

Sather Financial Group, Inc.
Private Wealth Management

Strap On Your Seatbelts...It's a Bumpy Ride 2016 First Quarter Commentary

Just in case you forgot, the financial markets are volatile.

And if you welcome volatility, then you loved the first quarter of 2016.

From the beginning of the year to February 10th, both the Dow and the S&P 500 had lost more than 10%.

The investors dilemma: Sell and run for the hills, buy more or hang in there?

Hopefully, it was one of the last two choices.

By the end of the quarter both the Dow and S&P 500 had retraced lost ground and managed a slight gain for the quarter.

As the chart to the right shows, this certainly isn't the first time we have experienced volatility of this nature and it won't be the last!

RECESSIONS AND RECOVERIES OVER THE LAST HALF CENTURY¹¹

December 1969–November 1970



July 1990–March 1991



November 1973–March 1975



March 2001–November 2001



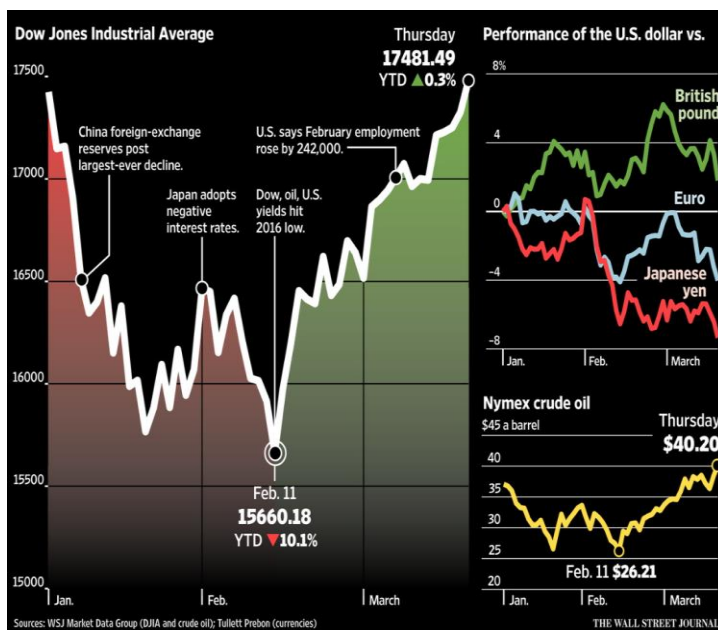
January 1980–July 1980



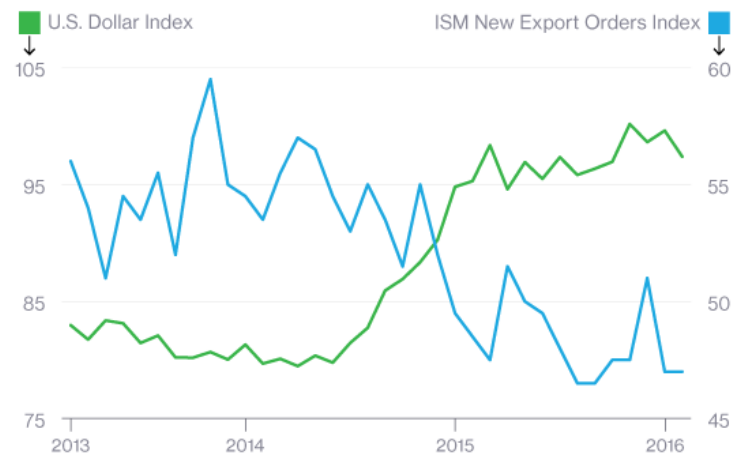
December 2007–June 2009



July 1981–November 1982



Stronger Dollar, Weaker Exports

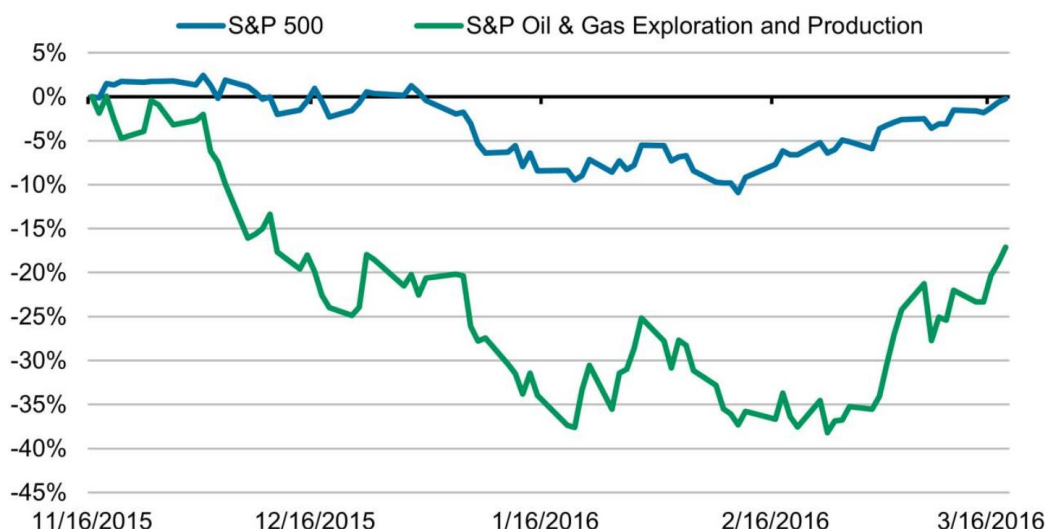


Note: Dollar index compares dollar with six major currencies (1973=100); ISM survey of company executives on month-to-month changes in manufacturing export orders (above 50 signifies growth)

As the oil market recovered from a low of \$27 per barrel, so too, did the stock markets. After a precipitous drop in January, the price of crude rebounded to the \$40 level. During the quarter, the US Dollar remained quite strong relative to other world currencies.

Renewed Energy

Change over last six months



As Janet Yellen, Federal Reserve Chair, admitted the economy is weaker than anticipated. At the same time, Yellen said retracted previous Fed statements that short term interest rates would be increased four times in 2016.

Instead, Yellen said, don't expect much—were in a holding pattern.

This did not surprise us as we had commented at the end of 2015 that the economy was far too weak to warrant significant increases in rates.

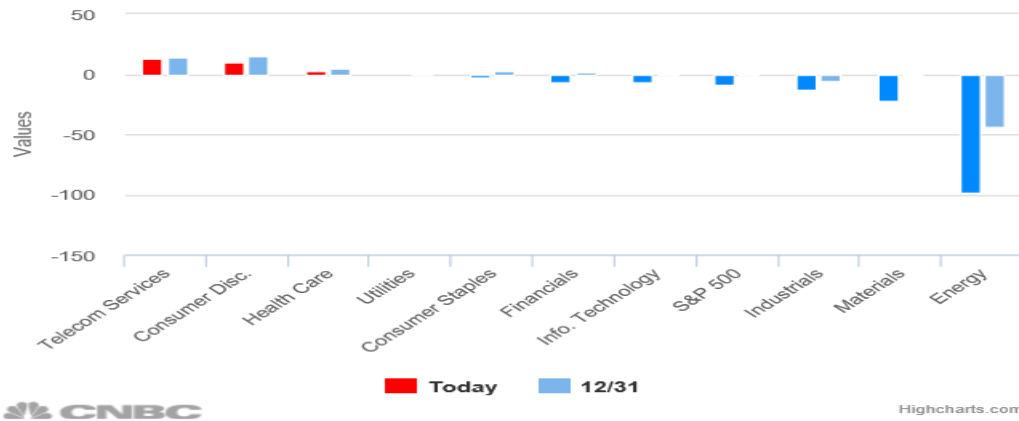
Subsequently, the 10 Year Treasury yield fell and investors pushed money back into stocks.

As we have written about before, we continue to be mired in a TINA market.... There Is No Alternative....but stocks.

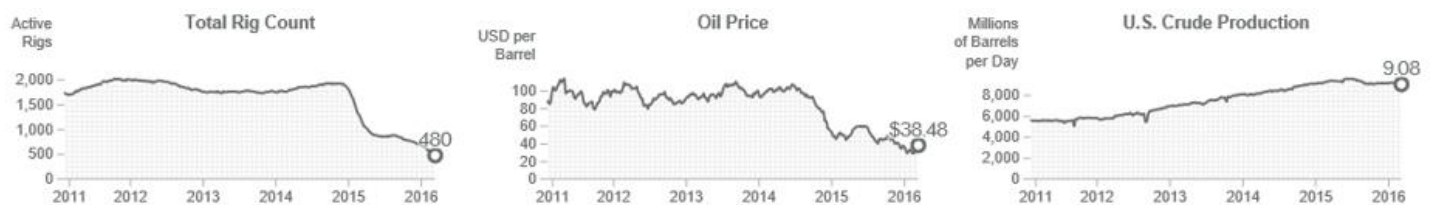
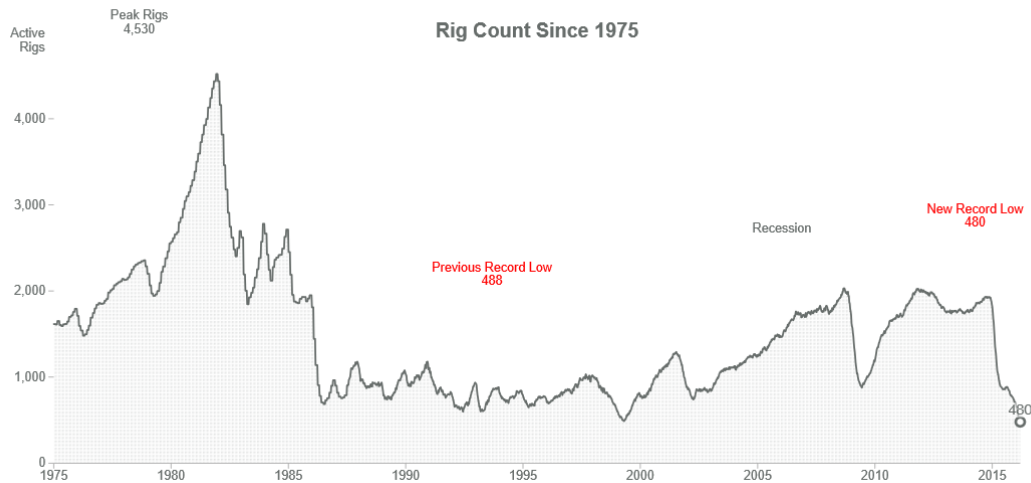


S&P 500 Earnings Growth: Q1 2016

Source: FactSet

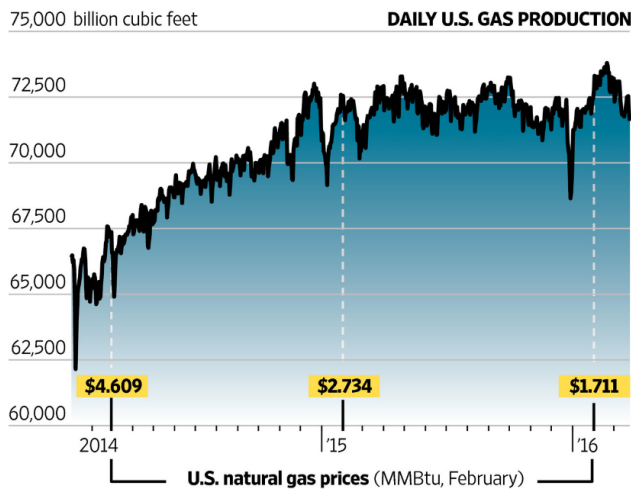


Not too surprisingly, there continues to be weakness in the energy and materials sectors. This is showing itself in both revenues and earnings. However, other sectors are doing much better—often ones that benefit from low energy prices.



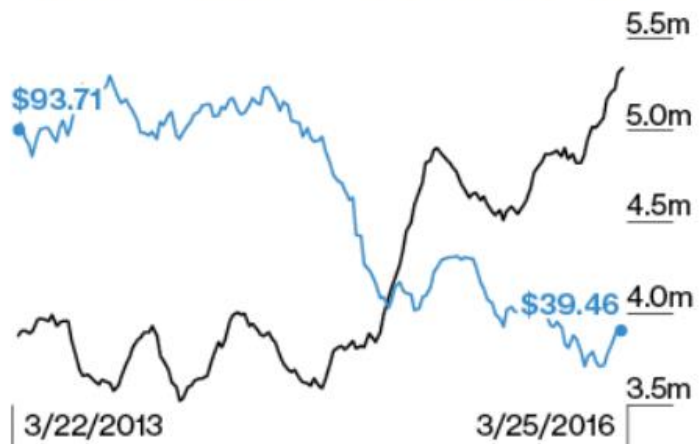
Full of Gas

Despite declining prices, U.S. natural gas output continues to rise.



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Barrels of U.S. crude oil inventories*
West Texas Intermediate price per barrel

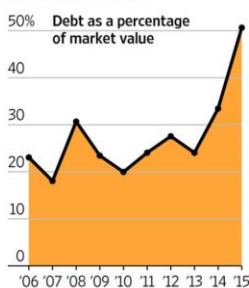


*EXCLUDES STRATEGIC PETROLEUM RESERVE;
DATA: U.S. ENERGY INFORMATION ADMINISTRATION, BLOOMBERG

Energy Reckoning

Oil and gas producers' debt has risen in recent years, and so has banks' exposure to energy loans.

Debt ratio for about 30 major global oil producers



Exposure of selected banks to oil and gas debt

Bank	Energy loans 4Q 2015	Percentage of Total loans	Percentage impact on 2016 EPS
Bank of America	\$21.3 billion	2.0%	5.6%
Citigroup	20.5	3.0%	3.8%
Wells Fargo	17.0	2.0%	1.0%
J.P. Morgan Chase	14.0	2.0%	0.0%
Comerica	3.7	8.0%	22.5%
Regions Financial	3.2	4.0%	5.7%
U.S. Bancorp	3.2	1.0%	1.2%
BOK Financial	3.1	19.0%	42.8%

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Debt ratio for about 30 major oil producers



WSJ

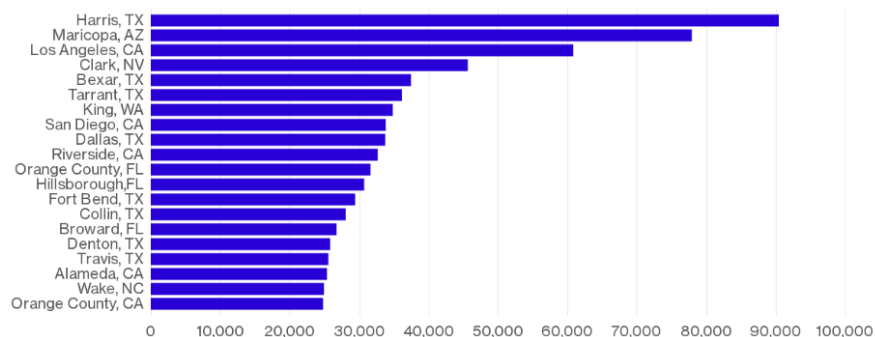
Although the price of energy dropped, it has not stopped people from moving to Texas. Eight of the top 20 counties with the largest population growth last year were in Texas.

Texas payroll gains have held steady despite oil-related cutbacks in positions, and the state's jobless rate of 4.5% is better than the national average of 4.9%, according to the Labor Department.

Lone Star Nation

Among the 20 U.S. counties that gained the most population last year, eight were in Texas

Population increase from July 2014 - July 2015



Source: U.S. Census Bureau

Bloomberg

It is also important to recognize that the data being cited for best population growth is as of July of 2015. By the time that information is updated through July 2016 it may reflect a less upbeat picture.

Despite this, through January 2016 the Victoria, Texas area has lower unemployment than it did two years earlier.

In fact, the economy has been so strong in Texas that both Austin and Dallas share the dubious distinction of being some of the least affordable locations to reside. Having spent time in both recently, the appearance is that both cities are booming and San Antonio is not far behind.



Conversely, the economy in California continues to suffer and with it, unemployment remains well above the national average.

We find it ironic that at a time when jobs are so hard to find, the State of California is mandating a \$15 per hour minimum wage.

It might be wise for the California politicians to take Economics 101; when you start inserting government price controls, jobs and the economic benefits that accompany them will react accordingly. In the process, they will leave, be replaced by robots or are outsourced.

In the end, it is the low end worker that is most affected by decisions of this nature.

On the national level the jobs picture continues to be difficult. Although the official “unemployment” level appears to be low at 4.9%, there are many people who are excluded from this figure.

This tells us that Texas, and the Victoria-area, are both more economically diversified now than they were during the 1980 to 1985 time frame.

Where Energy Reigns, Joblessness Rose			
Search:	<input type="text" value="vic"/>	Show	10 entries
Short metro	Average for the year ending July 2014	Average for the year ending Jan. 2016	Difference
Victoria, Texas	4.6%	4.1%	-0.6

Where Energy Reigns, Joblessness Rose			
Search:	<input type="text"/>	Show	10 entries
Short metro	Average for the year ending July 2014	Average for the year ending Jan. 2016	Difference
El Centro, Calif.	23.7%	22.5%	-1.2
Yuma, Ariz.	24.7%	21.8%	-3.0
Visalia-Porterville, Calif.	13.8%	11.5%	-2.3
Ocean City, N.J.	13.1%	11.2%	-1.8
Merced, Calif.	13.5%	11.0%	-2.5
Hanford-Corcoran, Calif.	12.7%	10.3%	-2.4
Bakersfield, Calif.	11.0%	9.9%	-1.1
Yuba City, Calif.	13.0%	9.9%	-3.1
Madera, Calif.	11.6%	9.8%	-1.8
Fresno, Calif.	12.3%	9.8%	-2.5

Furthermore, just because unemployment is low does not mean that people are finding good quality jobs.

Data extracted on: March 31, 2016 (12:20:10 PM)

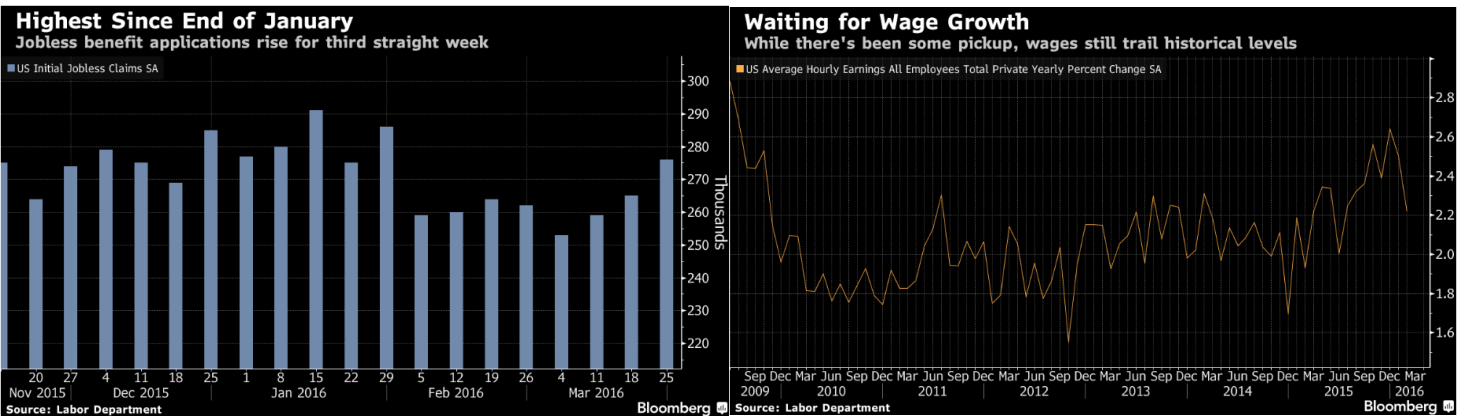
Labor Force Statistics from the Current Population Survey

Series Id: LNS11300000
Seasonally Adjusted
Series title: (Seas) Labor Force Participation Rate
Labor force status: Civilian labor force participation rate
Type of data: Percent or rate
Age: 16 years and over



Currently, the civilian population (age 16 or older) that is in the workforce is finally, after seven years of decline, showing some signs of improvement.

At the same time, claims for jobless benefits are on the rise. It may be that they are under-employed, in which case they are apt to job hop. Or, they are seasonally employed, in which case they are apt to quit or get laid off.



At a minimum, it is a difficult investment market. The first quarter provided enough volatility which offered some welcome entry prices to take new positions or add to existing positions.

However, with the Federal Reserve stoking the fires of the stock market as a whole we find ourselves looking to liquidate a variety of positions in favor of cash or to redeploy into cheaper assets.

Lastly, I hope you will reserve the evening of Thursday April 21st as we celebrate anniversary #17 since our little firm was established. Come join us for something cool to drink and a snack or two. As is tradition, we will see you at Fossati's (302. S. Main) starting at 5pm. Without truly wonderful clients, we wouldn't have a reason to exist—THANK YOU! We are looking forward to many more.

Sincerely,

Dave

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren

Warren Udd, Vice-President
CERTIFIED FINANCIAL PLANNER™