March 31, 2016

BARRON FINANCIAL GROUP, LLP

MARKET Quarterly

Beyond Numbers

Welcome Spring!

Welcome Spring! – After an unseasonably warm and mild winter we seem to be headed for an early spring. Daffodils and Daylilies are already showing themselves even in the frozen tundra of Goshen, CT. I can't help but look forward to the warmer weather and going hiking in it. I hope you all had a pleasant winter and are looking forward to spring as much as we are.

In this edition I will break from the norm of personal news and give you all a brief business update. Since our start-up in 2006 we have seen major changes in the investment landscape across the globe. We respond to those changes by modifying our investment analysis and implementation techniques. In that spirit, we recently completed a new Portfolio analysis and management software system. Working with a software developer we designed the system to work exclusively with our in-house developed portfolio techniques, resulting in a package that is proprietary to Barron Financial Group. We believe this new system provides important new tools and capabilities often found only in much larger investment firms. We believe this major upgrade will be good for our firm and our clients.

Best Regards,

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Last Quarter Round Up

Last quarter I put forth my thinking for 2016 that I did not see a driver for significantly up, or down, markets. It certainly appeared I was far off in that assessment, considering that by the middle of February the S&P 500 index was down over 10%. Then the market turned around and finished the quarter up about 1.4%. I found no good fundamental explanation for why the market made these moves. I believe we are experiencing higher levels of volatility because we are entering a new phase of the economic recovery after the Global Financial Crisis (GFC) of 2008. After the GFC, the markets became dominated by global Central Banks and the normal business cycle no longer functioned. Markets believed in Central Bank dominance until sometime in 2015 when the idea that Central Banks might not dominate markets started to gain traction. That's where we are…and the uncertainty is driving market volatility.

I've mentioned the "sideways" market in the past. Consider that while the S&P 500 index finished the quarter up about 1.4%, it is up only about 1.8% over the last 12 months - only a 0.4% difference. Looking at global markets, International markets were down 3% for the quarter and down just over 8% over the past year. Emerging markets outpaced the U.S. for the quarter, being up almost 6.5%, but remain down nearly 15% for the last 12 months. The Barclay's Aggregate Bond index was up 3% for the quarter and is up 0.2% over the past 12 months.

Current Quarter Outlook

I continue to hold the opinion that we are in a sideways market with little to drive the markets substantially up or down. I expect the volatility will continue and wouldn't be surprised to see another 10% move, in either direction, during the remainder of the year. This is a time for considering loss avoidance more than gain achievement. I expect interest rates will continue to remain low. The Federal Reserve (Fed) did not raise interest rates in March as many expected. I never bought into the idea that we would see four interest hikes, one at every Fed meeting, in 2016. I expect we will see at most two rate hikes, one in June and one in December. With 20+ developed countries in the world utilizing negative interest rates, I think it will be difficult for the U.S. to aggressively raise rates.

My contention also remains that the U.S. won't see a recession in 2016. If the economy avoids recession and turns more positive than expected, the markets could find their driver to higher levels. This is not my base case, but possible. I have reduced my market exposure in International investments mostly due to the deepening political problems in Europe. Also, the immigration crisis is proving to be a major setback in their economic progress. Emerging markets look even more appealing after the strong first quarter, but I continue to underweight this group based mostly on currency concerns. My equity strategy is to remain fully invested, underweight U.S. and Emerging Markets, and slightly overweight in International. In fixed income, I remain invested with greater exposure to credit paying higher yields. I will continue my overweight in Alternative investments.

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