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Money Matter\$



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Ph. (503) 397-1545 www.sommersfinancial.com

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Three economic themes to consider for 2016

by Adam Sommers

In order to determine our investment allocations in client portfolios, we look at investment fundamentals like cost, risk, efficiency, etc. We also consider how the funds will be affected by key economic themes each year. For 2016, we are considering how the following three themes will affect our investments:

1. **An economic slow-down in China.** After booming at near double digit GDP growth since becoming “capitalist” more than a decade ago, China’s insatiable growth and gobbling up of the world’s resources has begun to slow to a more normal 4-5% growth rate. This has caused reductions in their purchasing of goods from abroad, namely natural resources like iron ore, copper, and oil.

We can predict that energy and resource funds will be adversely affected by this slow-down. But aside from what to avoid, what should we invest in given China’s slow-down? Municipal bonds are a good place to hide, as well as U.S. Treasury bonds. But, the secret is out, as both have performed well over the past 6 months.

2. **Continued low oil prices.** We’ve seen oil go from \$60/barrel to around \$30/barrel in six months. With Iran production coming into world markets, and OPEC showing no sign of cutting production, U.S. drillers have had to

close up shop and wait for prices to become stabilized, if not high enough to justify the cost of drilling. The bright side is that consumers will keep more money in their pocket as prices at the pump remain low.

Emerging markets and foreign resource economies will be hurt most. However, global stocks should benefit from low oil prices (with the exception of the energy sector), and alternative strategies like long/short equity will be good places to invest.

3. **Presidential election year.** The 2016 election is shaping up to be the most vexing—and polarizing—in history. Markets prefer predictability, and with “outsider” candidates like Trump and Sanders gaining traction, markets will be extra sensitive (volatile) with fears that Wall Street’s gravy train might be derailed. U.S. stocks and bonds will be jittery if Clinton or Kasich can’t take a commanding lead.

Given this uncertainty, we like high quality bonds (especially munis), international stocks, and long/short equity strategies. Maybe it’s time to reduce U.S. stock exposure until after the election?

Don’t despair, we’re happy to handle it for you. Sit back, relax, and enjoy the show.

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ETF EXTRA — iShares Mortgage-Backed Securities ETF — (MBB)

The iShares MBS ETF tracks an index of investment grade mortgage pass-through securities. The index includes fixed and floating rate securities issued by GNMA, FNMA and FHLMC.

For pure-play coverage of mortgage pass-through debt issued by the major US agencies, MBB brings the total package and earns the ETF.com Analyst Pick for the segment. The fund offers excellent coverage, and its AUM and liquidity give MBB the edge over peers. The fund was first to market in this space in 2007, and has a hefty asset base to show for it.

MBB’s Notable Statistics

Dividend Yield:	2.30 %
Total Assets in the Fund:	\$ 7.8 Bil.
Expense Ratio:	0.29 %
12-Month Return:	2.0 %
Max Drawn Down (last 5 yrs):	- 6.6 %

5-Year Returns

Dow Jones Industrial 30

Average: 6.7 %

S&P 500 U.S. Large Company Stock Index:

9.2 %

S&P Moderate Allocation

Index (AOM): 4.5 %

SPDR Gold Index (GLD):

- 8.1 %

iShares Aggregate Bond

Index (AGG): 1.4 %

SFM’s “NAKED ALPHA FUND”:

9.2 %



Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
27%	VYM	Vanguard High Dividend Stock ETF	3.12%	5.2%	12.6%	0.10%
23%	USMV	iShares U.S. Minimum Volatility Stock ETF	1.99%	9.1%	14.3%	0.15%
25%	VIG	Vanguard Dividend Appreciation ETF	2.17%	3.4%	10.6%	0.10%
25%	IVV	iShares S&P 500 ETF	2.30%	1.9%	13.2%	0.07%

INCOME-oriented portfolio

Average dividend yield: 3.4%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
22%	SCHD	Schwab U.S. Dividend Stock ETF	2.92%	5.3%	12.4%	0.07%
24%	VYM	Vanguard High Dividend Stock ETF	3.12%	5.2%	12.6%	0.10%
19%	QDF	FlexShares Quality Dividend Stock ETF	2.88%	1.9%	12.6%	0.37%
15%	HSPX	Horizon S&P 500 Covered Call ETF	5.32%	0.4%	NA	0.65%
20%	QDEF	FlexShares Quality Low-Volatility Div. Stock ETF	3.01%	2.7%	12.8%	0.37%



Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
20%	MBB	iShares Mortgage-Backed Securities ETF	2.29%	2.0%	2.4%	0.29%
19%	BND	Vanguard Total Bond Market ETF	2.43%	2.0%	2.4%	0.06%
24%	BSV	Vanguard Short-Term Bond ETF	1.32%	1.5%	1.2%	0.09%
20%	MUB	iShares National Municipal Bond ETF	2.44%	3.2%	3.2%	0.25%
17%	FATRX	Frost Total Return Fund	3.40%	-0.5%	2.1%	0.75%

INCOME-oriented portfolio

Average dividend yield: 5.1%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
19%	NFRAX	Nuveen Senior Secured Floating Rate Note Fund	4.95%	-2.8%	1.7%	0.96%
20%	PCY	iShares Emerging Market Govt. Bond ETF	5.38%	4.9%	3.2%	0.50%
18%	HYHG	ProShares High-Yield Bond, Rate Hedged ETF	6.40%	-9.7%	NA	0.50%
21%	IGHG	ProShares Inv. Grade Bond, Rate Hedged ETF	3.67%	-2.5%	NA	0.30%
22%	CSI	Cutwater Select Income (Closed-End Fund)	5.32%	1.2%	4.0%	0.74%



Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
24%	AGAZX	361 Global Long/Short Equity Fund	0.00%	11.5%	NA	1.69%
22%	NPSAX	Nuveen Preferred Securities Fund	5.64%	1.4%	4.5%	1.06%
22%	VNQ	Vanguard U.S. Real Estate ETF	4.23%	4.1%	11.3%	0.12%
32%	VMNFX	Vanguard Market Neutral Fund	0.02%	8.0%	6.4%	0.25%

INCOME-oriented portfolio

Average dividend yield: 4.8%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
21%	PFF	iShares Preferred Stock ETF	4.30%	2.9%	5.3%	0.47%
19%	NRIAX	Nuveen Real Asset Income Fund	5.29%	-1.4%	5.3%	1.17%
21%	NPSAX	Nuveen Preferred Securities Fund	5.64%	1.4%	4.5%	1.06%
19%	BAICX	BlackRock Multi-Asset Income Fund	4.56%	-3.0%	2.7%	0.84%
20%	VNQ	Vanguard U.S. Real Estate ETF	4.23%	4.1%	11.3%	0.12%