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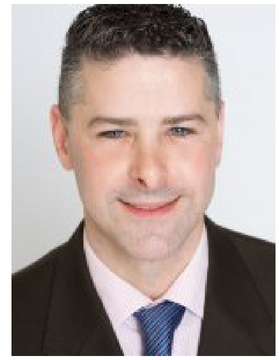


FEBRUARY 2016

Market Update

(all values as of 01.29.2016)

Stock Indices:

Dow Jones	16,466
S&P 500	1,940
Nasdaq	4,613

Bond Sector Yields:

2 Yr Treasury	0.76%
10 Yr Treasury	1.94%
10 Yr Municipal	1.73%
High Yield	9.16%

YTD Market Returns:

Dow Jones	-5.50%
S&P 500	-5.07%
Nasdaq	-7.86%
MSCI-EAFE	-7.27%
MSCI-Europe	-6.65%
MSCI-Pacific	-8.41%
MSCI-Emg Mkt	-6.52%
US Agg Bond	1.37%
US Corp Bond	0.36%
US Gov't Bond	1.39%

Commodity Prices:

Gold	1,118
Silver	14.26
Oil (WTI)	33.62

Currencies:

Dollar / Euro	1.09
Dollar / Pound	1.42
Yen / Dollar	118.72
Dollar / Canadian	.71

Current Environment - Macro Overview

Volatility returned to the markets in January as China devalued the yuan immediately following the new year in hopes of stimulating exports amid a slowing Chinese economy. The move was interpreted by the international community as a global slowdown affecting economic growth prospects elsewhere.

Many believe that China's continued currency devaluation, along with Japan's recent central bank move, will exacerbate political repercussions with the U.S. as Chinese and Japanese products drop in price in the U.S. This has been a focal issue with presidential candidates running for the November election.

A brewing currency war has evolved as China, Euro, and now Japan have all executed some type of action in order to devalue their currencies to stimulate economic activity. China's devaluation of the yuan in August 2015, and again in January 2016, was a catalyst for other countries to follow suit. The market's discouragement with China is the country's lack of communicating its central bank objectives clearly and with reasonable delivery. Japan's central bank surprised markets by lowering one of its main lending rates into negative territory for the first time in order to stimulate its sagging economy.

The Department of Commerce reported that 4th quarter 2015 real personal consumption grew at an annual rate of 2.2%. Of the personal consumption that occurred in the 4th quarter, data showed that roughly 47% was healthcare related, perhaps because of year-end visits to the doctor before deductibles reset for the new year. So, any savings on cheaper gasoline went to higher medical expenses.

In its latest FOMC meeting, the Fed decided to leave its rate hike plans intact, disappointing markets and lifting U.S. rates slightly. The Fed did acknowledge slightly slower economic growth and a faltering stock market in January, yet decided to maintain its rate hike course. The Fed is now at odds with nearly every other developed country central bank as others employ a rate decrease and stimulus strategies.

A persistent oversupply of global oil led to a continued drop in oil prices, as a supply glut needs to stabilize before oil prices head back up. It is expected that inflation will remain low as long as oil prices remain low since oil is an integral component of inflationary pressures. Once oil prices move up, inflation will stabilize.

Economists are expecting lower oil prices in the U.S. to negatively affect states where oil makes up more than 5% of their economies. Currently, North Dakota, Texas, and Wyoming have more than 5% of their state GDPs hinged on oil. Direct oil service jobs, service sectors supporting the oil industry, and shrinking tax bases may all eventually become an issue.

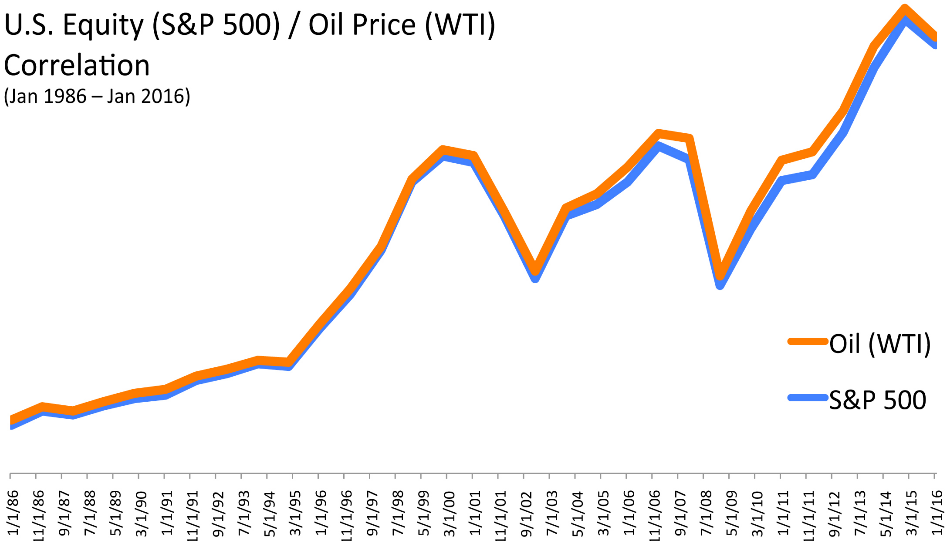
The first shipment of oil exported out of the U.S. arrived in Marseille, France, after a three-week voyage following the lifting of the ban on U.S. oil exports in December 2015.

Sources: Fed, Dept. of Commerce, Eurostat, Bloomberg

OIL IS THE MOST TRADED & ACTIVELY USED COMMODITY IN THE WORLD

Why Stocks Went Down When Oil Went Down - Domestic Stock Market

Equity markets descended in January alongside oil prices, while testing new lows with a visible increase in volatility. Oil's dramatic price drop has been a catalyst for stock prices heading lower, a so-called correlation that has actually existed for years.



There are various theories as to how oil and stock prices might be correlated, yet one of the most accepted revolves around macro economic global dynamics.

Oil is the most traded and actively utilized commodity in the world whose consumption represents the economic activity worldwide. So when oil supplies grow and demand drops, markets interpret that as an economic slowdown. Such a slowdown thus migrates into the equity markets, where economic activity and growth is essential for expansion and higher equity prices.

Lower oil prices can also be beneficial for certain sectors, such as transportation and airlines, whose primary expenses are fuel. Economists expect a possible lag effect with recent low oil prices, which may eventually appear on corporate income statements. Obviously, lower oil prices are not conducive to oil industry sector companies, whose margins shrink as oil prices drop.

Sources: Economic Premise #150 World Bank, IMF Research Bulletin, Federal Reserve System

Changing Rates & The Fixed Income Markets - Global Bond Market Update

The Fed is now at odds with nearly every other developed country central bank as others employ a rate decrease and stimulus strategies.

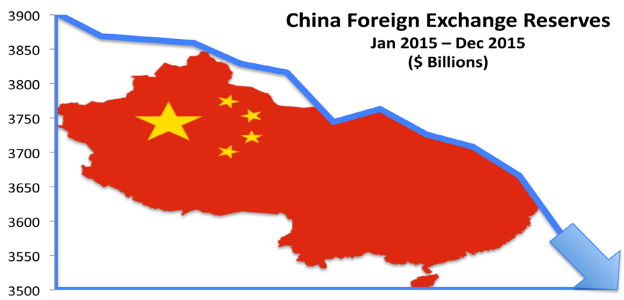
In its latest FOMC meeting in January, the Fed decided to leave its rate hike plans intact, disappointing markets and lifting U.S. rates slightly. The Fed did acknowledge slightly lower economic growth and volatile equity market conditions as variables to monitor.

International rates fell in January as central banks moved forward with stimulus efforts aided by lower borrowing rates. The ECB and Japan both reduced their key lending rates enough to drive markets in both regions towards risk assets. Japan's central bank surprised markets by lowering one of its main lending rates into negative territory for the first time in order to stimulate its sagging economy.

Sources: Federal Reserve, Bloomberg

There Are About 1 Million Excess Barrels Of Oil Produced Each Day Worldwide

What China's Reduced Currency Reserves Might Mean - Currency Dynamics



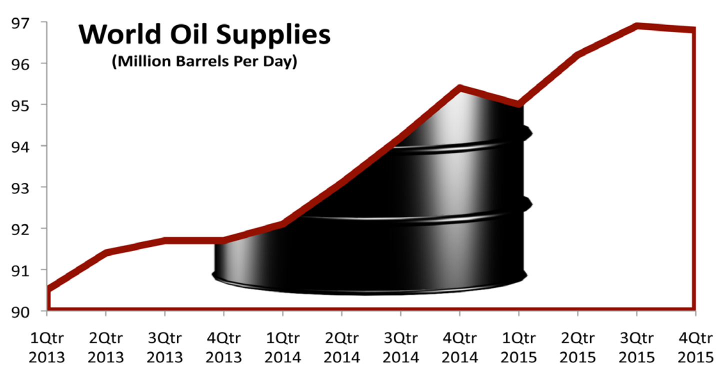
Analysts carefully track the level of foreign reserves held by China, rather then rely on Chinese economic data released by the communist Chinese government. There has been tremendous doubt as to how accurate, if not true, economic data is coming from Chinese authorities. Foreign reserves can be tracked by the flow of currencies in and out of China as well as other county currencies held directly by the Chinese government, such as the U.S. dollar.

A reduction of foreign reserves signals that China is experiencing capital outflows and liquidity issues. A renewed bout of reserve liquidation by foreign central banks occurred in order to prop up their country currencies. Traders and analysts attribute the recent reserve liquidations to the prospect of slower economic data emerging primarily from China. Some analysts are doubtful about the validity of China's data as it is being used as a reason to alter the Chinese currency, considered as currency manipulation. Over the past two months, China has sold nearly $200 billion dollars of its reserves, a much larger than usual amount.

Sources: CIA WorldFactbook, IMF, Fed.

Growth Of World Oil Supplies - Oil Industry Review

With oil prices continuing to fall throughout January, the focal point has been an over supply of the commodity, which is now in abundance worldwide. The IEA reports that daily world oil consumption is currently less than daily oil production by roughly 1 million barrels per day.



The international energy agency reported that over 64% of the world oil production has come from just 10 countries. As these countries produce oil, they have some basic options such as to refine it, consume it, export it, or store it.

As of this past year, the U.S. has the single largest supply of crude oil in the world, with over 2 billion barrels in inventory as of Jan 29th.

With the U.S. now able to export its own oil production, both as refined and crude, it also has been stockpiling oil for months. As a result, the U.S. has maintained the single largest supply of oil worldwide. Partially because of this over supply, Congress agreed in December 2015 to overturn a 40-year old ban on oil exports, thus allowing the U.S. to export some of its excess supplies.

The onslaught of fracking and technological advances in drilling has led to increased U.S. production and supply growth. Saudi Arabia's attempts to destabilize U.S. drillers with increased production and lower oil prices also led to an increase in supplies for other countries.

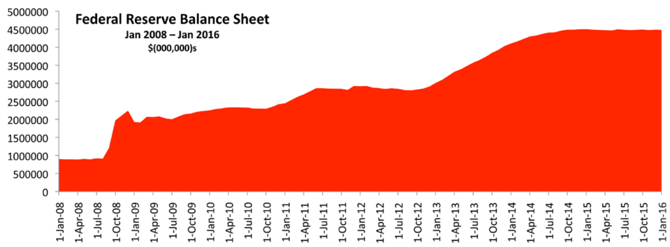
Source: IEA (Oil Stock Levels Report 4th Qtr 2015 Release)

The Fed's Balance Sheet Now Exceeds $ 4.4 Trillion

Fed's Balance Sheet Still Fat - Monetary Policy

With the Fed on track to raise rates as promised, the fixed income market will still have some indirect stimulus to benefit from.

Now with the Fed finally decided upon increasing rates, it will do so with nearly the largest balance sheet ever amassed. As of January 30th, the Federal Reserve's balance sheet exceeded $4.4 trillion.



The challenge for the Federal Reserve since it concluded its Q.E. program, is how to actually start raising short-term rates (Fed funds rate) while confronting a weak global economy, international deflationary pressures, and record low bond yields in Europe.

The Fed had been holding between $700 billion and $800 billion of Treasury notes on its balance sheet before the crisis. An additional round of Q.E. was enacted in November 2010, with a final round of easing (QE3) in September 2012. Even though new purchases of Treasuries and other government securities ended in November 2014, the Fed's enormous balance sheet will continue to provide some buoyancy to the government bond market by limiting supply and thus suppressing long-term rates.

Some economists believe that the size and inventory of the Fed's balance sheet will actually facilitate any gradual increase in rates by the Federal Reserve as it occurs.

Source: Federal Reserve

Iran Unleashed After Sanctions Lifted - Middle East Perspective

Sanctions imposed on Iran years ago were lifted in January thus allowing Iran to once again export and compete in the global economy. At the height of the sanctions, Iran saw their currency, the rial, collapse by over 80%, sending food and basic product prices to hyperinflation levels.

Iran has an abundance of natural resources it plans to export, including zinc, copper, iron ore, and oil. Iran's announcement that it will begin adding another 500,000 daily barrels of oil to world oil markets helped sink oil prices further in January as an oversupply issue was magnified by Iran's new production.

Iran is already the world's third largest exporter of steel. Iran also has about 18% of the world's natural gas reserves. Iran was also the first country in the Middle East to discover oil in 1902. It is estimated that Iran has proven oil reserves of 157 billion barrels, representing about 9% of the world's proven reserves. This is a sore fact for Saudi Arabia, which is a vehement rival to Iran, both financially and religiously.

Demographically, Iran has a young and highly educated population, adding to its vitality and stockpile of a talented labor force. Some economists have identified Iran with Germany, calling it the "Germany of the Middle East".

Sources: CIA Factbook, IEA, Eurostat