FROM THE DESK OF BOB CENTRELLA, CFA: **January 8, 2016**

2015 REVIEW AND 2016 OUTLOOK

First I want to thank all of you for helping me and **Forza Investment Advisory** make it through my first 5 years as a company! It's been challenging from both a business and market perspective but I'm truly enjoying it and I can only thank you for listening to me over the years and sending your comments back to me. I just wish the market would be a little more accommodating at times. ☺

As the end of 2015 neared we all waited for the Santa Claus rally and were hoping the year would end in the Green. Unfortunately the last couple days of the year we witnessed a lot of selling and we got the other Christmas color with the year ending in the Red. And the selling hasn't stopped. As I sit here writing my annual letter stock markets worldwide are in a freefall. The S&P 500 is already down 100 points or 4.9% in the first 4 days of trading as developments in the China economy are spooking the world. I've talked about China being viewed as a possible House of Cards that could come tumbling down, and although it may not tumble in a hard-landing, it sure is slowing and this scares investors. China's spending slowdown is a big downside risk and we are finding that a lot of companies grew over the past several years mainly due to China building out its infrastructure. Also, oil prices continue to fall with sub $30/barrel oil a real possibility. This is good for consumers and some companies that consume oil but bad for those that depend on production of oil.

Looking back, global financial markets in 2015 were pulled between two opposing forces: The Federal Reserve's determination to raise interest rates as the U.S. job market strengthened and pressure for lower interest rates in much of the rest of the world as China's economic growth slowed and commodity prices sank. The results of the tug of war were a soaring dollar, crumbling junk bonds, stubbornly low Treasury yields and a manic-depressive stock market that ended the year roughly where it started. With corporate profits declining the last 3 quarters of 2015, the stock market had little room to move higher as valuation concerns reigned stocks in each time they tried to advance to a new high. The S&P 500 finished the year below where it started but nudged out a total return of about 1.4% while the Dow Industrial Average's total return was 0%. Bonds also basically marked time and the Barclays Aggregate Bond index finished the year about flat in total return with a gain of .5%.

How tough was 2015? There was incredibly widespread disappointment for investors. Overall Growth did much better than Value and Large outperformed Small and Mid. Recent analysis showed that investors saw losses in:

- 8 of 9 domestic equity categories, except large growth
- 17 of 17 asset allocation categories, from retirement income to tactical allocation
- 8 of 15 international stock categories
- 14 of 15 taxable bond categories and
- 6 of 6 alternative or hedged fund categories

Anything that smacked of "real assets" (energy, MLPs, natural resources) or Latin America posted 20-30% declines. Municipal Bonds were a lone bright spot but even the overall returns there were below 5% on average. (At the end of this section in Table-1 is a list of YE returns I pulled from an article.)

It's very easy to come up with mountains let alone walls of worry:

- the aforementioned Fed move to raise rates .25% provided plenty of angst that the move would signal many more to come. The Fed has gone out of its way to say it is not in a predetermined raise mode.
- China's slowdown - (mentioned earlier)
- Oil and commodity prices tumbled - Oil prices declined over 30% and are still falling.
- Europe and ROW continued weakness - Emerging markets are barely growing and Europe is easing credit.
- Mid-East chaos and terrorism
- Weak corporate profits - last 3 quarters of profit decline.
- Strong US Dollar choking exports and hurting multinationals in currency translation.

Finally, widening Credit Spreads which are a real cause for concern because credit spreads historically often lead equities and are a harbinger of recession. (A credit spread is the difference between US Treasury rates and other bond rates of same maturity but different credit quality.) Could the US be headed back to recession? It seems unlikely but if the rest of the world and China worsen, then the US could follow. I assign a low probability but we should watch the data.

So it is very easy to talk about the negatives because there are a lot of them. But something must be going OK, no? On the positive side Home Values were up 5.16% in 2015 and the consumer seemingly has more money in their pocket due to low gas and oil prices. Auto sales are near all time highs and should have another good year. Unemployment is at 5% and regardless of how low-paying the jobs are, at least more people are working. Company balance sheets are in pretty good shape (outside of Energy and Materials) and the banking system is in a much better place and stable. US economic data is mostly positive albeit at plough horse speed. Overseas, further monetary stimulus is likely by the ECB and BOJ through quantitative easing.

TABLE - 1 Returns of Varying Asset Classes in 2015

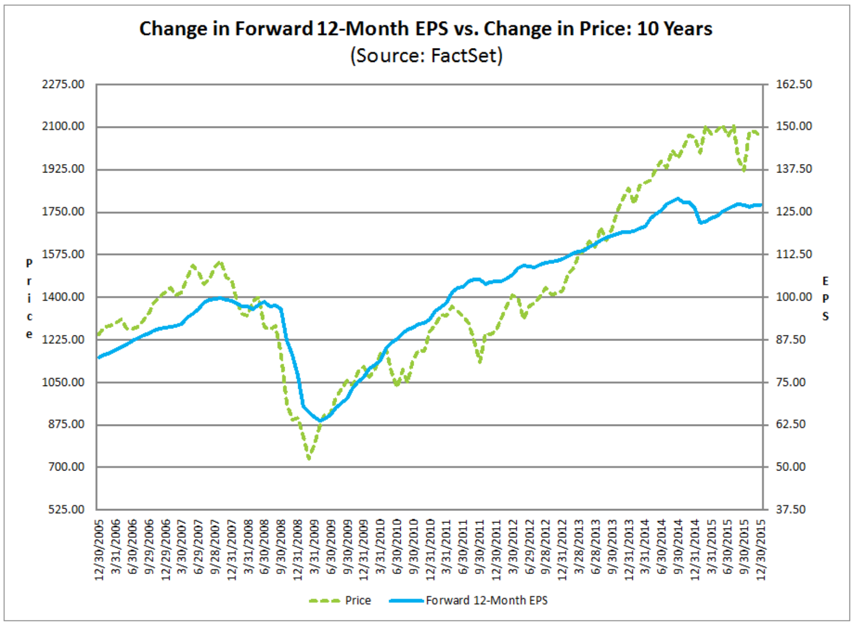
Name	Ticker	Tot NAV Ret MTD	Tot NAV Ret QTD	Tot NAV Ret YTD	Below 52 Wk High %	Comment
iShares Nasdaq Biotechnology	IBB	1.22	11.77	11.47	15.58	Biotech: the only major ETF with a 10%+ gain for 2015. Is a 15% pullback interesting?
Consumer Discret Sel Sect SPDR®	XLY	-2.77	5.75	9.93	4.57	Consumer Cyclicals the top XL sector for 2015. Thank you AMZN SBUX NKE & NFLX.
PowerShares QQQ ETF	QQQ	-1.49	10.15	9.54	3.36	What a Q4! Who needs AAPL -4% when MSFT AMZN GOOG FB INTC are +15 to 30%.
iShares MSCI Japan	EWJ	0.24	9.17	9.34	9.21	Pay attention to Japan: Falling Oil, Govt Pension shift to Equities & Govt Stimulus.
PowerShares DB US Dollar Bullish	UUP	-1.60	2.06	6.96	3.21	US$ has a down December it strength still directs most global assets for 2015.
Consumer Staples Select Sector S	XLP	2.92	7.73	6.84	1.70	The less exciting Consumer sector joins its sibling in the #2 XL spot for 2015.
Health Care Select Sector SPDR® E	XLV	1.78	9.14	6.82	6.94	Health Care falls to #3 XL sector as Services drag hard in 2nd half.
Technology Select Sector SPDR® E	XLK	-1.90	8.91	5.62	4.07	Tech grabs the #4 slot as investors rush into the mega cap names in the Q4.
iShares Russell 1000 Growth	IWF	-1.49	7.26	5.48	3.88	Growth beats Value by 943 bps in 2015!
SPDR® S&P Regional Banking ETF	KRE	-7.60	2.43	4.90	9.52	Fed raises rates as expected and Banks throw up in December. Ugh!
iShares MSCI Italy Capped	EWI	-3.17	-2.09	4.00	15.34	Italy the top major Euro market in 2015. Does a 15% pullback interest you?
SPDR® S&P 500 ETF	SPY	-1.57	7.03	1.34	4.64	Mega Caps > Large Caps > Small Caps
iShares Core US Aggregate Bond	AGG	-0.34	-0.61	0.48	4.01	Core US Agg Bond almost made you 50bps in 2015.
iShares MSCI EAFE	EFA	-1.37	4.62	-0.90	14.30	Developed Int'l ended down as Japan could not offset Canada, Aussie & Europe.
Financial Select Sector SPDR® ETF	XLF	-2.12	5.91	-1.60	6.99	Financials finish down due to REITs and Asset Managers.
iShares 20+ Year Treasury Bond	TLT	0.00	-1.38	-1.65	12.94	Long Treasuries didn't protect all their capital in 2015.
iShares MSCI ACWI	ACWI	-1.82	5.18	-2.39	11.50	ACWI ends lower as gains in U.S. Mega Caps could not offset the destruction in EmgMkts.
Apple Inc	AAPL	-11.02	-4.10	-2.80	21.76	#1 stock in the world had a terrible December. Will the 20% off sale temp new investors?
iShares Russell 1000 Value	IWD	-2.16	5.60	-3.95	8.10	Value crushed by Growth for Month, Q4 & Year.
Industrial Select Sector SPDR® ETF	XLI	-2.47	6.91	-4.27	8.96	Industrials: Too many CATs, not enough GEs.
iShares Russell 2000	IWM	-5.01	3.65	-4.33	12.77	The Q4 took Small Caps negative for the year.
Utilities Select Sector SPDR® ETF	XLU	2.13	1.04	-4.86	13.06	Utilities outperform in December but lose nearly 5% in 2016 as Dividend stocks get blitzed.
iShares iBoxx $ High Yield Corpora	HYG	-2.33	-1.58	-5.55	12.38	Junk Bonds in the spotlight for 2015. Can the gap between Junk and Equities continue.
Materials Select Sector SPDR® ETF	XLB	-4.15	9.64	-8.61	16.85	Materials punished by China and strong US$.
CurrencyShares® Euro ETF	FXE	2.80	-2.83	-10.75	10.95	Euro crushed in 2015 but bounced at year end.
SPDR® Gold Shares	GLD	0.00	-4.74	-11.78	19.21	Gold still has no luster.
iShares China Large-Cap	FXI	-1.19	3.13	-11.91	33.23	China down double digit for 2016 but helps EEM.
iShares MSCI Emerging Markets	EEM	-2.24	0.59	-15.41	27.15	Emerging Markets pain continues led by Brazil's many problems.
iShares Transportation Average	IYT	-7.31	-3.38	-16.89	18.92	Dow Theory vehicle rolled over by Railroad stocks that move coal & oil liquids.
Energy Select Sector SPDR® ETF	XLE	-10.45	-0.58	-21.47	27.90	Energy the worst XL sector for 2nd consecutive year.
iShares MSCI Canada	EWC	-7.06	-5.15	-24.30	27.32	Oh Canada. See Oil & Gold.
Market Vectors® Gold Miners ETF	GDX	0.63	0.63	-24.93	40.91	See Gold then multiply by 2-3x.
Alerian MLP ETF	AMLP	-2.11	-1.69	-25.91	32.23	Who would have thought MLPs would correlate with energy prices?
PowerShares DB Commodity Trac	DBC	-5.98	-11.67	-27.41	28.48	Not just Energy & Gold, but Agriculture and Base Metals also imploded.
iShares MSCI Brazil Capped	EWZ	-5.03	-2.94	-41.28	45.86	What a sad mess. How long until the country gets some leadership?
United States Oil	USO	-14.77	-24.35	-45.30	48.84	No way to predict this price. Just too many variables.

INVESTMENT OUTLOOK

First I'd be remiss if I didn't mention that this is an election year, not that you could forget given the Donald Trump show. I'm not sure what that means anymore given the randomness of returns but historically stocks tend to do well in election years. However, they also are supposed to do really well in the 3rd year and obviously that didn't happen. You can be sure that there will be a lot of rhetoric that may help or hurt certain sectors. Then when the election is said and done we will get the usual list of Republican vs. Democrat stocks. Personally, I just block it out, vote and look for good investments.

I've always tried to look at the investment landscape from a positive point of view. But I must admit, coming into 2016 my outlook for the near-term is the most guarded it's been for many years. The economy is stuck in first gear and looks like it is in perpetual 2% growth mode which might be the best house on the world's block! We now have over a trillion in debt and growing and rates are likely to rise. We have plenty to worry about as I mentioned earlier and not a lot to look forward to on the plus side. As my old boss just said in his newsletter, "If everybody wasn't so bearish, we'd be bearish". But the recent selloff of the past week actually is making me more positive as I think stock prices are getting more attractive. At 15.3x forward EPS, the S&P 500 is not cheap but also not expensive. But it needs EPS growth to move higher. The 2 biggest problems we face in the here and now are Q4'15 and Q1'16 profits. They are going to be weak. And the market follows earnings (actually it anticipates EPS) as shown in Table-2 below.

Table-2



We already know about Q4 so it is a matter of what companies say about Q1 and 2016 when they report. But on the positive side, I believe that Q1 will mark the trough (or peak?) in earnings declines, and may even show a slight gain. One of the biggest hurdles companies have faced has been foreign exchange (FX) due to the strong dollar. By the end of Q1, FX compares get much easier as a year ago the Euro/Dollar was still at 1.20 but ended the quarter at 1.07 so unless the dollar strengthens further, the FX comps get much easier. Likewise the dollar/yen was at 1.20 and now is about flat. You also start lapping earnings declines in the year-over-year comps **so I believe we see positive earnings gains for the rest of 2016 starting in Q2 which should spell relief for US Stocks**. Earnings are forecasted to grow 7.6% for 2016. Overall I am looking for middling stock returns with gains in the mid to high single digits mirroring EPS growth. Add in the dividend and you could see high single digit total returns. We may need to go through another 10% correction to get there so I see volatility continuing to rear its head. We have to remember that the Fed is not providing liquidity anymore so a consequence will be increased volatility.

International stocks, particularly the European developed markets may do better this year although there is still some downside currency risk. China's industrial slowdown is having a devastating impact to emerging economies so I see Emerging market stocks as a speculative play and I'd rather buy when things are better. I prefer Europe to Asia.

The return outlook for fixed income is not exciting. With the 10-year UST yielding about 2.2% currently and rates likely to rise, that doesn't leave much room for bonds to provide much return. Due to the High Yield bond selloff at the end of 2015 these bonds are looking a bit more attractive, as long as you stay away from energy credits. I'd steer clear of Emerging Market bonds for now and look more at developed markets if you want to own outside US as the ECB continues its easing policy. I continue to favor shorter term bonds as the Fed raises rates and then looking to add maturity later. I also like Preferred stocks with 5% plus yields and muni bonds.

So here's to a better 2016 and have a Happy and Healthy New Year! Call or email with any questions.