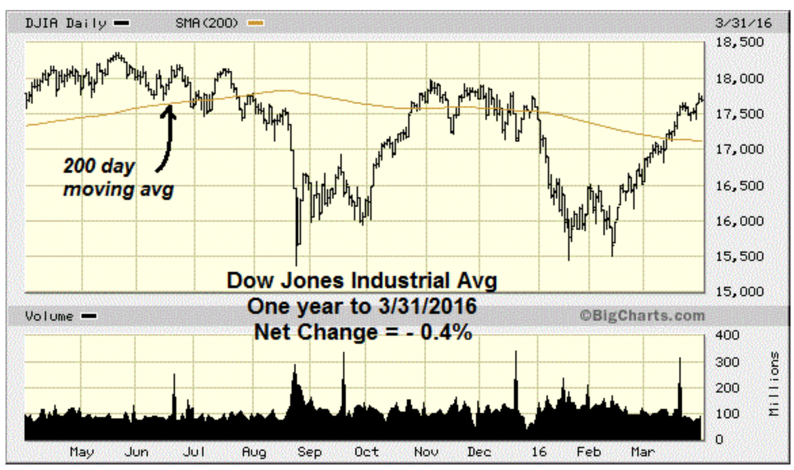
American Heritage Financial

April Update **April 4, 2016**

A Lack of Dependable Signals

Where's the Lane? That was the response from frustrated Volvo NA CEO, Lex Kerssemakers last month when his demonstration of a prototype self-driving car went awry because the car could not find the lane markings needed to maintain control during an event at the Los Angeles Auto Show. Kerssemakers joins Tesla's Elon Musk and other auto industry executives with complaints about poor markings and uneven signage on the three million miles of paved roads in the United States. They say it is making implementation of self-driving technologies more difficult and more expensive as automakers must develop more sophisticated sensors and maps to compensate for the shabby conditions of U.S. roads. Our highways are a collection of faded lane markers, damaged or noncompliant signs or lights, and many other quirks, depending of regional or local differences, industry executives say.



Investors can relate to these complaints, and not just because complaining about road conditions is a popular pastime. Investors are encountering a similar *lack of dependable signals* as they attempt to navigate the unusual market and economic landscape which has been muddied by unprecedented and contradicting economic conditions. We will take a look at the confusing state of our markets in this month's letter, but first, how about a belated birthday celebration?

Last month, the current bull market notched its 7th birthday since bottoming on March 9, 2009. That 84 month run makes this the third-longest bull market in history and the S&P 500 had advanced by 215% through last May when it notched its all-time high. To put it in perspective, that performance is better than the average bull-run age of 56 months and an average price advance of 144%, according to data compiled by S&P Global Market Intelligence.

2016 Market Indicators

INDEX	3/31/16 CLOSE	2016 YTD	52 WK CHG
Dow Ind	*17,685*	*1.5%*	*-0.4%*
S&P 500	*2,060*	*0.8%*	*-0.3%*
NASDAQ	*4,870*	*-7.3%*	*-0.54%*

All-in-all, it has been a good seven years, but there was little celebrating going on in early March as investors were reeling from the devastating start of 2016—as well as a lousy last half of 2015. As of the end of the first quarter, markets have rebounded back to near zero but that is after year-to-date losses of 11% in the first six weeks of the 2016 and a near 15% drop from the market's peak back in May 2015.

So we have an "aging" bull market that has not been acting well for more than three quarters. If you are a market-timer, you may interpret that as a warning sign to get out. If you are an astute market-timer you know that age or magnitudes of advance are not dependable indicators. And, if you are a long-term investor, you focus on owning quality companies at reasonable prices in a diversified portfolio—not market-timing. We place ourselves in the last category but we still have to consider the multiple confusing currents and conditions in the current environment.

As we have discussed in recent comments, global economies and financial markets have been going through an incredibly turbulent and difficult period due to distortions in interest rates, currencies and commodities combined with normal economic cycles. Interest rates have been suppressed to unrealistic levels for years and some economies are experiencing negative interest rates. Currencies have had dramatic fluctuation—especially the strong U.S. dollar. And, the bottom has dropped out of commodity and energy prices. All this has occurs as the great growth engine of the past twenty years, China, suffers severe growing pains. The U.S. market has been has been the best place to hide from these ills over the last few years but the effects have hit home over the past nine months. The distorted global economic conditions are sure to drive additional turbulence in the future, however, it is not clear that the bull market is on its last leg.

Market action since mid-February has been encouraging. Our stock market rallied back to wipe out the early year losses. There has been stabilization and even a rebound in some of the more devastated markets of the world. The price of oil rebounded by about 40% from its February low—although it has slipped 10% in the last two weeks. Even more encouraging than the market rebound, improving economic data on jobs, manufacturing, housing and consumer spending have put investors in a more optimistic mood.

At this point, it is still difficult to extrapolate the recent rebound into a sustained uptrend. The outlook for the rest of the year remains clouded. Stocks need an uptick in corporate earnings and the world must avoid another collapse in commodities or currencies for a durable extension of the past month’s rally. Still, earnings expectations have been adjusted down from higher levels while our economy continues to grow and financial conditions are healthy. That environment makes the market ripe for a surprise to the upside while the downside has survived a brutal test. Don’t let confusing signals or poor lane markers impair your long-term investment strategy. There are still opportunities in dependable investments which can provide stability through this period while ultimately delivering growth and strong long-term returns.

Best regards,

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Questions or comments?
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