all others are forecasts

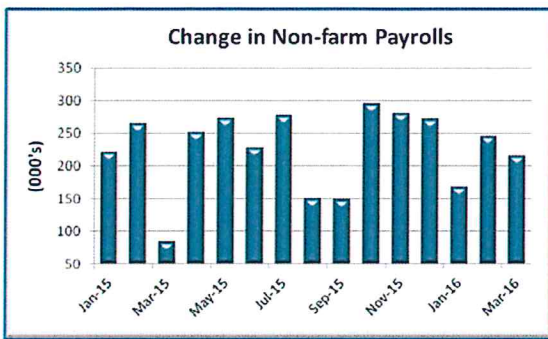
²Quarterly numbers are sequential annualized, others are year-over-year

Economic growth in the four largest economies (Eurozone, U.S., China, and Japan) is expected to either slow or flatline in 2016. Forecasts of a net deceleration in advanced economies is expected to be offset by emerging nations. Strong and accelerating growth in India would be a key driver as would "less bad" results out of Russia and Brazil.

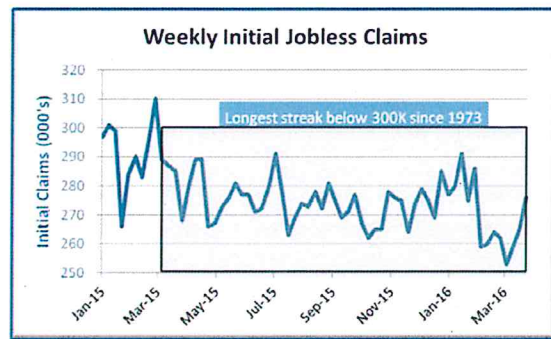


Employment

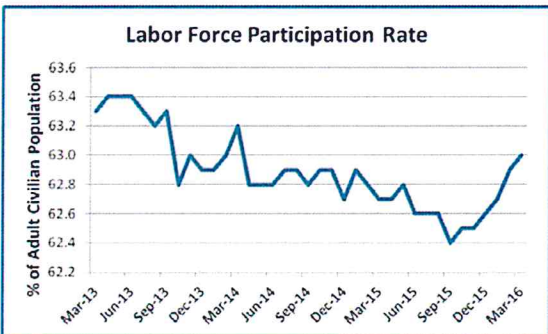
Labor market strength continued in 2016. Payroll growth averaged in excess of 200,000 jobs per month, and initial jobless claims continued below 300,000 for a 56th sequential week — a record dating back to 1973! The labor force participation rate also continued to rise, hitting the highest level in two years. Ironically, this improvement actually drove a slight uptick in the unemployment rate as an abundance of jobs has pulled people *back* into the workforce. This will be a critical driver of long-term economic growth. This goes double considering weak investment spending has led to paltry gains in worker productivity. Hopefully, these favorable dynamics will chip away at the number of long-term unemployed individuals, still elevated, as well as continued labor market slack evidenced by the U6 or "underemployment" metric.



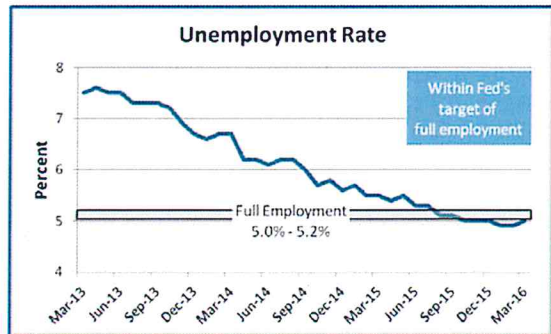
Data Source: U.S. Department of Labor



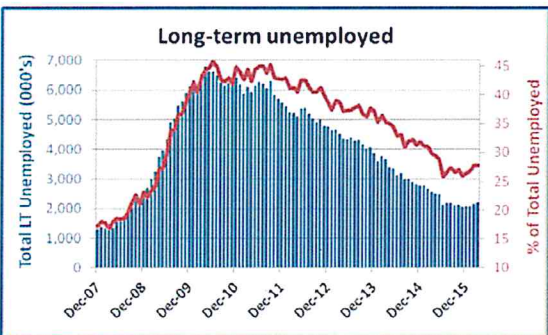
Data Source: U.S. Department of Labor



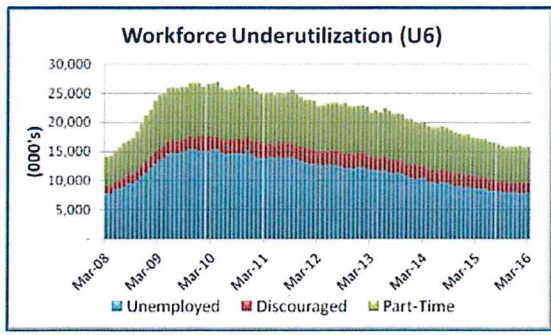
Data Source: U.S. Department of Labor



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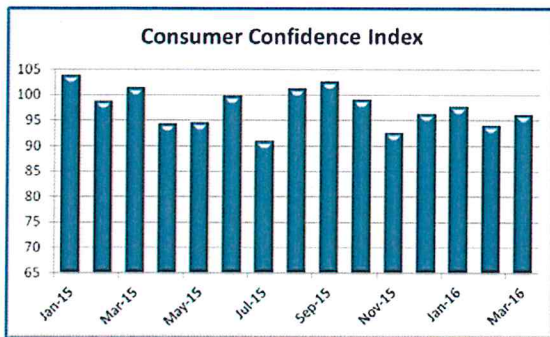


Data Source: U.S. Department of Labor

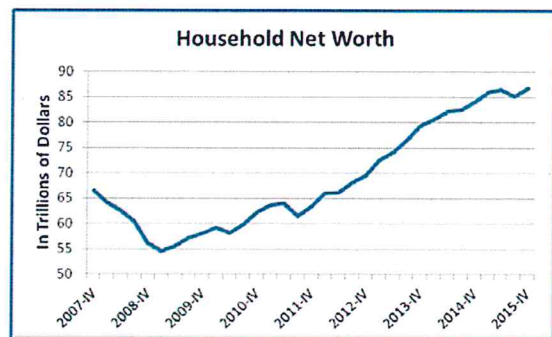


Consumer

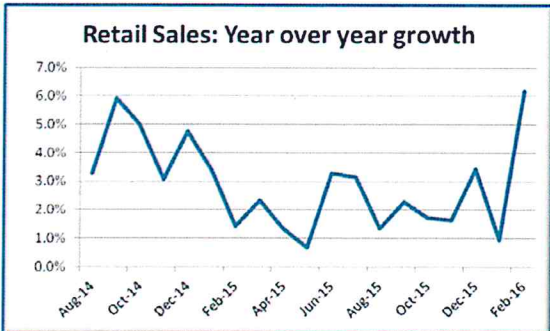
Low interest rates, housing market gains, favorable labor market dynamics, and cheap gas have all contributed to the U.S. consumer remaining resilient and confident. Balance sheets are strong, debt levels are reasonable and household net worth hit a new high at the end of 2015. To the extent the newfound wealth of diminished energy prices has not found its way into retail cash registers, it has driven some of the highest savings rates we have seen in years. Contrary to what some believe as a negative, this phenomenon enhances future economic stability and can improve longer-term economic growth through improved capital formation, business development, and capital investment. For investors, who fundamentally forego immediate gratification in hopes of enhanced future purchasing power, consumer behavior is well aligned.



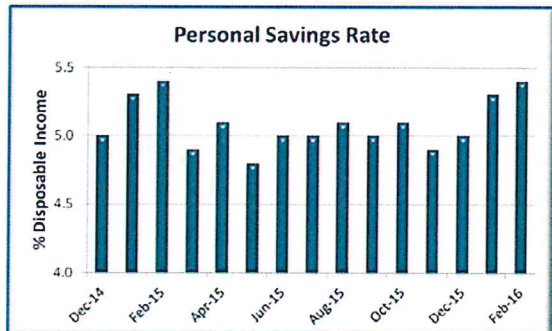
Data Source: The Conference Board



Data Source: Bloomberg



Data Sources: U.S. Bureau of Econ. Analysis/U.S. Federal Reserve

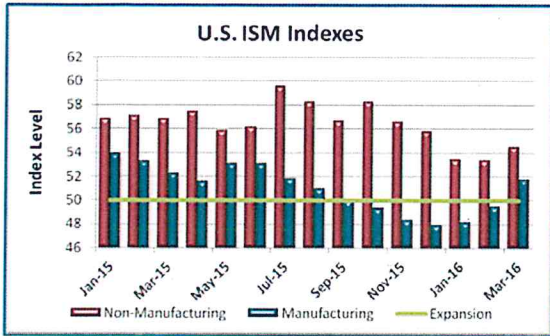


Data Source: U.S. Federal Reserve

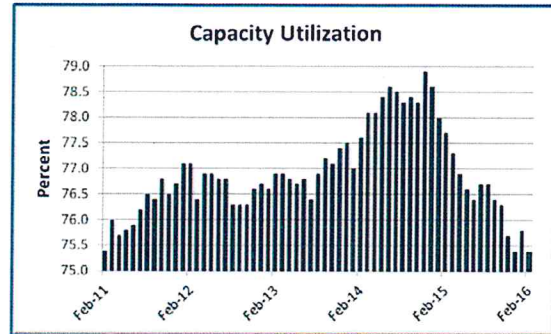
Business Activity

As shown by the ISM graph on the following page, we have had at least a one month reprieve from the declining trend in the service economy and the contraction in manufacturing. One month does not assure a trend and in this case one is not likely in the offing. Dollar strength, low energy prices, and weak global growth have been the culprits behind manufacturing weakness and the stunning 15 month decline in the utilization of U.S. manufacturing, mining, and utility infrastructure. Recent dollar weakness has helped, but may reverse if/when the Fed resumes a more hawkish monetary stance (i.e. less accommodative). Likewise, energy prices have jumped, taking modest pressure off of mining, but future gains will be harder won. Finally, ongoing global weakness appears to be a given, and is thus unlikely to provide relief.





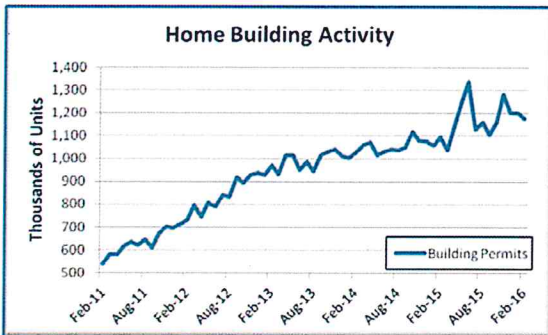
Data Source: Institute for Supply Management



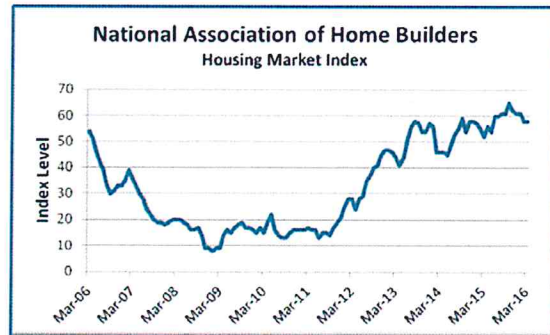
Data Source: U.S. Federal Reserve

Real Estate

The two pillars of U.S. economic strength, of late, have been the consumer and housing. As a contributor to GDP, investment in residential housing has grown at an annualized rate of 8% or better for the last six out of seven quarters. Over half of these quarters registered annualized gains in excess of 10%! Building activity has steadily increased in recent years, home builder sentiment hit new highs in recent months, and annual home price gains have accelerated over the past year. Mortgage rates, already attractive, plummeted in the first quarter and should remain favorable provided inflation is contained and the Fed moves according to plan (i.e. slowly). Provided buyers are not priced out of the rising market, and builders manage to find adequate labor and land (increasingly a challenge), housing should continue to be a positive.



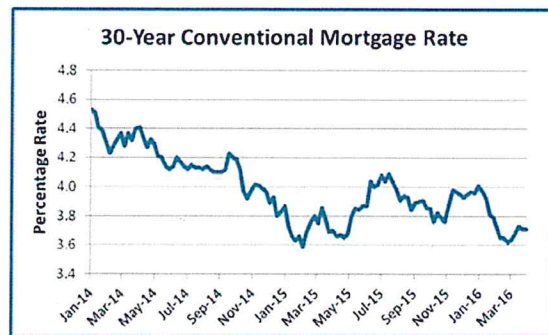
Data Source: U.S. Census Bureau



Data Source: National Association of Home Builders



Data Source: S&P/Case-Shiller



Data Source: U.S. Federal Reserve



CAPITAL MARKETS REVIEW

Returns

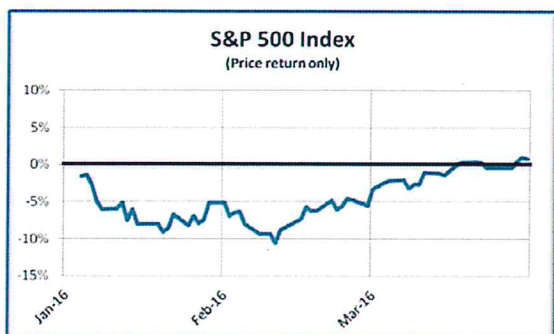
1 st Qtr 2016	
Cash and Fixed Income	
U.S. Treasury Bills	0.1%
Barclays U.S. Aggregate Bond	3.0%
Barclays Municipal Bond	1.7%
Barclays Global Agg. ex. U.S.	8.3%
Hedge Funds and Alternatives	
Bloomberg Commodity	0.4%
DJ US Real Estate	5.2%
HFRI FOF Composite	-2.5%

1 st Quarter 2016	
Domestic Equities	
Wilshire 5000	1.2%
S&P 500	1.3%
Russell 2000	-1.5%
International Equities	
MSCI ACWI ex. U.S.	-0.2%
MSCI EAFE (Developed)	-3.0%
MSCI EM (Emerging)	5.7%

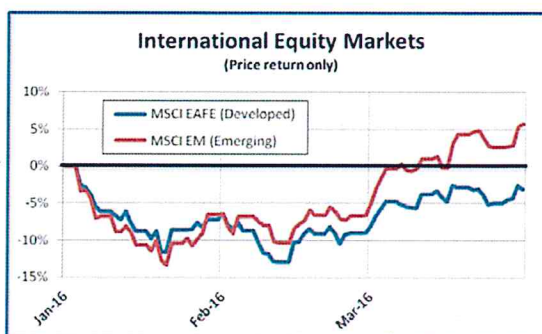
Data Sources: Morningstar & Hedge Fund Research, Inc.

Equity Markets

On the heels of extraordinarily accommodative monetary policy, reasonable economic data, and modest dollar weakness, global equity markets staged a dramatic rally in the second half of the quarter to recoup losses incurred during the first six weeks of the year.

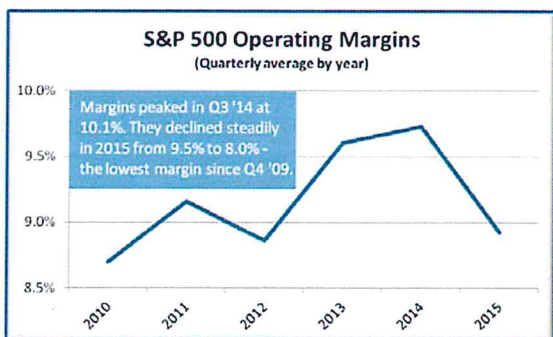


Data Source: S&P Dow Jones Indices LLC

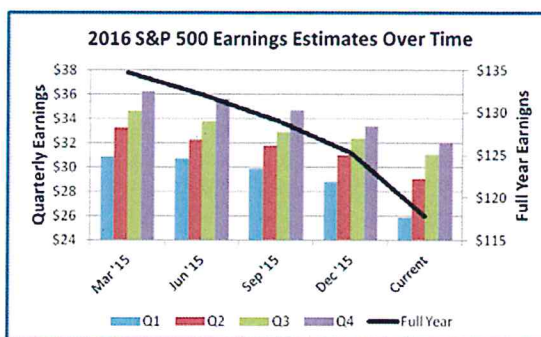


Data Source: Morningstar

Equity market fundamentals have deteriorated, however. Operating margins for the S&P 500 have trended lower since peaking in 2014, and earnings expectations for 2016 have declined substantially over the past year. The first quarter of 2016 will mark the fifth quarter in-a-row of year-over-year revenue declines and the fourth quarter of negative earnings growth.



Data Source: S&P Dow Jones Indices LLC

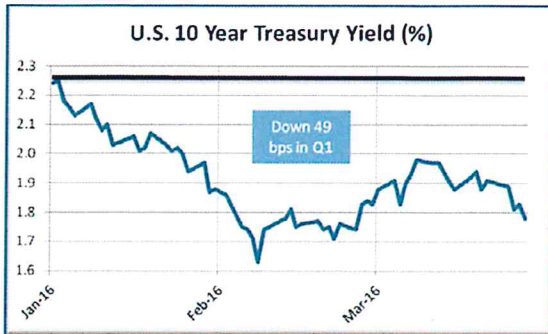


Data Source: S&P Dow Jones Indices LLC

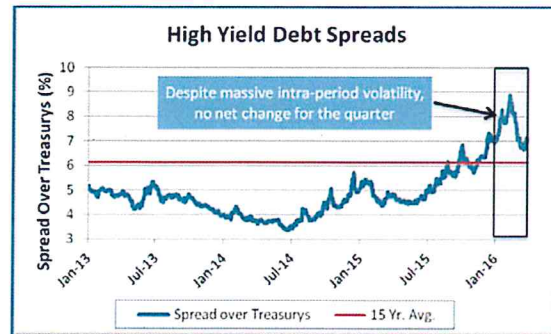


Fixed Income Markets

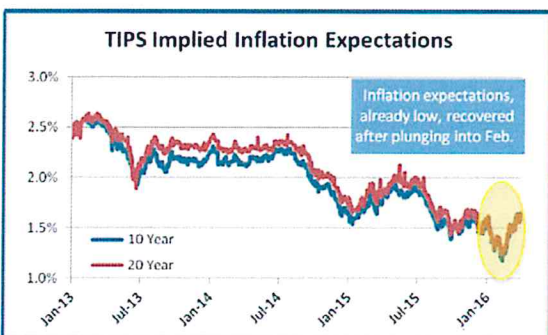
Fixed income markets are suggestive of economic weakness. Low and falling interest rates, wider credit spreads, diminished inflation expectations, and the flattest yield curve since the great recession are not positive signs.



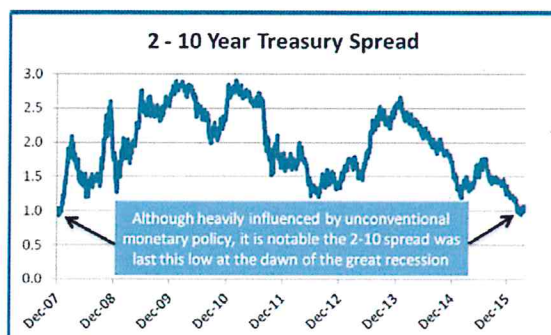
Data Source: U.S. Department of the Treasury



Data Source: BofA Merrill Lynch



Data Source: U.S. Department of the Treasury



Data Sources: U.S. Department of the Treasury

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