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Economic & Market Summary
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In a Presidential election year we expect to hear dire economic predictions as candidates need to "fix" something in order to justify being elected. Indeed perception surrounding the U.S. economy is dour, but the data continue to show a very consistent rate of growth. Job creation is strong and the unemployment rate continues to fall, although more can be done to encourage a higher labor participation rate. Wages are advancing, while spending is slightly lower than would be implied as consumers manage debt levels and build savings. Household debt service payments are the lowest in 30 years, owing to low interest rates and a general deleveraging cycle. Housing starts could increase by another 30% to meet demand. Business investment remains calculated. All this is occurring in a highly regulated environment which speaks to the dynamism of the U.S. private sector. While it's challenging to find catalysts leading to a significant breakout from a 2% growth rate, we don't see the excesses which usually presage a recession.

International growth is murky. Eurozone economic growth is advancing at a 0.5% rate. China's GDP growth is running at approximately 6%, while Japan is at risk of a shallow recession. India's growth rate is above 7%, which is a bright spot in the world. Other emerging market economies are struggling with low commodity prices, overbearing governments, and weaker demand from China. Additionally, poor relations in the Middle East as well as terrorist acts continue to pose moderate risks to global economic growth.

Fiscal policy actions continue to dampen private sector growth by misallocating resources, increasing regulation, and burdening U.S. domiciled corporations with a tax disadvantage. Aggressive monetary policies are only partially offsetting and now appear to be having a diminishing marginal effect. While U.S. consumers have dramatically improved their financial position over the past several years, the U.S. government continues to increase debt with little short-term consequence due to exceptionally low borrowing costs. It is likely that only a shock to the system will encourage better behavior by our representatives in Washington.

After a tumultuous period in the equity markets, the S&P 500 finished +1% for the first quarter of 2016. The never-ending worries about a recession, geopolitical problems, and stalling global growth pushed the stock market down 10% by February, only to recover all losses as economic data shows little risk of recession and the Federal Reserve remains very accommodative in action and expectation. Flows within domestic equity funds have once again turned negative only partially offset by continuing strong positive flows to ETFs and passive investment strategies. We are wary of "overcrowded trades" because they result in lower future investment performance. Active investment management looks poised for better performance as more and more market prognosticators extol the virtues of indexing. When investing in a typical index fund, the investor is purchasing a greater percentage of the best performing investments and a lower percentage of the weakest. It is impossible to earn above-average investment returns by following the crowd. We remain steadfast in our approach to researching and analyzing businesses along with maintaining a prudent view towards liquidity and income.

Thomas H. Rippl, CFA

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.