PREMIER FINANCIAL PLANNING, INC.
*Planning Makes It Possible*℠
A Registered Investment Advisor

# 1st Quarter 2016 Commentary | *April 2016*

**Welcome Spring!** After two months of negative markets, the late March rebound helped to end the quarter slightly higher for most portfolios. Unfortunately, this market volatility is likely to continue. This quarter demonstrated how important it is to "stay in the game" and remain asset allocated to reduce portfolio volatility and benefit from an eventual upswing.

## The Wild West of 2016

Heading into the year 2016, especially in the shadow of 2015, it's looking remarkably similar to the wild west of days long past. To some, it represents opportunity, and to others it more resembles coming peril. 2015 left an imposing impression. We all awaited the Federal Reserve's new sheriff, Janet Yellon, to pull the trigger on rising rates. The standoff between the world's oil producers, with none willing to cut production, caused the bottom to drop out of the global oil market. Global equities were challenged with a stampede of volatility not seen since 2011, and fixed-income markets tasted the first pain of tightening. With that backdrop, we survey some of the investment themes for 2016.

*Stocks over Bonds:* Even after a challenging 2015 for equities, we continue to favor stocks over bonds. The gradual raising of interest rates in the U.S. makes fixed income look less attractive over the short term. That said, bonds play an important part towards reducing volatility and providing a safe haven in a down market. Diversification into both of these main sectors is important. How much those percentages should be is based on your risk tolerance and long-term retirement probability forecasts (available for planning clients).

*International versus Domestic:* Divergence of monetary policies may emerge as a key theme for 2016. Central bankers have typically preferred to move in unison to prevent drastic swings in currency as investors search for more attractive yields. The anticipation of increasing divergence and escalating easing from the Bank of Japan and the European Central Bank has already driven the dollar 28% higher against major international currencies since the start of 2013. Many international developed markets, especially the European Union and Japan, are showing accelerating (if unsteady) growth as they emerge from recession with full support of their central banks. The U.S., by contrast, with an economy that has long since recovered and entered a stable expansion, has stopped printing money and moved ahead on a quarter-point interest-rate increase in December. The result is an overseas market much more favorably positioned for growth with a cheaper currency boosting exports set against a domestic market where growth could be more challenging to find after a five-year bull market. While volatile, international may lead domestic returns in 2016.

*Circle the Wagons:* We believe diversification will remain a cornerstone to a successful outcome in 2016. Investors with patience and a focus on their investment horizons should be able to weather volatility and be rewarded, even if not at the generous levels seen in 2013 and 2014. As you know, we update your Investment Policy Statement (IPS) each year to confirm your chosen asset allocation strategy (which is based on risk tolerance and investment horizon). If you would like to reassess your risk tolerance, please let us know.

**March 31, 2016 Benchmark Returns**

| **2016** | **1st Quarter** |
|---|---|
| **Large-Cap US Indices** | |
| Dow Jones Industrial TR | 2.20% |
| Standard & Poor's 500 TR | 1.35% |
| NASDAQ Composite TR | -2.43% |
| Russell 1000 Growth TR | 0.74% |
| Russell 1000 Value TR | 1.64% |
| **Small-Cap Indices** | |
| Russell 2000 Growth TR | -4.68% |
| Russell 2000 Value TR | 1.70% |
| **Large Cap International Indices** | |
| MSCI EAFE (Local Currency) | -7.23% |
| MSCI EAFE (US Currency) | -3.01% |
| **Fixed Income Indices** | |
| Barclay's US Aggregate Bond TR | 3.03% |
| Citigroup World Govt. Bond | 9.10% |
| **Real Estate Indices** | |
| Dow Jones US Select REIT TR | 5.12% |

** Index performance is provided as a benchmark only. The performance of your individual portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.*
*NOTE: TR=Total Return (includes reinvested dividends).*

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## Financial Planning Tips

***Tax Payment Reminders:***

- CA real estate taxes are due April 10th.
- 2015 Tax Returns (and any taxes due) are due April 18th*. While you may file an extension and delay until October 17th*, any 2015 taxes owed are still due April 18th* (otherwise penalty and interest for late payments will apply).
- 2016 1st Quarter Estimated Tax payments are due April 18th
  **Since the 15th falls on the weekend, due dates are delayed to the following Monday.*

***Tracking Home Improvements:***

- When you sell your home, your tax basis is your home purchase value plus the cost of capital improvements (your adjusted tax basis). Capital gains tax will be due upon selling your home if net proceeds exceed your adjusted tax basis plus $500,000 (married) or $250,000 (single). We recommend you track all capital improvements (e.g., new roof, room addition, remodeling, etc.) and maintain receipts.
- Tracking home improvements also comes into play when determining how much home loan interest you can deduct on your tax return. The IRS only allows you to deduct the interest on loans not exceeding a) the home's original purchase loan amount, plus b) capital improvements, plus c) $100,000. Thus it is important to track any improvements, especially if you refinance your home and take money out (sometimes, even multiple times). Just because you can borrow against your home doesn't necessarily mean you can write off all the interest on your taxes. Please check with your CPA for further details.

## Enclosed Investment Reports

**1st Quarter 2016 Reporting:**

- *Aggregate Overview; Current Value, Asset Allocation and Performance; summarized by Portfolio and Combined Portfolios, as applicable*
- *Holdings Analysis by Account; summarized by Asset, Account and Asset Allocation*
- *Statement of Fees* for the 2nd Quarter 2016 (based on 03/31/16 values)
- *Disclosure Statement*

*Please remember that this investment reporting is for informational purposes only and you should also refer to the investment statements you receive from your brokerage custodian.*

As always, we appreciate your continued confidence and trust. Should you have any questions or concerns, please contact us.

Best regards,

Patricia C Patterson

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