

MAY 2016

THE AIRWAYS ADVISOR™

A NEWSLETTER FOR AMERICAN PILOTS



Leading Authority on Successfully Investing Your 401k Plan

Acrophobia

You can tack “-phobia” onto almost anything in order to create a label for a fear. Some of the most common fears include: arachnophobia (fear of spiders), ophidiophobia (fear of snakes), and acrophobia (fear of heights). The study of phobias is an interesting field, and the most common fears seem to stem from the instinct to survive, which makes a lot of sense. After all, several species of spiders and snakes have deadly bites, and falling from a great height is most assuredly not the best thing for your health. Chapman University in Orange, California published a study titled America’s Top Fears of 2015, which revealed some interesting findings. In their paper, the top 3 fears were the fear of government corruption, the fear of becoming a victim of cyberterrorism, and the fear of personal information being tracked by corporate entities. The last fear listed seems rather Orwellian, especially as you can protect your digital profile on your computer and smartphone by thoughtfully updating your privacy settings. So much for the “survival instinct” fears, right? It seems that modern man’s fears have become much more sophisticated. In any case, fear is often the response to things or conditions beyond our control, whether or not the thing in question is really harmful to us physically.



CAPTAIN'S BRIEFING:

- **FULL Rebalance** in each model.
- **Make sure you are keeping track of your trade dates for the 30-day hold period!**

Let's take some time to look at the stock market's apparent fear of heights.

The first time the S&P 500 broke above 2,060 was just before Thanksgiving of 2014, which was also just prior to the free-fall in oil prices. The S&P spent time at or above that 2,060 level in December 2014, and then traded above 2,060 again from February until August 2015. The chart shows a lot of volatility during this time as the S&P zig-zagged above and below the 2,060 mark during October, November, and December of 2015, before plummeting in January and February of this year, and finally pushing back above 2,060 again last month. It's as if the stock market, as a proxy for its underlying investors, is afraid of the lofty confines of the 2,060 Club. And the Dow Jones Industrial Average (DJIA), even though it's a representative basket of only 30 stocks, is behaving much the same way, except the bogey for the Dow has been the 18,000 point level. The Dow was less than two hundred points away from 18,000 in November 2014, and it took another month for it to finally attain that magic number. Then the Dow bounced around 18,000 for much of 2015, but seemed to fear that height and retreated by almost 2,000 points three different times, last September and again in January and February of this year. Merely eye-balling a chart of the price of these two indices and it's obvious that we're about where we were 18 months ago. Let that sink in for a moment. Both stock benchmarks seem to like the climb up the mountain, but then after looking around, become afraid of the view and limp back down the mountain.

Regular readers of this newsletter are familiar with the issues we believe are causing markets to remain range bound: earnings, central bank policies, oil's recent amazing ride, and the economic environment. While there are many complexities and nuances influencing today's markets, we believe these issues remain the most important.



Captain's Table — “Tax Free? Does it Really Exist?” Go to page 6

“You're flying toward an unknown financial future— WE HAVE CHARTS!”



"April is the cruelest month"

The opening line of T.S. Eliot's "*The Waste Land*" is a fitting one for this most recent earnings season. If earnings estimates and actual reports continue as expected, we'll be looking at the first time the S&P 500 index has seen four consecutive quarters of year-over-year declines in earnings since Q4 2008 through Q3 2009. And that's not an earnings time period you want to be tracking with, folks. At the time of this writing, 7 of 10 sectors of the economy are reporting year-over-year declines in earnings, lead by the Energy and Materials sectors. Not good. Some market prognosticators have tried to soften the blow by arguing that we're experiencing a profit recession and not an economic recession. They suggest that the outlook for stocks is not as ugly as others might claim.

One of the bigger storylines of 2015 was how strong investment results were delivered by a small number of companies, the "FANG" stocks (Facebook, Amazon, Netflix, and Google). The follow up to that story shows mixed results. Facebook and Amazon posted strong earnings and moved higher in April, with both stocks now either at or near their all-time highs. Netflix and Google are on a different trajectory, at least for now. Both posted disappointing results last month, and both closed lower in April, moving further away from all-time high prices. And it's old news to just about everyone that the energy sector has been badly beaten down since oil's price collapse last year. Recently, even sector heavy-weight Exxon Mobil suffered a downgrade in its credit quality rating, from AAA to AA+, leaving Microsoft and Johnson & Johnson as the only two U.S. companies with the top of class AAA rating. The times they are a changin'.



Most earnings analysts don't expect to see better earnings and revenue data until the second half of 2016. No matter how you try and paint the picture, the long-term driver of equity prices is earnings and profitability. But if that's true, then what's keeping stocks from trading significantly lower in light of all of the negative data?

Control

There are powerful people and institutions in this world, and you've seen their names many times in past newsletters: Janet Yellen and the Federal Open Markets Committee (FOMC), Mario Draghi and the European Central Bank (ECB), Shinzo Abe and the Bank of Japan (BoJ), Christine Lagarde and the International Monetary Fund (IMF), and the seemingly faceless People's Bank of China (PBoC). Central bankers the world over exert massive influence on the economic environment, the conditions in which business is done. They control interest rates and the cost of borrowing. They control monetary supply and the massive balance sheets of the world's most influential economies. And ultimately they greatly influence the subjective concept of value, specifically as it applies to the world of investing.

In April, the FOMC, ECB, BoJ, and IMF continued their pledges and policies of providing economic stimulus to their respective jurisdictions. The Fed met and put out a statement acknowledging weak global growth, but decided to refrain from making a change to the Fed Funds Rate. The ECB and BoJ left their policies in place virtually unchanged, meaning they continue pumping capital into their markets and decided to keep benchmark rates in negative territory. The PBoC pumped the equivalent of \$37B into Chinese capital markets, and the PBoC has more policy tools available to use in attempting to stimulate growth.



Investing, on a basic level, is the act of buying something to participate in its profitability in light of the risk of losing your principal. There are different ways to calculate the intrinsic value of a stock, bond, or hard asset. Valuation formulas generally rely on a "risk-free rate of return", which is usually proxied with the three-month U.S. Treasury, an instrument viewed by most as virtually risk-free. When the risk-free rate of return is 0%, for all intents and purposes, and safe investments are yielding near 0%, many otherwise conservative investors are basically forced to venture out to seek returns from riskier asset classes than they may otherwise have chosen to invest in. These investors, as new and additional buyers into the riskier asset classes, can cause the prices of those asset classes to increase, which makes the possibility of a bubble in those asset classes more likely, all other things being equal. This is one way in which stimulative monetary policies may result in "unintended consequences" – in this case a potential bubble in the value of asset classes like stocks and real estate.

Velocity Composite Fund Score™ Ranking

American 401k Plan								
Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
AADVB	Diversified Bond Fund	1233	0.26%	0.27%	1.77%	2.82%	6.60%	18.51%
AALVI	U.S. Large Cap Value Stock Index Fund	951	0.49%	0.70%	10.43%	-0.33%	37.83%	67.68%
AAIPB	Inflation Protection Fund	905	0.48%	0.00%	2.45%	2.33%	-5.55%	7.98%
AAEMS	Emerging Markets Stock Index Fund	826	0.41%	0.42%	17.05%	-2.07%	-15.10%	-23.90%
AALGI	U.S. Lg Cap Growth Stock Index Fund	815	-2.16%	-2.15%	6.46%	-3.32%	41.94%	57.99%
AAUSB	U.S. Bond Index Fund	704	0.26%	0.27%	1.77%	2.82%	6.60%	18.51%
AALGS	U.S. Large Cap Growth Stock Fund	692	0.25%	0.28%	7.07%	-2.15%	39.85%	68.46%
AALSI	U.S. Large Cap Stock Index Fund	674	0.37%	0.53%	9.93%	-0.04%	38.18%	NA
ATD55	American Pilot Target Date Fund 2055	673	0.90%	1.71%	10.81%	-0.14%	22.04%	NA
ATD45	American Pilot Target Date Fund 2045	669	0.92%	1.68%	10.69%	-0.07%	20.12%	NA
ATD25	American Pilot Target Date Fund 2025	665	0.78%	1.21%	7.49%	0.80%	15.86%	NA
ATD50	American Pilot Target Date Fund 2050	664	1.00%	1.74%	10.85%	-0.11%	21.10%	NA
ATD35	American Pilot Target Date Fund 2035	664	0.85%	1.45%	9.37%	0.27%	18.10%	NA
ATD40	American Pilot Target Date Fund 2040	658	0.85%	1.53%	10.14%	-0.01%	19.01%	NA
ATD30	American Pilot Target Date Fund 2030	631	0.78%	1.29%	8.47%	0.47%	16.97%	NA
AASCG	U.S. Sm Cap Growth Stock Index Fund	588	0.37%	0.99%	11.20%	-8.46%	25.91%	35.84%
AAPRF	Pilot Target Date Post-Retirement Fund	586	0.72%	0.81%	5.46%	1.35%	11.95%	NA
AADMS	Intl Dev Markets Stock Index Fund	582	2.22%	4.30%	8.96%	-3.56%	4.25%	7.62%
ATD20	American Pilot Target Date Fund 2020	578	0.70%	1.05%	6.54%	1.11%	14.35%	NA
AALCV	U.S. Large Cap Value Stock Fund	576	0.86%	1.16%	11.92%	1.12%	38.93%	75.30%
AAMCI	U.S. Mid Cap Stock Index Fund	564	1.02%	1.45%	13.58%	0.29%	35.30%	60.70%
ATD15	American Pilot Target Date Fund 2015	562	0.76%	0.96%	6.01%	1.09%	16.10%	31.91%
AAIST	Intl Stock Fund including Emg Markets	561	2.53%	4.06%	12.02%	-2.36%	0.02%	-1.73%
ATD60	American Pilot Target Date Fund 2060	560	1.17%	1.82%	9.93%	-0.49%	22.48%	NA
AAMCS	U.S. Small/Mid Cap Stock Fund	560	1.48%	1.90%	14.35%	-1.16%	NA	NA
AASCV	U.S. Small Cap Value Stock Index Fund	556	1.59%	2.18%	13.49%	-3.14%	25.50%	41.05%
AAHYB	High Yield Bond Index Fund	532	3.12%	3.09%	8.78%	0.64%	3.18%	23.07%

The funds listed above for the new American 401k Plan were created for the plan and have an Inception Date of October 31, 2015. Therefore, proxies are used to calculate returns and scoring for these funds, for time periods including dates prior to October 31, 2015.

US Airways RSP Plan								
Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
RAFXX	Real Asset Fund	1064	0.21%	2.65%	3.24%	0.87%	-3.30%	12.09%
GROWT	Growth Fund	1023	0.74%	5.74%	1.35%	-0.46%	11.88%	24.78%
USIEF	International Equity	1008	2.22%	8.96%	-3.56%	-10.04%	4.25%	7.62%
ALLWF	All Weather Fund	986	0.79%	5.06%	1.65%	0.44%	9.39%	21.58%
CONSV	Conservative Fund	923	0.79%	5.06%	1.65%	0.44%	9.39%	21.58%
USLCV	Large Cap Value	759	2.11%	12.82%	1.16%	-0.67%	32.23%	61.74%
USMCX	Mid Cap Stock	758	1.02%	13.58%	0.29%	-2.47%	35.30%	60.70%
USSCE	Small Cap Equity	666	1.67%	13.51%	-2.90%	-5.60%	26.79%	43.45%
LPRTX	LifePath Index Retirement Fund	556	0.72%	5.46%	1.35%	0.04%	11.95%	NA
USLCG	Large Cap Growth	545	0.39%	10.01%	0.01%	0.88%	38.58%	69.69%
FXAIX	Spartan 500 Index	533	0.39%	9.93%	-0.04%	0.82%	38.32%	69.30%
WFSBL	Wells Fargo Stable Return Portfolio	523	0.04%	0.07%	0.04%	-0.02%	-0.24%	-0.32%
LP25X	LifePath Index 2025 Fund	489	0.78%	7.49%	0.80%	-1.01%	15.86%	NA
USBDX	Bond Fund	476	0.26%	1.77%	2.82%	2.79%	6.60%	18.51%
USREM	Emerging Markets	467	0.41%	17.05%	-2.07%	-18.67%	-15.10%	-23.90%

Definitions & Notes: The Velocity Composite Fund Score Ranking combines the Velocity (speed of advance of a fund compared to all other funds) with its Buy Point Score (how close the fund is to a recent bottom). This composite score is used to rank all available fund choices. In defined Bull Market advances, the system uses the Top 3 funds in the Aggressive model and the Top 4 in the Moderate and Conservative models. In Defined Bear Market periods, this ranking is provided for information purposes and for those who are "doing their own thing" and would like to know (hypothetically) which funds the system would buy today, if the market was a Defined Bull Market. Rankings dates are the last business day of each month. NOTE: Many of the funds in the US RSP Plan are not really mutual funds. They are composites or commingled funds, etc. Therefore, they don't really have ticker symbols. We create tickers for convenience, but they do not exist outside this newsletter. You will use the fund name to trade.

Worry-Free Flight Path Models™ - American



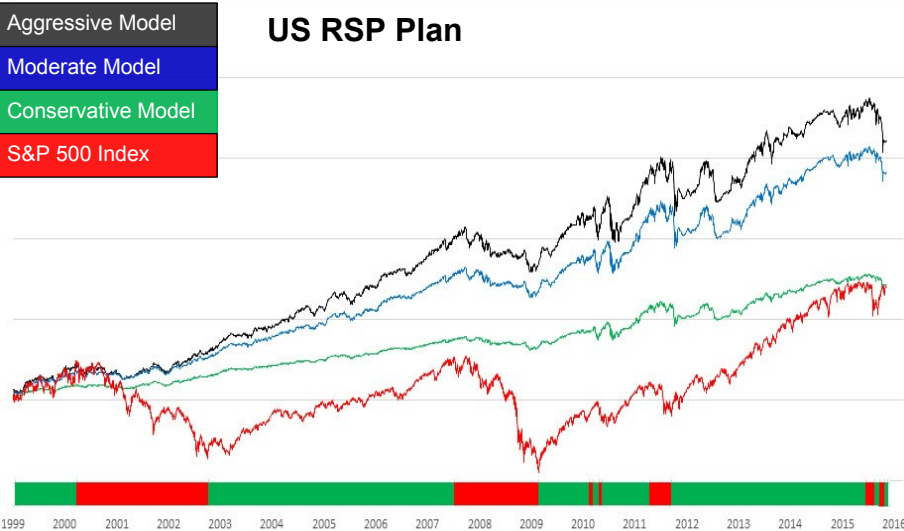
Fear & Greed Index Stocks struggled early in April, but then shot up before fading into the month's final days. They finished in positive territory overall, and bonds did as well. April's volatility caused Greed to recede from March's score of 73.



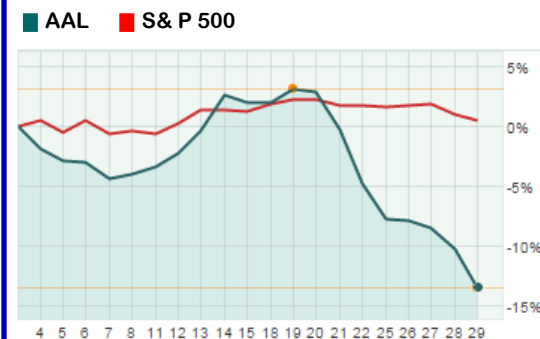
American 401k Plan (as of April 30, 2016)

Performance Stats

	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model Annualized	-2.67%	0.13%	-4.48%	7.54%	15.82%	38.90%	79.70%
				2.45%	2.98%	3.34%	3.51%
Moderate Model Annualized	-4.30%	0.20%	-5.22%	16.89%	30.21%	78.35%	180.75%
				5.34%	5.42%	5.96%	6.26%
Aggressive Model Annualized	-4.74%	0.26%	-6.94%	12.70%	26.25%	89.71%	233.91%
				4.07%	4.77%	6.61%	7.35%
S&P 500 Annualized	1.70%	0.39%	0.11%	39.60%	70.24%	96.15%	83.16%
				11.76%	11.23%	6.97%	3.62%



AAL— American stock struggled in April as quarterly earnings data revealed a drop in profits versus last year's figures.



USAirways Pilots RSP (as of April 30, 2016)

Performance Stats

	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model Annualized	-2.82%	0.10%	-6.58%	7.41%	11.62%	29.82%	62.72%
				2.41%	2.22%	2.64%	2.91%
Moderate Model Annualized	-4.94%	0.16%	-11.02%	9.39%	14.81%	47.65%	124.25%
				3.04%	2.80%	3.97%	4.87%
Aggressive Model Annualized	-6.84%	0.26%	-15.34%	3.50%	9.71%	43.21%	138.51%
				1.15%	1.87%	3.66%	5.25%
S&P 500 Annualized	1.70%	0.39%	0.11%	39.60%	70.24%	96.15%	83.16%
				11.76%	11.23%	6.97%	3.62%

American 401k

American 401k Plan Conservative Model		
Symbol	Fund Name	Allocate
FMPXX	Fidelity® Institutional Money Market	60.00%
AADVB	Diversified Bond Fund	10.00%
AALVI	U.S. Large Cap Value Stock Index Fund	10.00%
AAIPB	Inflation Protection Fund	10.00%
AAEMS	Emerging Markets Stock Index Fund	10.00%
		100.00%

American 401k Plan Moderate Model		
Symbol	Fund Name	Allocate
FMPXX	Fidelity® Institutional Money Market	36.00%
AADVB	Diversified Bond Fund	16.00%
AALVI	U.S. Large Cap Value Stock Index Fund	16.00%
AAIPB	Inflation Protection Fund	16.00%
AAEMS	Emerging Markets Stock Index Fund	16.00%
		100.00%

American 401k Plan Aggressive Model		
Symbol	Fund Name	Allocate
FMPXX	Fidelity® Institutional Money Market	19.00%
AADVB	Diversified Bond Fund	27.00%
AALVI	U.S. Large Cap Value Stock Index Fund	27.00%
AAIPB	Inflation Protection Fund	27.00%
		100.00%

US RSP

USAirways RSP Plan Conservative Model		
Symbol	Fund Name	Allocate
USBDX	Bond Fund	60.00%
RAFXX	Real Asset Fund	10.00%
GROWT	Growth Fund	10.00%
USIEF	International Equity	10.00%
ALLWF	All Weather Fund	10.00%
		100.00%

USAirways RSP Plan Moderate Model		
Symbol	Fund Name	Allocate
USBDX	Bond Fund	36.00%
RAFXX	Real Asset Fund	16.00%
GROWT	Growth Fund	16.00%
USIEF	International Equity	16.00%
ALLWF	All Weather Fund	16.00%
		100.00%

USAirways RSP Plan Aggressive Model		
Symbol	Fund Name	Allocate
USBDX	Bond Fund	19.00%
RAFXX	Real Asset Fund	27.00%
GROWT	Growth Fund	27.00%
USIEF	International Equity	27.00%
		100.00%

• IN A MONTH WITH TRADES —
THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW

- **AA 401k FULL REBALANCE** in the models
- **US RSP FULL REBALANCE** in the models

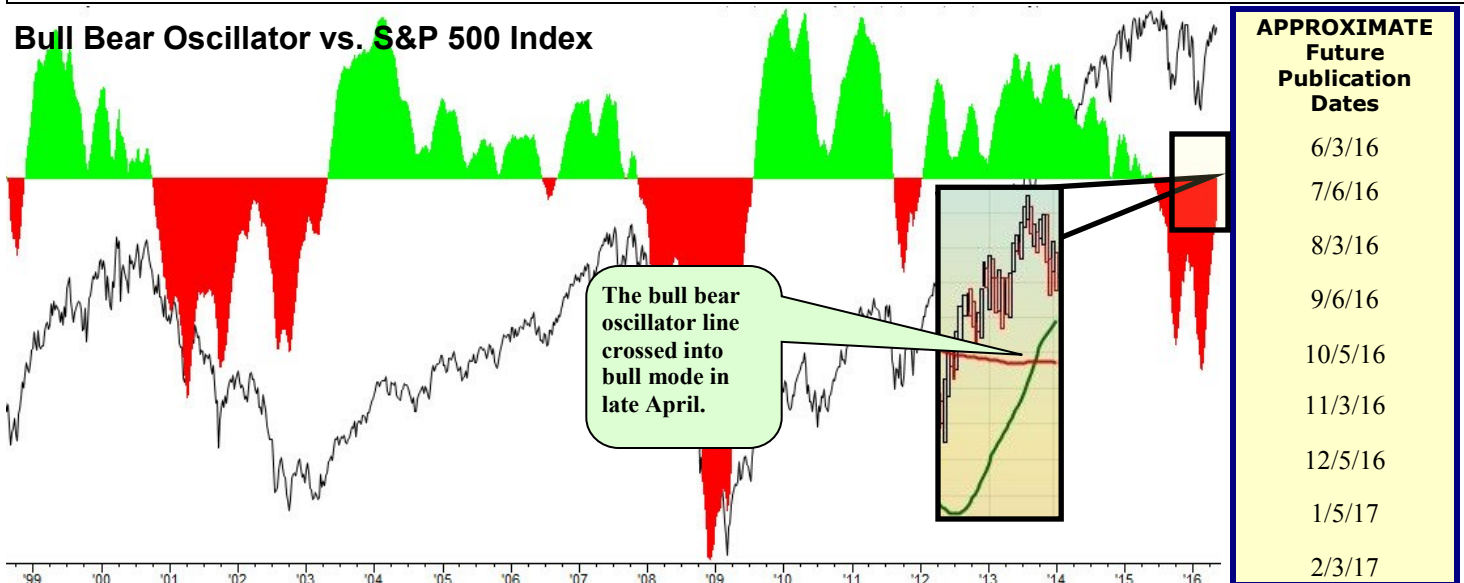
• **READ:** Your 401k plan has trading restrictions, so you must keep track of your buy and sell orders. Fidelity does a poor job of defining what excessive trading is and has expanded that definition to include all funds.

- **Future Contributions:** The models work smoothly if you direct ALL future contributions into the following, the Fidelity Money Market for the 401K and USBDX Bond Fund for the RSP.
- **Effective February 1, 2016**, the Wells Fargo Stable Return will NO LONGER be used as the RSP money market fund due to competing fund restrictions.

Is your credit card about to expire? Have you recently received a new card OR have you requested a new credit card because of vendor security issues?

To update new CREDIT CARD information BEFORE your credit card expires, either call us at 717-569-8162 or go to the "Update Credit Card Information" section under the Member's Tab.

Bull Bear Oscillator vs. S&P 500 Index





from the CAPTAIN'S TABLE

Tax Free? Does it Really Exist?

Most People Confuse Tax Deferred (will be taxed at some point) with Tax Free (will never be taxed)

When most investors hear “tax free income”, they immediately think about investing in municipal bonds which are free from federal income taxation. There are many financial calculators for the tax free equivalent yield when investing in municipal bonds. Clearly one of the main components of the evaluation of tax free investing is your income tax bracket.

Typically an investor whose income is in the 28%-31% marginal tax bracket could assume a 2.25% to 2.5% cost effect for income taxation on their investment yield. This erosion to the performance of our investments has an even more significant effect as we compound it over longer periods of time. While the number of years is the most significant determinant on this analysis, another consideration must be the investment environment. In a period of low interest rates for bond and money markets, and low performance in the equity markets, the 2+% cost is more statistically significant. As you know, this is the financial world that we are currently investing in. It appears that the Federal Reserve is content to have a nearly zero interest rate monetary policy in perpetuity.

For these reasons, it is imperative that we, as investors, evaluate and vet any possible tax free investing and income options. Other than municipal bonds, the only other two tax free options are Roth IRAs and 529 Plans.

What is a Roth IRA?

Roth IRAs work much like regular individual retirement accounts with the exception that there is not a tax deduction for the contribution. Roth IRA contributions are allowed for most all taxpayers who have earned income, including taxpayers over 70 years of age. Income limitations are the primary reason investors will not qualify to make annual Roth IRA contributions. For example, allowed contributions totally phase out at \$194,000 of modified adjusted gross income for married filing joint taxpayers (\$132,000 for single filing status).

The top benefits of a Roth IRA are:

A. Distributions

- Distributions aren't mandatory, unlike regular IRAs which have annual required minimum distributions starting at age 70 1/2. However, you need to be aware of special distribution rules for beneficiaries of Roth IRAs in your estate planning.

B. Tax Benefits

-Distributions have no tax consequences when received. Everyone should evaluate on an annual basis if you are allowed to make a Roth IRA contribution.

Other than a Roth IRA, the only other tax free investment vehicle available is the 529 Plan.

What is a 529 Plan?

It is a state sponsored educational savings plan that allows for TAX FREE growth of assets that are set aside for education of a specific beneficiary. These plans are also commonly known as “qualified tuition plans”.

529 Plans can be used to meet costs of qualified colleges nationwide and are not limited to the plan sponsored by your state of residence. You can be a resident of Georgia and participate in a 529 Plan sponsored by Virginia and your beneficiary can attend college in New York. (However, please evaluate the benefits of using the 529 Plan sponsored by your resident state as many times there are state specific advantages.)

The top benefits of the 529 Plan are:

A. Tax Benefits

- While your contributions are not tax deductible on your federal income tax return, your investment grows tax deferred and distributions for college costs of the beneficiary are distributed TAX FREE, thus the investment gains are never taxed if used for college expenses.

-Many states offer tax breaks in the form of up front tax deductions or credits against your state income tax obligation.

B. Donor Retains Control of the Funds

- The donor controls the decisions of the account in regard to investment choices and distributions.

- You have the ability to reclaim the funds should you decide the funds aren't needed for the beneficiary. (Please be careful as there are special income tax consequences if the funds are withdrawn and returned to the donor.)

- The donor has the ability to change the beneficiary to another qualifying family member, if desired.

(Continued on page 7)

C. Donor Reduces Taxable Estate

- The money in the 529 Plan is not included in the donor's estate. This is especially important if you have a taxable estate (i.e. total net worth over \$5M).

D. Flexibility

- 529 Plans are portable and can be transferred between plans and rolled over much like an IRA. If you believe another state sponsored plan provides better options, you can transfer without penalty.

E. Substantial Funding Permitted

- Anyone is eligible to participate in a 529 Plan and the contributions limits, which vary from state to state, can allow for up to \$300,000 in contributions per beneficiary. There are no income or age restrictions.

If you want to get started, please research whether your state has its own state sponsored plan and then evaluate the benefits of that plan. Next, compare those benefits to other plans sponsored by other states. Typically, large investment companies partner with individual states to provide 529 Plan solutions for that state's residents. (I believe that almost every state has at least one 529 Plan solution available.) This would include funding limits, investment options and state tax benefits.

I strongly encourage you to consider using the 529 Plan as a solution to save and fund college education for your children and grandchildren. The benefits outlined above are just a sample of the planning opportunities these plans provide.

Any opportunity to access tax free investing should be considered and funded to the greatest extent possible. Evaluate annually your eligibility for Roth IRA contributions, and if you have any need for college funding for any family member, the 529 Plan is a must.

I am very comfortable saying that taxation will remain a significant cost to investors irrespective of the political process, thus we must evaluate any option that removes the cost of that taxation.

Have a great month and feel free to reach out if you have questions or need clarifications.

Steve

Steve Anglin, CPA is a Managing Partner at Smith Anglin Financial, and the Head of the Tax Preparation Services. He is also responsible for Smith Anglin's compliance supervision. He holds a BBA in Accounting and a BBA in Real Estate, and numerous securities licenses and designations.

Experts at the Captain's Table: All members have a wide and varied background in all areas of wealth management. Most importantly, the members have worked extensively with professional pilots at American, Delta, Federal Express, Southwest, United – and every airline that merged into these along the way – for more than 85 years combined. They know your world, your benefits, how to retire in the best way, and what is needed at each life-stage in retirement to get you to your goal.

A new trend for oil

Most everyone knows that the Energy sector has suffered greatly over the past 18 months, but some relief has been found in the price of oil as it has bounced back from recent lows. Oil prices started 2016 in the high \$30s (US dollars/barrel), only to fall into the low \$30s in January and again in February. However, since mid-February the price of oil has generally trended higher and it finished the month of April in the mid \$40s. In fact, the price of oil was up about 20% in April alone. Supporting factors for higher oil prices include a weakening U.S. dollar and an oil-worker strike in Kuwait. Also, a recent meeting of OPEC and non-OPEC oil producers in Doha to discuss the state of oil production and a possible freeze in production levels failed to yield an agreement. One of the main takeaways from oil's recent ride has been how impactful news headlines influence the day-to-day price of oil. Longer term, the problematic conditions related to too much supply will persist: daily oil production shows little sign of slowing; global oil reserves remain high; and producers haven't displayed the unified will to cut back on production and forgo revenue now in order to send prices higher.

The fallout from lower oil prices is widespread. Slumping prices have forced many energy and energy-related companies to lay off workers. Companies have logically cut back on long term projects, a headwind for jobs growth and capital expenditure outlays. We've previously pointed out that one of the likely outcomes from the tumult in the energy sector will be a spike in loan defaults by cash-strapped energy companies. Many oil companies who borrowed money to finance operations are now in more trouble than they've ever been in before, and eventually many of these languishing players will begin defaulting on their loans. Fitch, one of the largest credit-rating agencies in the U.S., raised its 2016 forecast for U.S. high-yield bond defaults to \$70billion total, of which \$40billion resides in the Energy sector. According to Standard & Poors, another large credit-rating agency, the number of total corporate defaults globally this year is already up to 40, the most this early in a year since 2009. At the depths of the financial crisis, there were 67 defaults per year.



“The times they are a changing” For the longest time, Apple was a—probably *the*—darling of the tech world. The company has a formidable history of rolling out products and services that consumers around the world love: the iPod, the iPhone, the Mac, and even the iTunes store. Last month, Apple reported its first year-over-year earnings decline since 2013. Now some investors are even questioning the outlook for the company. This just goes to show you how it’s really getting tough out there ... even for the big guys!

Apple’s recent rough patch serves as a good backdrop for why stocks may struggle to keep climbing. There are two opposing forces that we think may continue to prevent stocks from establishing a longer-term trend. The first force is earnings. Without healthy earnings and attractive profit margins, you’re somewhat at a loss to figure out what will serve as a catalyst for longer-term, higher stock prices. The second force is central bank policy. The world’s largest and most influential central banks have implemented quantitative easing (QE), zero interest rate policy (ZIRP), negative interest rate policy (NIRP), and there’s now increasing speculation around the possibility of “helicopter money” (yes, free money from the government, straight to you) being dispensed to the consuming public. All that central bankers have rolled out so far has been done in the spirit of “stimulating economic growth and business”, so what could possibly be more stimulative to spending and consumption than putting some cold, hard cash in your hands? While some of the central banks may have seemed to pause in April, don’t ever doubt that they’ve changed their course. The stimulus probably isn’t over, not by a long shot, as central bankers share the view that tepid global growth needs their help.

And there are other forces, still, which pose risks for the marketplace. In the United Kingdom, there will be a referendum this summer which could lead to a UK exit from the European Union. Closer to home, Puerto Rico continues to create headlines with more rounds of defaulting on its debt. And the biggest headline here in the U.S has to be the unique presidential election season we’re all witnessing. To be sure, risks abound, but we believe the prudent approach to mitigating risk is consistency and discipline.



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