FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW
FIRST QUARTER 2016

What Happened:

The market correction that began last summer crept over into the new year. By mid-February, the market had dropped 15% from the high reached in May 2015. Not officially a bear market (defined as a drop of 20% or more), but disconcerting nonetheless. Volatility picked up and rumblings of recession began to be heard. Since mid-February, however, the market has rebounded nicely, erasing most of the losses from the first half of the quarter.

The market remains unsettled for all the same reasons that have been in play for the past year or so—slowing global growth, the excess supply of oil, and the strong dollar. On top of all that, we are in the midst of a very unusual presidential election year, adding more anxiety to the mix.

Technically speaking, the bull market that began in March 2009 is still alive. At seven years old, it is the third longest in history. However, because it has not been as strong as many previous bull markets, and because recession seems unlikely, many experts believe the bull will trudge on for a while. This seems plausible as long as corporate earnings show improvement from last year.

Corporate earnings for the first half of 2016 are expected to be down from a year ago. Losses in the energy sector are largely to blame, but the adverse effects of the strong dollar are playing a role in other sectors as well. In the second half of 2016, however, earnings are expected to be much improved for most sectors of the market, energy notwithstanding. What's more, employment numbers are improving and wages are slowly increasing, allaying fears of recession. These are strong arguments supporting the markets going forward.

First Quarter Performance:

S&P 500 Index (large stocks)	1.3%
Russell 2000 Index (small stocks)	(1.5)%
MSCI EAFE Index (international stocks)	(3.0)%
Barcap Aggregate Bond Index (bonds)	3.0%

Prognosis:

Market corrections are unnerving, but they are a normal and necessary part of investing for the long-term. The recent correction is similar to all those that preceded it—a pause that refreshes. Or put another way, corrections are temporary disruptions that restore equilibrium of prices before allowing the market to move higher again.

Regarding the upcoming elections, history suggests that the markets will not be impacted significantly, regardless of the outcome. Instead, we'll be keeping an eye on earnings.

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