AUGUST 2016

THE AIRWAYS ADVISOR™

A NEWSLETTER FOR AMERICAN PILOTS

Leading Authority on Successfully Investing Your 401k Plan

CAPTAIN'S BRIEFING:

- **NO CHANGES** in RSP models.
- **CHANGE** in 401K AGGRESSIVE model.

- ***Make sure you are keeping track of your trade dates for the 30-day hold period!***

Captain's Table — Go to page 6

Roth 401k vs Traditional 401k

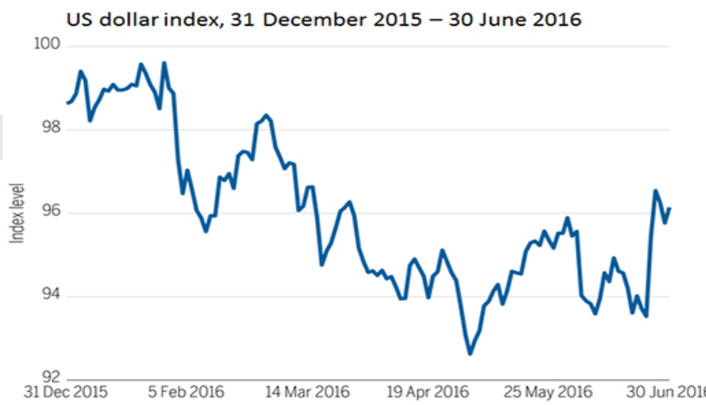
Money Market fund:
We will update you on what fund will be used in the portfolios as a replacement when we get closer to the switch-over date.

Data or Demand?

In case you haven't noticed it yet, there's a serious election going on right now. Votes are being cast day after day, and the message seems pretty clear: buying American stocks, bonds, and real estate is how investors are voting with their money. We very well could be looking at the fifth consecutive quarter of corporate earnings growth declines for the largest companies here in the U.S., and that's something that has not occurred since...when was it? Oh right, it was the 5th consecutive quarter period from Q3 2008 through Q3 2009. Remember 2008? But today's stock market environment couldn't be more different than the way things were in 2008. Let's first look at some of the important data that's coming in, and then we'll step back and look at the forces driving these markets higher.

Earnings and Economic Data

Second quarter earnings growth are currently expected to decline by -3.7%, and quarterly earnings conference calls are offering some clues about lasting "Brexit" concerns. Many CEOs and CFOs are again repeating concerns over how currency fluctuations are impacting earnings. The U.S. dollar has been working through a strengthening cycle for the last several years, and while the first half of 2016 showed some signs of a reversal in the USD's strength, the Brexit vote caused the USD to appreciate again versus the British pound, the Euro, and the Yen. Remember, a strong USD can be a headwind to U.S. multi-national companies that make money overseas when they have to convert those earnings back into more expensive U.S. dollars. This currency conversion impacts a lot of S&P 500 companies but tends to affect mid-size and smaller-size companies less due to their more domestic footprint. This could be supportive for mid-cap and small-cap stocks, although they tend to be riskier and more volatile.



Early in July, we saw a very positive jobs report, in which the unemployment rate fell to 4.9%. We also got positive reports about existing home sales mid-month, and the U.S. Purchasing Managers Index (PMI) dropped a bit, but only down to 50.9 (generally, any reading over 50 is positive as it indicates expansion). Additionally, housing starts jumped almost 5% in June, which shows continued improvement in housing overall. However, other economic data has not been so positive. The first estimate of U.S. Q2 GDP came in at a disappointing 1.2% annualized, and forecasts for much of the rest of the world have fallen. Some analysts have commented that the figure for U.S. GDP—when put in context of the unemployment situation—suggests that the economy's potential growth rate could conceivably be near zero. Ouch. PMIs for Europe, Japan, and China have all declined, and the Brexit vote has led many analysts and economists to revise their forecasts for the U.K. to a probable recession. Venezuela is in total collapse, and most of the countries who rely on exporting oil and other commodities are really suffering.

GO TEAM USA!!

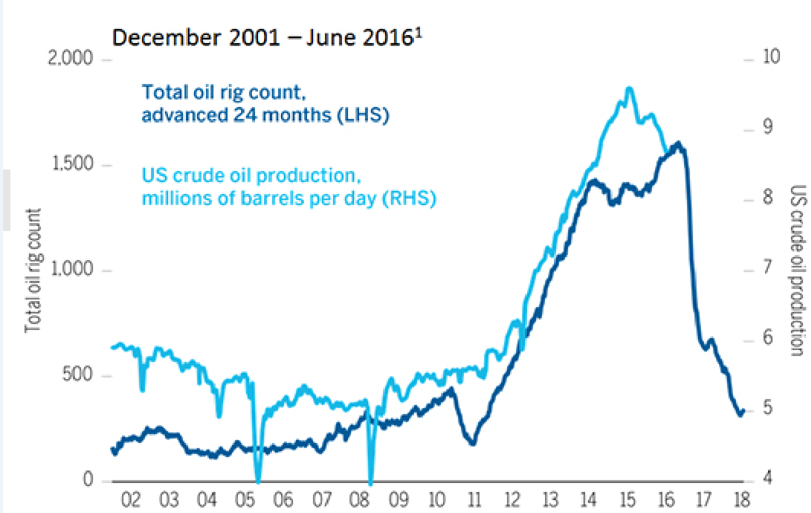
"You're flying toward an unknown financial future— WE HAVE CHARTS!"

USPFA

A Reversal in Rig Count

In short, the data coming from the oil industry doesn't look good. Exxon—generally looked at as the largest and highest quality integrated oil company—reported misses on both earnings and revenues. Chevron, the close second to Exxon, missed on earnings but beat revenue estimates. The sector, on the whole, is lagging all other S&P 500 sectors.

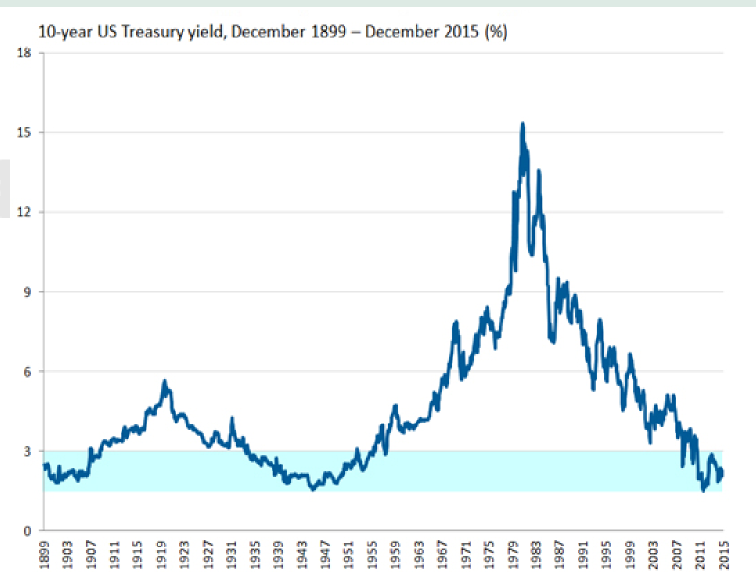
Rig counts are rising, and that's not good news for the price of oil. High rig counts mean more oil production, and this continued increase in supply will prolong the oil glut. July's final Baker-Hughes rig count report showed that the number of producing rigs has increased for five weeks in a row, now. Oil price spikes into the high-$40s per barrel range appears to be enticing domestic producers back to operations, and Middle Eastern producers are also showing no signs of curtailing production. In fact, Middle Eastern production now makes up 34% of global output, pumping 31M barrels per day – its highest output percentage since the Arab fuel embargo of the 1970s when output from there hit 36% of global production. Production shows no signs of slowing, and somewhat soft summer fuel demand has contributed to increases in storage. High supply, softer demand, and renewed dollar strength are all contributing to the recent retreat in oil prices. This is not a great sign for already suffering oil producers, but at this point, they're reaping what they've sown.



[1]Through 24 June 2016 | Sources: Bureau of Economic Analysis, Baker Hughes, Energy Information Administration

The Birds at the Fed

You may have noticed how different Federal Reserve officials are often referred to as "Doves" or "Hawks." The Doves are proponents of easy monetary policy, with their goal being to stimulate the economy. The Hawks are for tighter monetary policy, with their goal being to make sure inflation is kept in check and to keep the economy from overheating. Overall, Fed policy since the Great Recession has been very dovish, but recent, healthier economic data has led some Fed officials to take on a more hawkish stance. The logic is that healthy unemployment and inflation data warrants policies to wean the economy off of quantitative easing, lower bank reserves, and low-interest rates. Some of the Fed's central bankers have been quite vocal about raising rates and letting the economy get back to normal, but month after month the official statements coming out of the Fed tell the story of more patience and procrastination when it comes to raising rates, in light of weak global growth. It seems like this is their new tactic. Some of the Fed presidents make news headlines with quotes about rate hikes coming soon. Then, fast forward to the next meeting, and the tone is altogether different. The Fed statements and press conferences message improving data, but they seem to be in no haste to raise rates.



Many economists expect the U.S. central bank to diverge from the rest of the world in regards to monetary policy and to actually raise rates soon, but the Fed's most recent statement just last week confirmed there would be no change in rates at this time. The statement messaged the possibility of a September rate hike, but markets don't appear to be betting on it. A lot of other countries are struggling much more than the U.S., and for them, quantitative easing may be far from over. "Super doves" in Japan and Europe—where interest rates have gone negative—are running out of options. Japan is now even considering "helicopter money," that is the outright transfer of money to consumers, with the hope that they'll spend this newfound wealth which some think will help the local economy. "Helicopter money" gets its name because one can envision money being dropped on the masses from the sky. In any case, it's a desperate measure. It's a controversial measure. And it's a real possibility in this world of fiscal experimentation.

Velocity Composite Fund Score™ Ranking

American 401k Plan

Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
AAEMS	Emerging Markets Stock Index Fund	**1331**	5.37%	5.91%	20.29%	-0.36%	-3.26%	-14.99%
AASCV	U.S. Small Cap Value Stock Index Fund	**1328**	5.99%	8.21%	18.99%	-0.34%	18.99%	63.04%
AAMCI	U.S. Mid Cap Stock Index Fund	**1187**	4.43%	6.35%	17.14%	3.78%	30.90%	81.17%
AALGI	U.S. Large Cap Grth Stock Index Fund	**1039**	4.83%	5.74%	9.70%	3.09%	38.93%	74.99%
AADVB	Diversified Bond Fund	**1010**	0.55%	2.08%	4.28%	5.40%	13.29%	17.91%
AASCG	U.S. Small Cap Grth Stock Index Fund	**1007**	6.74%	9.24%	17.40%	-7.51%	20.44%	60.41%
AAMCS	U.S. Small/Mid Cap Stock Fund	**1006**	5.16%	7.04%	18.83%	NA	NA	NA
ATD60	American Pilot Target Date Fund 2060	**1001**	3.80%	4.18%	11.84%	1.23%	21.49%	NA
ATD55	American Pilot Target Date Fund 2055	**999**	3.95%	4.82%	13.12%	2.80%	23.61%	52.74%
ATD50	American Pilot Target Date Fund 2050	**990**	4.02%	4.77%	13.04%	2.81%	22.92%	50.84%
AALGS	U.S. Large Cap Growth Stock Fund	**980**	4.48%	4.72%	9.10%	1.16%	35.77%	79.50%
AALCV	U.S. Large Cap Value Stock Fund	**977**	3.09%	4.48%	13.81%	3.78%	33.29%	95.09%
ATD45	American Pilot Target Date Fund 2045	**966**	3.90%	4.80%	12.99%	2.84%	22.24%	48.82%
ATD40	American Pilot Target Date Fund 2040	**957**	3.70%	4.66%	12.55%	2.87%	21.50%	47.10%
AALVI	U.S. Large Cap Value Stock Index Fund	**939**	3.81%	5.73%	13.68%	4.59%	34.37%	85.66%
AALSI	U.S. Large Cap Stock Index Fund	**901**	3.67%	5.65%	13.11%	5.32%	34.91%	NA
ATD35	American Pilot Target Date Fund 2035	**889**	3.37%	4.37%	11.73%	3.01%	20.74%	44.77%
ATD30	American Pilot Target Date Fund 2030	**854**	3.06%	4.04%	10.75%	3.18%	19.78%	42.34%
ATD25	American Pilot Target Date Fund 2025	**847**	2.73%	3.74%	9.82%	3.36%	18.94%	39.42%
ATD15	American Pilot Target Date Fund 2015	**808**	2.23%	3.22%	8.26%	3.25%	18.18%	38.52%
ATD20	American Pilot Target Date Fund 2020	**756**	2.34%	3.41%	8.88%	3.47%	17.82%	36.25%
AAPRF	Pilot Target Date Post-Ret Fund	**704**	2.03%	3.12%	7.96%	3.84%	16.22%	31.21%
AAIST	Intl Stock Fund inc Emerging Markets	**595**	4.16%	1.49%	10.20%	-6.07%	1.60%	6.87%
AADMS	Intl Dev Markets Stock Index Fund	**591**	3.97%	0.71%	6.18%	-8.37%	2.95%	16.03%
AAIPB	Inflation Protection Fund	**428**	0.87%	1.51%	5.00%	2.86%	3.78%	5.64%
AAUSB	U.S. Bond Index Fund	**428**	0.55%	2.08%	4.28%	5.40%	13.29%	17.91%
AAHYB	High Yield Bond Index Fund	**318**	1.31%	2.26%	10.41%	1.78%	8.58%	25.57%

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

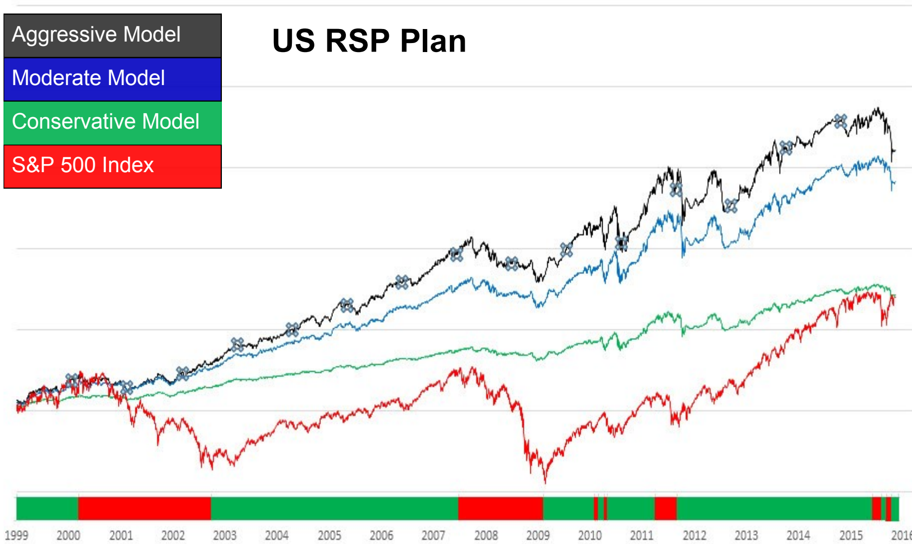
Ticker	Symbol	Score	1MoPerf	3MoPerf	6MoPerf	1YrPerf	3YrPerf	5YrPerf
USREM	Emerging Markets	**1311**	5.37%	5.91%	20.29%	-0.36%	-3.26%	-14.99%
ALLWF	All Weather Fund	**1235**	2.11%	3.16%	7.68%	4.23%	13.09%	25.06%
LP25X	LifePath Index 2025 Fund	**1039**	2.73%	3.74%	9.82%	3.36%	18.94%	39.42%
USSCE	Small Cap Equity	**973**	5.87%	8.31%	19.23%	0.10%	20.32%	65.48%
LPRTX	LifePath Index Retirement Fund	**917**	2.03%	3.12%	7.96%	3.84%	16.22%	31.21%
USMCX	Mid Cap Stock	**879**	4.43%	6.35%	17.14%	3.78%	30.90%	81.17%
FXAIX	Spartan 500 Index	**806**	3.65%	5.69%	13.19%	5.31%	35.05%	86.85%
USLCG	Large Cap Growth	**682**	3.74%	5.64%	13.24%	5.34%	35.26%	87.36%
GROWT	Growth Fund	**666**	2.45%	3.33%	8.23%	3.59%	14.78%	30.01%
USLCV	Large Cap Value	**666**	2.90%	4.77%	15.07%	4.62%	26.55%	80.09%
CONSV	Conservative Fund	**614**	2.11%	3.16%	7.68%	4.23%	13.09%	25.06%
USIEF	International Equity	**491**	3.97%	0.71%	6.18%	-8.37%	2.95%	16.03%
USBDX	Bond Fund	**403**	0.55%	2.08%	4.28%	5.40%	13.29%	17.91%
RAFXX	Real Asset Fund	**262**	0.64%	1.23%	4.58%	3.58%	6.22%	8.36%
WFSBL	Wells Fargo Stable Return Portfolio	**234**	0.04%	0.00%	0.09%	0.00%	-0.17%	-0.32%

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 comingled 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.**

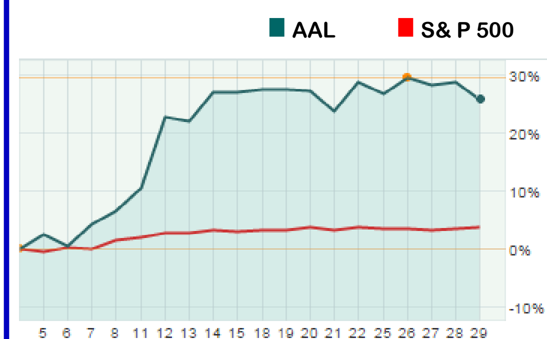
Worry-Free Flight Path Models™ - American

Fear & Greed Index The S&P 500 is 4.76% above its 125-day average. This is further above the average than has been typical during the last two years and rapid increases like this often indicate extreme greed. A year ago the meter was at 22 – Extreme Fear.

American 401k Plan (as of July 31, 2016)							
Performance Stats							
	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model	-1.12%	1.49%	-2.72%	7.40%	18.07%	44.70%	81.02%
Annualized				2.41%	3.38%	3.76%	3.55%
Moderate Model	-1.80%	2.40%	-2.38%	16.70%	33.78%	87.52%	182.79%
Annualized				5.28%	5.99%	6.49%	6.31%
Aggressive Model	-0.90%	3.10%	-4.64%	13.50%	26.97%	99.70%	235.42%
Annualized				4.31%	4.89%	7.16%	7.38%
S&P 500	7.43%	3.60%	5.40%	36.70%	86.20%	108.90%	86.42%
Annualized				10.98%	13.24%	7.64%	3.73%



AAL— July was a good month for making up some ground for American Airlines (AAL). Unfortunately, it has a lot more gaining to do to overcome being down 20% YTD.



USAirways Pilots RSP (as of July 31, 2016)							
Performance Stats							
	YTD	1 Month	1 Year	3 Years	5 Years	10 Years	Inception
Conservative Model	-1.32%	0.99%	-5.08%	6.20%	17.97%	33.92%	64.02%
Annualized				2.03%	3.36%	2.96%	2.95%
Moderate Model	-2.10%	1.60%	-8.61%	7.50%	24.98%	55.82%	126.29%
Annualized				2.44%	4.56%	4.54%	4.92%
Aggressive Model	-2.74%	2.40%	-12.70%	2.20%	18.87%	51.71%	140.02%
Annualized				0.73%	3.52%	4.26%	5.29%
S&P 500	7.43%	3.60%	5.40%	36.70%	86.20%	108.90%	86.42%
Annualized				10.98%	13.24%	7.64%	3.73%

American 401k

American 401k Plan Conservative Model		
Symbol	**Fund Name**	**Allocate**
FMPXX	Fidelity® Institutional Money Market	60.00%
AADVB	Diversified Bond Fund	10.00%
AAEMS	Emerging Markets Stock Index Fund	10.00%
AASCV	U.S. Small Cap Value Stock Index Fund	10.00%
AAMCI	U.S. Mid Cap 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%
AAEMS	Emerging Markets Stock Index Fund	16.00%
AASCV	U.S. Small Cap Value Stock Index Fund	16.00%
AAMCI	U.S. Mid Cap Stock Index Fund	16.00%
		100.00%

American 401k Plan Aggressive Model		
Symbol	**Fund Name**	**Allocate**
FMPXX	Fidelity® Institutional Money Market	19.00%
AAMCI	U.S. Mid Cap Stock Index Fund	27.00%
AAEMS	Emerging Markets Stock Index Fund	27.00%
AASCV	U.S. Small Cap Value Stock Index Fund	27.00%
		100.00%

US RSP

USAirways RSP Plan Conservative Model		
Symbol	**Fund Name**	**Allocate**
USBDX	Bond Fund	60.00%
USREM	Emerging Markets	10.00%
LP25X	LifePath Index 2025 Fund	10.00%
ALLWF	All Weather Fund	10.00%
LPRTX	LifePath Index Retirement Fund	10.00%
		100.00%

USAirways RSP Plan Moderate Model		
Symbol	**Fund Name**	**Allocate**
USBDX	Bond Fund	36.00%
USREM	Emerging Markets	16.00%
LP25X	LifePath Index 2025 Fund	16.00%
ALLWF	All Weather Fund	16.00%
LPRTX	LifePath Index Retirement Fund	16.00%
		100.00%

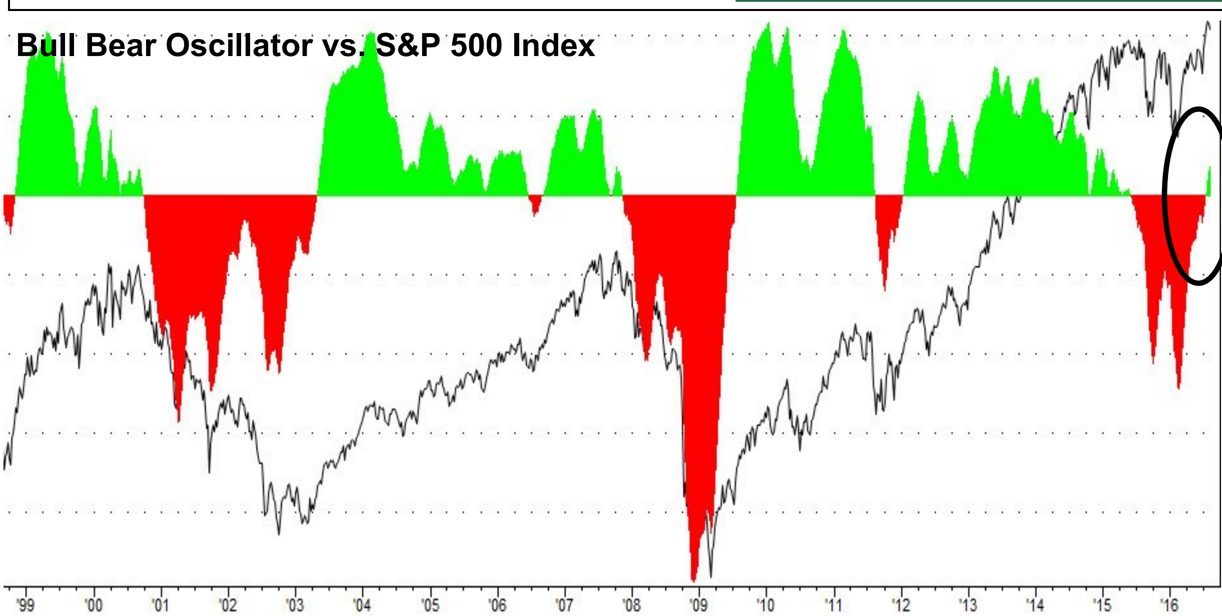
USAirways RSP Plan Aggressive Model		
Symbol	**Fund Name**	**Allocate**
USBDX	Bond Fund	19.00%
USREM	Emerging Markets	27.00%
LP25X	LifePath Index 2025 Fund	27.00%
ALLWF	All Weather Fund	27.00%
		100.00%

- IN A MONTH WITH TRADES — THE NEW FUNDS WILL BE HIGHLIGHTED IN YELLOW
- **AA 401k CHANGE in the AGGRESSIVE model**
- **US RSP NO CHANGES 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.



APPROXIMATE Future Publication Dates

9/6/16
10/5/16
11/3/16
12/5/16
1/5/17
2/3/17
3/3/17
4/5/17
5/4/17

Roth 401k vs Traditional 401k, Which is Best?

It's All About The Taxes!!

Recently, there has been renewed discussion about whether employee investors should make traditional pre-tax contributions into their employer-provided 401k plan or take advantage of the Roth 401k option. Over the past several years, many employers have added a Roth 401k option to their retirement plan offering, which is the basis for the increased discussion.

What is a Roth 401k?

Roth 401k accounts are retirement accounts that are provided by your employer which are funded with after-tax contributions. The participant's contributions are subject to tax when they are made. Therefore, they can be withdrawn tax-free during retirement. The tax-free benefit includes the distribution of contributions and the subsequent investment gains.

Before digging deeper into the analysis, let's discuss some of the key characteristics of these two options.

1. The timing of taxation is the primary difference between the two options. Roth 401k contributions are made on an after-tax basis which means that you do not get a reduction in income tax in the year you make the contribution. In contrast, the traditional 401k contribution is made on a pre-tax basis which reduces your taxable income for the year of contribution.

2. Roth 401k contribution limits are the same as traditional 401k funding limits ($18,000 per year, plus $6,000 catch-up if over 50 years of age). In comparison, Roth **IRA** contributions are limited to an annual funding amount of $5,500 per person with a $1,000 catch-up provision for those over 50. Clearly, if making a Roth contribution is your preference, participating in the Roth 401k is preferable to a Roth IRA because of the increased funding limits.

3. Roth 401k funding and participation **does not** have the taxable income limit that a Roth IRA account has. Married taxpayers with adjusted gross Income over $184,000, ($117,000 for single taxpayers) are not allowed to make Roth IRA contributions. Thus, many people that would not be allowed to fund a Roth **IRA** account due to the income limitation can fund a Roth 401k account.

4. Employer matching contributions are always funded into the traditional 401k irrespective of the employee's deferral choice of participating in the Roth or traditional option. By participating in the Roth 401k option, the employee will have both after-tax and pre-tax balances in their retirement plan.

5. Roth 401k accounts are subject to the required minimum distribution rules which require the participant to begin taking distributions upon reaching 70 ½ years of age. This is in contrast to a Roth **IRA** which has no required minimum distribution requirement.

6. Roth 401k accounts can be rolled into Roth IRA accounts just like traditional 401k accounts are rolled into traditional IRA accounts. Transferring Roth 401k contributions to a Roth IRA will allow the participant to avoid having to take required minimum distributions upon reaching age 70 ½.

Why should I contribute to a Roth 401k?

If you believe your future tax rate in retirement will be higher than your current tax rate, you should use the Roth option. This would be especially important to younger participants that have a lower current income tax bracket (which means less tax benefit from traditional 401k pre-tax contributions) and many years to benefit from the tax-free compounding and growth.

Also, the Roth account can be a useful estate planning tool. If you anticipate that these retirement funds will not be needed during your retirement, the Roth planning option can maximize the money left to your children or heirs because there will be no tax consequences associated with these funds. As a reminder, income tax was paid in the year the contribution was made.

Why should I contribute to a traditional 401k?

If you are currently in a higher tax bracket and anticipate a lower taxable income in retirement, you would choose to take the benefit of making the pre-tax contributions and deferring the payment of the tax into your retirement years. This would be more applicable for the participants that are typically older, in their high-income years and don't have the benefit of the additional years of tax-free compounding before they will need to access their retirement funds.

Is there a case for both?

Yes, there is a case for making both types of contributions. Just as many investment advisors encourage their clients to diversify the stocks and bonds in their retirement portfolio, there is also an argument for diversifying your tax exposure on your retirement accounts.

By making both contributions, you are accomplishing this diversification by having the Roth portion of your retirement portfolio not subject to any income taxation. Another benefit of Roth funding is that if it is rolled into a Roth IRA there are no required distributions. This allows you to control your taxable income during your retirement years by choosing which account, pre-tax or after-tax, you distribute funds from. Additionally, the traditional 401k part of your retirement accounts will be subject to tax as the money is distributed. The basic underlying assumption is that you will have less income and therefore lower taxation on those funds during retirement.

In summary, there is no totally correct answer on this decision because there are so many variables. When you are contributing to a traditional 401k, you are contributing on a pre-tax basis which means you get a tax break up front and have to pay taxes when you distribute the money during retirement. Conversely, if you use a Roth account, you are funding with after-tax dollars and the money you contribute plus the earnings on that money is distributed without any tax consequences.

As stated in the title above, **it is all about the taxes!!!** Do you prefer to pay them now or pay them later? Unfortunately, you will have to pay them.

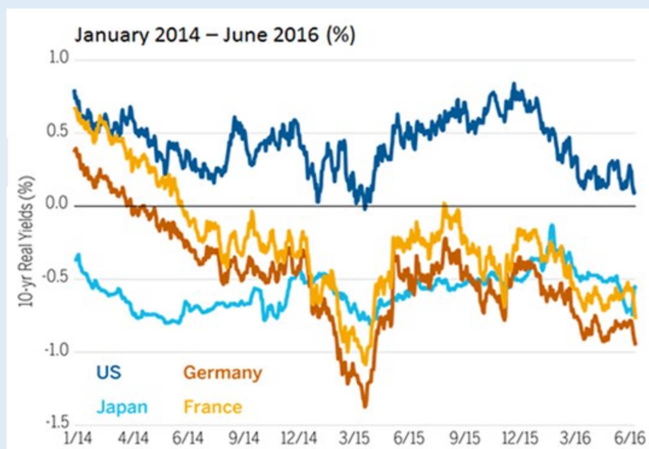
Have a great month.

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.*

Ebbs and Flows



Some of these fiscal measures are difficult to grasp, both in concept and in terms of potential real life application. But don't worry, right now it's hard for the logically thinking investor to know where to put his money. While the average U.S. investor has a lot of cash sitting on the sidelines and has moved more assets to cash so far this year, the foreign investor has been pouring money into U.S. stocks, bonds, and real estate, which has driven up prices of these assets.

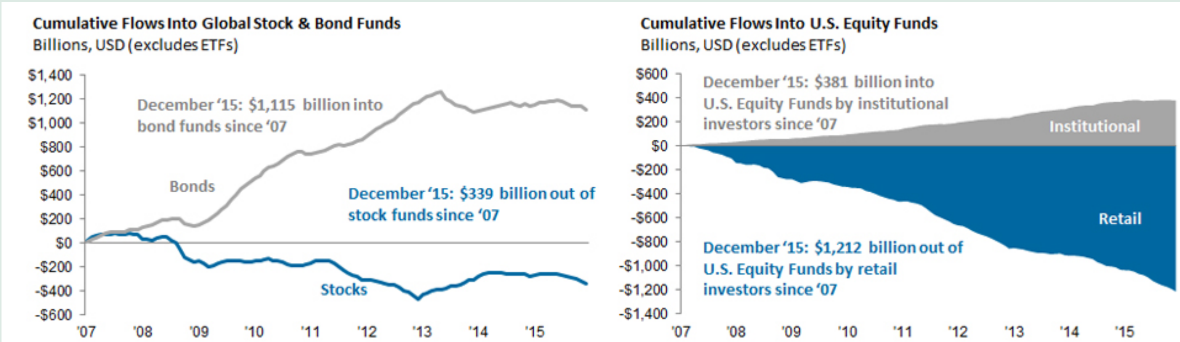
Why have we seen these record inflows coming from overseas? Well, what would you rather buy: A 10-year U.S Treasury yielding 1.4% or the 10-year German Bund with a negative yield? Or, U.S. real estate vs. Chinese real estate (Google Ghost Cities of China some time)? Or European stocks vs. U.S. stocks? It's easy to see why foreign investors have answered with a clear bias favoring U.S. assets. Additionally, institutional investors who are required to buy high-quality sovereign bonds are opting for U.S. Treasuries for good reason. Wealthy Chinese investors are buying properties in the U.S. and Canada, sometimes sight unseen. And traders all over the globe are trimming their allocations to international stocks in favor of owning U.S. stocks. To be sure, the U.S. economy is by no means all rainbows and gold stars, but we're viewed as the "safest" place to invest, the "best house in a bad neighborhood," the "cleanest dirty shirt in the closet." Pick your metaphor.

And that's how stock valuations have gotten to where they are today. Five consecutive quarters of falling earnings growth isn't good, and in '08-'09, investment values dropped a lot…in stocks, in bonds, and in real estate. But in 2016, with a very similar earning growth trend in place, asset values have resiliently climbed and may advance more. In fact, we could be at the onset of even larger inflows into U.S. assets, and that could certainly allow U.S. companies more time to get their earnings in order to justify these higher valuations. And these inflows also support why investors continue to own bonds in spite of record low yields. Bonds can do well in scary times, and they generally have a lot less downside than other risk assets.

Trend vs. Logic

Over the long term, investment results are typically driven by fundamentals, by quantifiable data, by logic. Is Company XYZ profitable now and/or are they expected to be profitable in the future? Is the Bond of Company XYZ worth buying, and am I going to get my regular interest payments on that bond, not to mention my original investment back when the bond matures? In this environment, you might be tempted to ride the wave, and "go all in" on U.S. stocks, and that trade could work…at least for a little while. Just remember: some trends go bad. Remember the dot-com era, or the sub-prime mortgage lending fiasco? Trends sometimes turn into bubbles, but bubbles always pop.

Markets don't always move up or down based on reason and logic, but we must always study the nature of trends and reversals. We continue to believe that a prudent investment process and a disciplined approach remain the smartest way to manage assets and risk.



TOP: Data includes flows through December 2015 and excludes ETFs. BOTTOM: Data includes flow through December 2015 and excludes ETFs. ICI data subject to periodic revisions. World equity flows are inclusive of emerging market, global equity and regional equity flows. Hybrid flows include asset allocation, balanced fund, flexible portfolio and mixed income flows.
Data as of 12/31/15. | Source: Investment Company Institute.

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