IPMG

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ENCLOSED IS MY CURRENT NEWSLETTER, **"THE BIG PICTURE 2016".** This year, the crystal ball *again* reflects a glass that appears half full (*with liquidity*), **AND** half empty (*with air pockets*). The headlines tell us that the economy has improved in some sectors, auto & housing to name a few. As we appear more deeply into the glass, we see that owing to investment cash flows (liquidity), we might expect the U.S. equity market index to continue to rise. Still, we see some warning lights, so we'll make a short list of potential problems that could disrupt.

OUR GLASS REMAINS HALF FULL THANKS TO LIQUIDITY AROUND THE GLOBE. Cash is looking for a safe home. And when it arrives in the US, our zero short term interest rates are perhaps less enticing than office buildings at 2% net, or the S&P at a 2%+ dividends, or even the 10 year treasury at 2%ish. Still, it beats the **N**egative **I**nterest **R**ate **P**olicy (NIRP) in many other developed countries. To this scenario add seemingly endless amounts of *potential* fuel available from more "quantitative easing" (**QE**). Furthermore, any serious economic contractions are met with government intervention through the Fed Q&E and/or the Treasury's Exchange Stabilization Fund (ESF).

WE HAD AN UNUSUAL SIDEWAYS MARKET for the first 7 months in 2015, with S&P declines of less than 3 ½%. Each time the index declined, it bounced back. We crossed over the break even point more than 60 times. Bigger declines in the 8th thru 10th months were quickly "V" shaped (reversed). The "flash crashes" were contained. We should expect more of the same action…damage control designed to maintain continued confidence in the market. A rising market generates good feelings that all is economically OK. Those good feelings can increase spending, with a hoped for "trickledown" effect. Losing confidence in big spending, would mean losing confidence big in political incumbents. This is an election year. And remember, *it's the economy*, right?

ON THE FLIP SIDE, OUR GLASS IS HALF EMPTY, WITH POTENTIAL "AIR POCKETS". The economic numbers we see may not be totally accurate. China, Japan, Europe, Russia, Brazil, and Canada are stalling out. So are more of the lesser developed countries. The decline in shipping between countries is accelerating. More freight cars and shipping containers are sitting empty in the U.S. Retailers are getting stuck with inventory. Manufacturing as well as service indexes in the U.S. are declining. Initial public offerings are slowing. House closings are contracting and price rises abating. Banks don't want to lend to small businesses. U.S. corporations don't want to invest in expansion. Companies prefer mergers & acquisitions and/or buying the company stock on the market to the expansion of capacity. Such creates more demand for the shrinking supply of stocks. Thus, Corporate executives can hope to build more value in their corporate options compensation package. Financial engineering & creative numbers are the order of the day.

AS WE WISH ALL A PROSPEROUS AND PRODUCTIVE 2016, our growing **IPMG** group prepares for the expected, but perhaps even *more* for the *unexpected*, as we believe the current trends are suggesting. We feel good about the added depth and specializations that have come together on our team, as we spend time looking more at the *total* BIG PICTURE for 2016 and beyond.

Best,
Martin

THE BIG PICTURE
THE CRYSTAL BALL FOR 2016
THE GLASS REMAINS HALF FULL/HALF EMPTY

WITH PRICE/EARNINGS RATIOS HIGH, but not yet at the historic highs, we could continue to expect the S&P index to follow the direction of index earnings for the foreseeable future. *Long term*, the stock market mirrors corporate profit growth, when those earnings are compared to the interest rates being offered or expected. *Investor confidence levels can add or subtract* from the valuations (price to earnings ratios) as well .

FOR 2015, WE SUGGESTED NOT BETTING OUR ENTIRE NEST EGG on the premise that continued positive earnings growth and increasing investor confidence would be a given. Earnings (and total revenues} for the S&P actually started declining as the year progressed, and *most* stocks headed lower. But Wall Street forecasts are still calling for 5-8 years of more overall increases, with stable interest rates & improving consumer confidence. Such is the best case, half full scenario. I understand how these forecasts are derived. But let's look again and more closely at these assumptions about growth, interest rates & confidence, especially for the next twelve months, OK? Let's get started.

DON'T FIGHT THE FED. The Fed will do *"whatever it takes"* to keep the economy (appearing to be) growing, so that inflation will (appear to) be under control, and unemployment (appear to be) declining. Those statistics are produced "by the governors" (and federal government departments) "for the people". *Continued confidence* of consumers, investors, and business managers is key to fighting the strengthening headwinds of deleveraging (unwinding the global debt of households, and corporations). Maintaining low interest rates is crucial to this equation of reducing *the burden* of deficits and debt at all levels, including government, as well as corporate & personal.

CORPORATE STOCK REPURCHASES have been a substantial factor in the earnings improvements we've seen over the last 5 years. Low interest rate loans available to finance big corporations & stock buy backs have shrunk the number of outstanding shares by over 1/3. That inexpensive source of funds is creating continuing share demand. When an increase in demand causes a shrinkage of supply, that's economics 101: the price goes up. *We expect more of the same*: easy money for big corporations with low interest rates, & more stock repurchases. We'll also watch for an increase in mergers and acquisitions going forward. Such could provide the easiest way for companies to continue to grow both earnings & revenues.

NOW ADD THE EXCHANGE STABILIZATION FUND (ESF) to the market support (half full) case. Established in 1934 to help manage the market price of gold, the ESF mandate has been expanded from "help stabilize currencies" to most any financial market or exchange. You can read all about it by googling the same. Combine high frequency trading and growing ETF buying & selling, and you have about 75%-80% of daily trading, according to active traders quoted on CNBC. The ESF can easily influence those mechanical (computerized) trades, especially thru "pre-opening" buying when few sellers are around. Such "stabilization" is legal.

IF YOU LIVED IN Russia, China, Europe, the Middle East, Africa, or most of Latin America, would you consider transferring a portion, if not the majority of your excess liquid assets not needed for the immediate future into a more stable country? That move becomes a double benefit if the currency (currently the dollar) is also appreciating against your country's currency. Investments in the big US companies can offer good liquidity and higher dividends than the interest rates that most other countries are offering. Europe, for example, was at subzero (real negative) rates for a good portion of the last year, and continues for 2016. That should motivate movement, I would think.

SO THE BIG "SMART MONEY" FLOWS INTO New York, Miami, Los Angeles, Vancouver and is buying premium properties, collectibles (art, antiques) and the bigger name, more liquid equity shares. Cyprus, as a safe harbor for Eastern Europeans, didn't work out so well. So the U.S. remains the "cleanest shirt in the laundry basket" for liquidity. It offers rule by contract law, relatively stable neighbors to the north and south, and large protective motes to the east and west to slow down tanks, armored personnel & refugees looking for a new home. SO FAR, terrorist cyber training of U.S. citizens & visitors has had minimal results on the national economy. The government agencies say they are monitoring as best they can.

THE U.S. BUDGET DEFICIT has shrunk in half over the last six years. Quantitative easing (printing) to buy government bonds remains on temporary hold. Pension plan underfunding has improved through stock, bond and real estate appreciation. Banks & corporations are at all time liquidity highs. The U.S. trade balance improves with the increase in domestic oil and gas production and cheapening prices of imported crude. Manufacturing moves back on shore to tap this cheaper U.S. energy. Relatively lower labor costs combined with high technology is available in the U.S. What's not to like, when the U.S. is compared to other less "safe" alternatives.

"BULL MARKETS DON'T DIE OF OLD AGE", rather they typically expire when the Federal Reserve reverses course. Investors watch for the "inverted yield curve", when short term interest rates become higher than long term rates. My partners and I meet almost daily with economists, portfolio managers, or their representatives. We have scheduled approximately 200 lunches per year with the likes of these "informed" investors. NONE of them see an *inverted yield curve* system in our near future. So, it's unanimous: "don't worry about *substantially* higher short interest rates any time soon". And the last time the Fed did raise short term rates, from 2004 to 2006 (17x to 5%), the S&P went from 1000 to 1500 or a 50% advance. Investors see such initial hikes as signs that the economy is doing better.

THE OFFICIAL INFLATION RATE is not a problem, and ongoing market corrections can slow down any speculative bubble. So goes the "professional thinking". But n*ot one of our lunch speakers foresaw* the lower interest rates continuing that we actually experienced in 2014 and 2015. Nor for 2016 have I heard a one be bullish on gold. Nor have I yet heard a forecast *bearish* for stocks (*greater than a 10-20% correction).* More on this later.

BULL MARKETS HAVE THREE PHASES: first, a recovery from depressed levels (that appears to be *done*!); then an improvement in economic fundamentals (still continuing in *some sectors*); and third, a speculative phase (we have few signs of that as yet, as the small stock performance trails behind the big more conservative stocks). Today only 50% or so of investors are back in the market vs. 65% in 2007 at the last market peak[1]...we're waiting for phase III! We'll watch for signs of higher valuations, especially for junior companies accompanied by investor participation that approaches the 2/3 level.

80-90% OF earnings cash flow is going into dividends or stock buybacks.[2] Along with the accumulated cash levels, and with easy access to low interest rate bank loans and bond markets, the agenda has been to create a wealth effect. When assets increase in value, hopefully more spending is realized. Governments (sovereign wealth funds) have also been active investors, not only as direct market asset purchasers (quantitative easing, etc), but also through government employee pension investing.

WHEN INTEREST RATES EVENTUALLY DO GO UP, bonds will go down. The government pension funds as well as individual investors could begin to exit fixed income (bonds) and head even more into equity allocations. In total, that's a lot of potential positive flow of funds from both a domestic source seeking returns, and from foreign seekers of "flights to safety", searching for market growth and currency appreciation.

EXPECTING THE UNEXPECTED

COUNTERING THIS VERY POWERFUL "POSITIVE FLOW OF FUNDS WITH SHRINKING SUPPLY OF STOCKS" PICTURE, is the potential for "surprising, investor confidence shaking events". The global financial markets are closely linked. We have witnessed a past Russian debt default, the Taiwan baut currency collapse, and even a small island of Cyprus bank collapse. As tens of trillions of newly created money looks for safer havens and positive returns in a near zero or negative real interest rate environment, the individual investor and professional traders *react together* in a herd instinct.

VOLATILITY CREATED BY THE HIGHLY LEVERAGED SPECULATORS *of hedge funds and trading operations is further multiplied by the computerized trading of the "high frequency" gang*. Rapid moves can be triggered by the pre-opening light volume market support. But the urge to be first through the exit, exacerbated by computers flipping direction, is the same condition we saw in October 1987. Such happened again in an August 24th , 2015 "flash crash", and can certainly happen repeatedly. Thus the potential for "air pockets".

LOOSE CANNONS

MEANWHILE, PUTIN IS FINDING LITTLE RESISTENCE to his troops and trucks. He reminds the world that he has a "nuke" up his sleeve and the ability to put out anybody's lights thru a "grid attack". He is a strategist that some could consider either an ally and foe, both at the same time. Add cyber and China to the equation and maybe a dash of Iran and North Korea, and we would have a potential overnight

[1] CNBC
[2] Reuters "The Cannibalized Co".

(or day) "who done it" scenario. Putin and China are side by side in photo ops as they trade arms and military technology for mutual advantage.

AS THE DIRECTOR OF THE FBI TOLD 60 MINUTES, on October 5, 2014, experienced terrorists with online recruiting and training efforts are reaching "troubled" souls who are seeking meaning" in some misguided way. Many are committing their entire lives to the internet. The enemies attempt to steal secrets, hurt kids or defraud adults*. It's an epidemic.*

THERE ARE TWO KINDS OF BIG COMPANIES IN THE U.S. "Those who've been hacked and those who don't know they've been hacked", said James Corney in his first public statement as FBI Director. "On a smaller scale, they can take over personal computers and with it your entire life". And that's the way it is…for 2016.

THE GOLD AND SILVER BULLION OPEN INTEREST OF THE CONTRACTS ON THE COMEX have never had so much potential demand for delivery of the metals vs. the inventory that *can* be delivered. So much gold paper (trading certificates) has been sold (suppressing the price), that the contracts outstanding simply dwarf the available metal to deliver by perhaps 300 times, (according to Miles Franklyn.com). Congress has begun questioning the big banks about "manipulating the commodities market". As we did with the Libor rate scandal, we'll see how this all eventually shakes out.

WHO MAKES UP THE STATISTICS?

ACCORDING TO JOHN WILLIAMS (Shadowstats.com), the true unemployment rate in the US is closer to 23%, when including those unemployed for a year or more. The actual inflation rate is 7.77%. Such are the calculated numbers when calculating the way these were from the 1970's thru 1994. "Adjustments to the data computations" have made the official numbers for unemployment at 5% and around the 1 % range for inflation. That sounds better and gives us more confidence that "things are still improving". We know how important that is.

BUT IN REALITY, REAL HOUSEHOLD INCOME IS DOWN CLOSE TO 20% over the last 15 years when adjusted for taxes and inflation. With 3 billion workers added to the global work force over the last 20 years, labor remains very competitive internationally and wages stay suppressed. The rising cost of food, medical care, education, cyber services & most insurance plans keep budget pressures on the average U.S. household.

MEANWHILE, MONEY CONTINUES TO FLOW INTO U.S. INDEXES, U.S. TREASURIES AND THE U.S. DOLLAR. Valuations as measured by the lesser followed Nobel Prize winning Schiller's P/E Index, read as high as former market readings in 1929, 1936, 1987 and 2000. Historically the markets have topped within 12-24 months, after reaching these levels, according to Prof. Robert Schiller. These readings have been at historic highs for over 12 months.

PLAYING DEFENSE

THERE ARE THREE LIQUID ASSET ALTERNATIVES: 1) CASH at near zero interest rates. With potential 7.7% real inflation, that appears to be a long term "loser"; 2) BONDS, with rates expected to rise, that appears to be a "loser". 3) EQUITIES. Positive flows of funds into the indexes are expected to continue, until a loss of confidence interrupts such flows. Then suddenly these too, could become a "loser".

AS OF EARLY DECEMBER '15, THE TOP WEIGHTED 20 STOCKS in the S&P were up over 10%. The remaining 480 were down 3%, as was the average stock in the broader New York Stock Exchange index. A handful of stocks are carrying an illusive market advance. The biggest gainer in the top 20 has almost no reported earnings for the year. Go figure.

THERE ARE THREE EQUITY STRATEGY ALTERNATIVES WE CAN CONSIDER: #1) BUY AND HOLD stocks for the long term, and take what volatility comes from the presently higher valuations; #2) BUY FOR INCOME (dividends), and *then don't be bothered* by the daily/monthly prices volatility; 3) TACTICALLY ADJUST. Go for total return, looking for capital gains & dividends. Then hope to get out before everybody else does, so as to keep any gains before they disappear and become losses.

LET'S CONSIDER ALL THESE ALTERNATIVES. Many investors believe they will push the sell button more rapidly than they did in the last two "50% off" stock sales of 2000-2002 and 2007-2009 bear markets. It's going to take a very *disciplined approach* to do so. But remember, the Fed and the ESF (Exchange Stabilization Fund) are watching. When a top appears in place, then intervention (i.e. "forward guidance") of more QE can quickly reverse the free fall. August & October 2015, as well as September 2014 were examples of 10-12% off "mini panics" stopped in their tracks. These were "V" shaped.

WHAT'S OUR #1 rule? Don't fight the Fed? Even many of the "smartest traders" are being whipsawed and (for now) are falling behind performance of the index buy and hold approach. But again, only a handful of the top 20 weighted stocks in the S&P index are pushing this index up. If you're not in those top 20 stocks, (some of these have little or no earnings), you're probably down for 2015.

SO LET'S PLAY IT MORE CONSERVATIVE, and consider the following diversified strategy. #1) Have cash, enough to get by for awhile, say at least a year or more; #2) Buy quality bonds, more for portfolio stability than income, with maybe a dash of longer term treasuries which might benefit in a "flight for conservatism". If you're enough of a contrarian, sprinkle some gold dust on top. Perhaps the legal proceedings now underway in Congress & the courts on the commodities and precious metals markets will answer questions as to what's behind the recent price suppression strategy. #3) Go for stocks. Have a *disciplined exit system* for "the total return" portion of the portfolio. Perhaps maintain some favorite picks and a basket of income stocks for the longer term. Then don't watch the daily/annual fluctuations of those favorite picks or income sources. If you've got enough assets to hang in thru the upcoming rough spots, just keep your eye on the income.

FOR THE BULK OF LIQUID ASSETS NOT NEEDED FOR SHORT TERM SPENDING, let's further consider income as an objective. We can either spend the cash flow or use it to buy more shares. Then we'll try not to get overly concerned if "the weighted market indices" rise more than our income stocks in a given period. It could happen. Likewise, if the market takes a sudden & unexpected deep dive, we can use dividend cash flow to add to more income generators. The index returns meanwhile, can be here today, gone tomorrow in an "air pocket" minute.

ON AUGUST 24, 2015, WE DID HIT such an "air pocket" moment, flash crash. Even though the S&P index was down just 5-6% (about 1000 points or so on the DJIA), certain stocks (but *not* all) in the index were halted in trading. Thus the arbitragers, who keep the index and its individual stocks trading in parity, were unable to function. As a result, some of the daily liquid index units were down -43% vs -6% for the index for the "flash" time period. After the trading halts were stopped, the units returned to parity.

IF HOWEVER, THE ENTIRE MARKET WOULD HAVE HAD TO BE CLOSED DOWN as a second step in that "flash crash" event, what would an index investor's account look like at the end of the day?Down (-43%)? With the individual stocks in the index halted at (-6%)? The investment herd instinct in 2015 was to dump individual stocks and more actively managed accounts with individual stock holdings, in favor of the S&P index. Thus, we've experienced (for now) outperformance of the most weighted top 20 stocks in the S&P. In my opinion, this could *increase* investor risk. My thought is, perhaps a portion of the portfolio could be in an index allocation, but with an exit strategy that hopefully might kick in before the next possible circuit breaker lock out. (See our "Flexible Portfolio Method" explanation on our website.)

BOTTOM LINE

MY PREFERRED STRATEGY FOR THIS STAGE OF THE MARKET, when all factors are considered, including the expectation of more "air pockets" with continued government intervention (manipulation), is as follows: **#1) FOR GROWTH** include the "Best Picks", or other growth strategies, and use the "Flexible Portfolio Method" to hopefully reduce the potential downside. **#2) FOR INCOME** there is good value due to 2015 tax loss selling and momentum trading. Go for the income, then forget the index comparison (see #1 "For Growth" above for that index comparison approach). When the markets hit "air pockets", you have the ability to pick up more shares with the income, if you don't need it for spending. But if you do *spend* the income, at least you know you got a return in today's market.

I HAVE BEEN IN THE INVESTMENT BUSINESS for over 43 years and so far fortunately I've not been down (-43%) in a "New York minute". I would like not to be. But if I was stuck in an extended market closure, I'd like to at least be receiving the dividends.

AS MY TWO AUNTS WHO LIVED DURING THE 1930'S *always* asked me on *any* & *every* stock I ever suggested to them was, "WHAT'S IT PAY?" Their stocks might have gone down at times in their long lives, but those stocks served a function that banks and quality bonds did not. End of my aunts' investment story (strategy). I will let the "big herd" chase the index. I prefer the "bird in hand" approach for now, called cash dividends.

CONVERSATIONS WITH CLIENTS, COLLEAGUES, AND AT CONFERENCES

WE INVITE YOU TO JOIN US, EITHER BY PHONE OR A PERSONAL VISIT to our offices (on a top floor overlooking downtown Atlanta). The busiest airport in the world is close by in the backdrop. In the other direction (north), over the green trees of Georgia, you can see where the Smokey Mountains begin (or end) with the Appalachian Trail. Sometimes, the clouds are so thick, however, we are unable to see down to the street below. But most days, we can see clearly out to the horizon and mountain peaks. Our views are typically a most pleasant daily experience, interrupted by an annual fire drill, & an occasional 1000 point "flash crash" with (so far) "V" shaped accompanying rebounds in 2014 & 2015.

DAILY OUR GROUP GETS TO TALK WITH INDIVIDUAL INVESTORS. Our conversations make our day. Some of our clients have decided to play tennis, head to the fairways or airways, and maybe create gardens, teach, volunteer, mission, or continue to oversee their chosen business or profession. A few may even be checking out their next possible home, with more conveniences. It can be most interesting to see on line the alternatives and amenities. Many are like big cruise ships, but overlooking greener views. And so goes our typical day. I can't think of anything else I'd rather be doing (but when I do, then I can go do it).

ONE LONG TIME CLIENT TURNED 90 THIS YEAR, with a huge party. He's still very active in his family business. He says, "Martin, if you're enjoying your work, stay with it". He intermittently jogs and walks for miles a day along a river (or in the mall on snowy days). He and his wife have a personal in home trainer to encourage them to *reach just a little further*. With both sharp as can be, I've decided to increase my reach this year as well, with maybe my own "PT". I'll keep you posted.

IN OUR CO-AUTHORED BOOK, "THE EVERGREEN PORTFOLIO", Chapter 1 suggested a diverse combo of real estate, bullion (just in case the central banks have no other option but to increase digital money even more), and cash to pay a few years of bills. But then…we'll also need income to pay ongoing monthly bills from here to eternity. We discussed "safe bonds" and CD's that currently pay ZIRP (zero interest rate policy… recall?), and stocks that go up and down (two fifty percent off sales in the last fifteen years…remember?). So how will we pay those bills that surely will show up like clockwork, from here to eternity?

BE GREEDY WHEN OTHERS ARE FEARFUL

OUR 'VALUE INVESTMENT' BUDDY BUFFET SAYS, "BE GREEDY WHEN OTHERS ARE FEARFUL". Even his net worth had declined by double digits year to date thru Thanksgiving 2015. Meanwhile, the S&P500 average was up, ever so slightly. Has Warren lost it? Bill Ackman & Carl Icahn were down approximately (-20%)… both considered two of the smartest hedge and opportunistic managers of our day. Buffet & Bill paid no dividends, but Carl paid about 9%, cutting his loss almost in half. Why didn't Buffet and the boys just jump on those top 20 stocks on the weighted index that went up rather than down? Couldn't they figure that out?

SO I LOOKED AT THOSE TOP 20 stocks in the index. Thirteen stocks were up, and 7 down. The 3 biggest gainers had little earnings (technology related). But If the index is being propped up by the continued buying of the largest 20, why not join in? As few pay dividends exceeding 3%, it would not meet all the (discussed above) typical family income needs. We'd have to sell the bullion or draw down the "safety" cash portion. *Otherwise,* at 2% index dividends, we'd have to allocate ¾ of all the household assets to equities to meet these income needs. That would violate Chapter 1's sound diversification principles for investing in the "new normal" world. And it would probably be overlooking the Buffet "fear trade" rule as well.

AN INCOME APPROACH

PIPELINES CRISSCROSS OUR COUNTRY, taking natural gas and oil from the source of production to the tanks of consumption. These pipeline owners care less about the price of what is in the pipes, and more of what is *charged to transport* what is in the pipes. These essential infrastructure company stock prices are off over 40% from oil's peak price 18 months ago. Tax loss selling pushed them even lower. This set off "margin liquidations" as those who borrowed at low rates to get the dividend cash flow, were forced to sell at any price. And then the public (herd) panicked. Sound like the potential for a Buffet "Fear Trade"?

BUSINESS DEVELOPMENT COMPANIES LEND to small and mid size companies. Sometimes they get a piece of the company equity as a kicker to do so. Large commercial banks are tight with their dough, and would rather borrow at zero and buy a treasury, several times over, or loan on mortgages & high interest credit cards. These loans can be packaged and recycled to the bond market. They see these loan pass offs as less risky. *Consequently*, the Business Lending Companies have opportunities to fill this lending void. In anticipation of higher interest rates (we've been told to expect such for some 3 years now), some of these lenders' stocks have sold down 30% in the "fear" of higher interest costs. But historically, many of the companies have actually benefited from rising rates, if they structured their loan portfolios in a flexible and adjustable manner. So, might we also have a look at these yield enticing companies for "Fear Trade…#2?

WE COULD ALSO ADD a few "full service" senior type residence communities with growing profits, and maybe a telephone company or two. Combined, we're getting close to the high single digit dividend portfolio we're seeking.

CAN THE STOCK PRICES OR DIVIDENDS GO HIGHER? COULD THESE ALSO GO LOWER? Of course, both. But the business income is there as long as gas is piped to heat and fuel the country, and collateralized loans to the business are repaid over time. Call it a bird in hand, but not without risk. What are the alternatives (to dividends) for income today? Perhaps personally collecting rent from tenants who may have financial and other problems. Or unknowingly, perhaps mold creeps in?

FIVE CAUSES FOR EQUITY APPRECIATION

AT CONFERENCES IN 2015, I pointed out there were FIVE reasons the S&P index could continue to appreciate: 1) CORPORATE STOCK REPURCHASING; 2)THE RISING DOLLAR and the global investor search for the safest places; 3) GOVERNMENT INTERVENTION…when the market declines; 4) PENSION FUNDS, FOUNDATIONS AND ENDOWMENTS can't meet their distribution requirements with short term quality bond investments. Either they go to the junk bonds (unsecured bonds with higher default rates) or the potential long term total return of equities; 5) THE INDIVIDUAL INVESTOR IS FOLLOWING THE HERD, and thus into the indexes (top 20 weighted stocks have benefited the most). Positive returns begets positive cash flows (until that changes).

THE FIVE CONCERNS – (3C's & 2D's)

CYBER, COUNTER-PART RISK (if A can't pay B, B can't pay C) AND COMPUTER flash crashes, (exacerbated by high frequency trading). Add DERIVATIVES AND DEBT and we can for sure see that nothing is certain. We are in a global monetary experiment not tried before. The central banks buy (prop up) liquid assets to keep the system floating. How it ends nobody knows.

FIVE ALTERNATIVE INVESTMENT APPROACHES

One: GUARANTEES FROM INSURANCE COMPANIES are available. You can put funds into the equities market thru the insurance company which guarantees you a certain percentage distribution (i.e.5%) for as long as you live, after say age 65. If you live beyond expectations, you may "get into the insurance company's pocket" to make good on the guarantees. But if the market goes down (the *investment has losses over your lifetime*), and/or you live less time than they expected, you can contract to have at least the original amount you deposited, guaranteed to be returned to your heirs.

Two: CD's with seven year maturities at zero interest is another possibility. Some of the larger banks will place what would have been the interest payment into the bank trading account. *Maybe* they will outperform what would have been the interest (simplified explanation). Only the return **OF** your principal is FDIC insured. The return **ON** your principle is as good as the trader can realize. Historic averages have indicated single digit returns, and perhaps doubled if held to maturity. Of course, that past performance may not continue.

Three: GO FOR THE HIGH DIVIDEND STOCKS, and forget about the monthly statement values. You can even put on your "Buffet Bonnet" and hope the stocks go down so you can buy more shares at cheaper prices. *I like this approach at this stage of the market*. But you shouldn't compare it to the index. Our objective here is income, not index comparisons.

Four: **GO FOR THE GROWTH STOCKS** with a disciplined *exit strategy* (see our *Flexible Portfolio Method* on our website (www.ipmgatlanta.com front page). We'd suggest utilizing the Raymond James annual "Best Picks" as one of the top growth stock choices. It's about 14 stocks or so that for 20 years have averaged 29.4%. When we moved to Raymond James we said "wow, we gotta use this for one of our growth strategies" (it has little dividend). This we could compare to an index, if that is our most important investment criteria.

Five: TAKE A TRULY LONG TERM POINT OF VIEW. In 15- 20 years, earnings and stock prices could be meaningfully higher. When I got in the business in 1971, the S&P earnings were approximately $5.00, and the S&P index price was $100. Now the S&P earnings are projected for 2016 at about $125 & the S&P is close to 2100. Did that work or what? *But we went through about three 50% off sales and numerous 20-30% declines during that 45 year period*. Those declines could disrupt our near term planning. We can attempt to reduce the downside volatility using our *Flexible Portfolio Method*. It has lessened the impact of big declines in the market over these decades…sometimes very significantly.

FIVE CONCERNS I'VE HEARD FROM SOME OF THE "BIG BOYS"

THE MARKETS HAVE EVOLVED over the last few decades. As I say in conference presentations, "This is not our father's (or our) stock market". It belongs to the "hedgies" and the "high frequency traders". Those represent 80% or so of daily trading volume. They all believe they can hope to get out first. So, 1) THE LIQUIDITY MAY NOT ACTUALLY BE THERE WHEN WE MOST WANT & NEED IT. We should plan accordingly (see the 5 Alternative Investment Approaches above). 2) UNDER THE HOOD, a lot of what the public is buying is synthetic (derivatives). At some point, there may be unpleasant surprises. 3) CHECK YOUR "CASH" POSITIONS. What's the insurance level behind them. 4) GLOBAL TRADE is meeting deleveraging & oversupply head winds, negatively impacting sales and earnings. 5) IF INDEED WE HAVE BEGUN WWIII with remote encrypted training of Trojan horses, investor confidence levels could *suddenly* impact price earnings ratios. This is an election year, which also could affect confidence. Suggestions for improvement in policies for taxation, regulations, education could have an impact on our future outlook. The actual 2016 election result could send confidence levels significantly in either direction.

AS ONE EUROPEAN HISTORIAN, ALEXANDER FRASER TYLER wrote (The Decline & Fall of the Athenian Empire), THERE IS A PATTERN OR CYCLE IN THE RISE AND FALL OF EMPIRES AND NATIONS. It begins from, "bondage to spiritual faith, to great courage, to liberty, *to abundance*. Then to selfishness, to complacency to apathy, *to dependence*. From dependence back again to bondage".

IF YOU SEE ANY SIMILARITY SINCE 1776, you might pick a spot where you think the US currently may be in this cycle. Is there now growing or shrinking abundance? Are we becoming more apathetic & perhaps dependent? It might take an inspirational leader to envision a plan to stretch out any remaining sweet spots in our cycle. Hopefully we can avoid sliding down the slippery slope any time soon. *Here's to our 2016 decision process*. My next letter will be due right after that important event. Until then...may our abundance not promote selfishness, complacency, apathy nor dependence.

LONGER TERM

ABOUT $1 TRILLION IN ASSETS WILL TRANSFER TO HEIRS EACH YEAR FOR THE NEXT 50 YEARS. According to the Institute for Preparing Heirs, 70% of wealth transfers are *not successful.* This is not to say the paper work was not in order, but that there was a loss of family cohesion because of unresolved issues and disputes over the control of the assets. It can impact the surviving family income, health, spirituality, unity as well as support of causes and community.

FAMILIES CAN EXPERIENCE DIFFICULTY IN THE TRANSFER OF WEALTH, due to the distance factor and/or possible dysfunction of kids, heirs' unwillingness to follow advisors, and a host of other potential conflicts. Family harmony can be disrupted, sometimes permanently. Concern for the impact of sudden money upon heirs is a legitimate concern in many cases. It's more the impact than the amount.

THE BENEFICIARIES DO GET THE ASSETS SUCCESSFULLY in most cases. It's often after they receive them that the problems can begin. Professional trust services can help overcome some of these concerns. In particular, I like corporate trustees who *are able and willing to work with individual family situations* and also willing to follow the investment principles of the grantor. No "cookie cutter" here, if I can help it!

WE CO-AUTHORED AN INVESTMENT BOOK, "THE EVERGREEN PORTFOLIO", along with a number of investment newsletter writer friends. It contains investment advice meant to endure for the long haul. In particular, I would prefer following the diversification and risk management as outlined in this letter (see "Conversations"…enclosed) and that book as related to both investing and tactical asset management (The Flexible Portfolio Method). Our personal friends, family members or preferred professional managers who we may ask to be co-managers, can also *help to guide the more flexible corporate trustee.*

PRESERVING ACCUMULATED WEALTH FOR WHEN WE NEED IT, AND FOR ULTIMATE TRANSFER CAN BE A LOT TO THINK ABOUT, and time has a way of catching up. The sooner we get on it, the easier it will be and the better the potential outcome. I, the cobbler who has outdated shoes, earmarked 2015 for restocking the shoe rack, hopefully for all the possible occasions. But I found it was no fun rereading and thinking about all those possibilities.

SO I FINALLY OVERNIGHTED "ALL THAT STUFF" TO OUR RJ TRUST DEPARTMENT. They went through it and made recommendations at no cost to me. They also helped me select an experienced, reasonably priced local estate attorney to implement it. I GOT ON IT (with their help)…something that really needed to be updated again, after a lapse of just a few years.

WE WOULD LIKE TO ENCOURAGE ALL OF OUR INVESTMENT CLIENTS & FRIENDS TO JOIN US IN THE PERSONAL EFFORT OF GETTING LOOSE ENDS TIED TOGETHER in the New Year 2016. This can include thinking about those details we'd rather not think about (just now), but probably should. We can let professionals go to work for us and do a lot of our heavier lifting. It will be a wonderful gift to those for whom we have concerns, *if we can get this right.* It will probably take a small time commitment for most of us. Our trust department will be glad to assist you as well, as they are doing for me.

THE 44 YEAR CUSTOMER'S MAN, hopefully throwing it into 3rd GEAR FOR 2016…

Martin

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