

High Desert Investment Advisors

January 05, 2016

Another year has passed! Each year seems to be shorter than the previous one!

We want to wish you and your Family a Very Happy and Healthy New Year 2016.
(We all know that a year is 365 days long [2016 has an one added leap year day], but when the year ends it surely feels like it was only 180 days) What happen to the rest of the year!

HAPPY NEW YEAR
HOPE YOU HAD A WONDERFUL HOLIDAY WITH YOUR FAMILY AND FRIENDS
From the Bracketts

Now, on to business:

Little has changed since our last two investment advisories in August and September. The stock markets continue to consolidate after 5 years of strong gains. We have had one year of consolidation now, and, based upon the numbers I am seeing, it is likely that this consolidation period will continue thru the 2nd Quarter, 2016, and probably thru the 3rd Quarter, 2016, as well. Economic growth will continue to be slow, but continuous, as all parts of the US economy work to reduce debt, rebuild balance sheets - both personal and corporate - and stabilizing state government spending at the current lower levels of tax income.

The monetary aggregates (our Fundamental Model) are suggesting that the market will contract during the first two months of the new year, probably indicating little or no growth to the economy during the first Quarter 2016. That being said, the fundamentals of the US economy are pretty positive across most components, with the particular exceptions being energy and manufacturing. For us and our investor clients, we have a particular issue in the energy realm because most of our portfolios include perhaps up to 5% invested in energy bonds. The bonds that are in trouble are Swift Energy, Energy XXI Gulf Coast, Penn Virginia, Peabody Energy, Comstock Resources, and Cliffs Natural Resources. Chesapeake Energy may also be included in this group. The problem with their corporate balance sheets is that their debt service is very high. Since the price of oil has fallen as much as 70% , revenues and available cash flow are very much reduced from a year ago.

For the year 2016, expect to see similar volatility to what we have seen in year 2015. Liquidity is becoming an issue for both the equity markets and for the bond markets. Large trades and unexpected events, will cause rather large short term losses and gains in the markets. Dampened portfolios with significant commitments to bond investments, will perform better in a year when little economic growth occurs. Generally, the US economy is strong and building momentum. Where other global economies

are feeling considerable stress, the US economy is adding jobs, and seeing growth in its GDP. This says that the best place to invest is in the US. Emerging markets are suffering; Europe has serious issues from its highly leveraged countries along the Atlantic Coast and the Mediterranean Sea, and the refugee problem is very serious. The most difficult issues reside from within the Middle East; the religious civil war that is occurring between the Sunnis and Shiites will not be quieted quickly. These conflicts affect the entire world, but perhaps the most difficult issue for the US, related to this conflict, has to do with the need for revenue that affects the OPEC countries. To fund these wars, those countries must continue to produce a maximum amount of oil. This has a direct impact on a significant part of the US economy, the energy producers.

The primary goal for the 1st Quarter 2016, is to review all of your portfolios and to reallocate the equities portion of our total portfolio. We will be making recommendations with regard to liquidating some managers and some stocks, and the addition of new and/or tested managers with good investment track records.

On the Fixed Income side of the portfolio, there is a need to build a model around potential upset ** "Black Swan" events, taking into consideration how those events will affect the stability and income of our investment portfolios.

Expect recommendations; they will come to you early in 2016 (to be made during the first 3 months of 2016). Note that none of our client accounts allow for the financial advisor to take "discretion" when it comes to making recommended trades. Each of you will have to respond to these recommendations individually, giving approval to proceed with the recommended changes. Email is probably the best method of communication for us at High Desert Investment Advisors.

***"Black Swan" event: The black swan theory or **theory of black swan events** is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. "Black swan theory" refers only to unexpected events of large magnitude and consequence and their dominant role in history. Such events, considered extreme outliers, collectively play vastly larger roles than regular occurrences*