ABULS, BONE & ELLER GROUP OF RAYMOND JAMES®

APRIL 2016

IN THIS ISSUE

LOOKING INTO THE CRYSTAL BALL

"There are times to stay put, and what you want will come to you, and there are times to go out into the world and find such a thing for yourself."
– Lemony Snicket, Horseradish

This is a difficult investing environment. Probably the most difficult we as partners have been confronted with in our 30+ years as professionals. What makes it difficult?

The first thing that is difficult is that interest rates across the globe are historically low and have been this way for a long period of time. Low rates are repressing to savers and conservative investors of the world. It is difficult to compound savings at such low nominal and real rates. Using the rule of 72 (divide 72 by the return on investment and the result is the number of years it takes to double your money), twenty years ago 10-year treasury rates were 7.88% and you could double your money in less than 10 years. Ten years ago the 10-year was at 4.22% and it took 15 years to double your money. Today the 10-year is at 1.72% and at that rate of return it will take 42 years to double your savings!

Because rates have been so low for so long, competing investments have attracted a lot of money, a lot of buyers and driven prices higher. Having a value-bias in our investment philosophy, it is difficult to find under-valued or cheap assets; i.e. assets where our expected returns for the assets are significant. Risk premiums, the additional return one expects for taking more risk on an investment, are broadly across asset classes lower than historic averages.

Leverage and excess debt exacerbate return and risk. The major developed countries of the world, the US, Europe and Japan, are all carrying very high debt loads on their government balance sheets. Their continuing effect on global growth through monetary policy is muted or "pushing on a string" at this point. Their ability to enact or properly use fiscal policy (tax policy or investment, shovel-ready or otherwise) to supplement monetary policy is as questionable as ever due to the polarization in political circles.

Economic growth is a balance of investment and consumption. One of the major trends affecting global growth is an aging demographic. The US, Japan, Europe, China and other large economies have a more senior demographic. For example, in the US the baby boomers have been the economic engine. Approximately 10,000 of them are turning age 65 daily and will continue to do so for the next 12 years. Baby boomers have reached and gone beyond their peak spending years. The growth in their contribution to GDP will be modest in the coming decades.

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Populism has been a growing political/social trend. The result is higher social costs in governments across the globe. And when combined with an aging demographic, the entitlement costs of retirement and healthcare initiatives are growing. This has the effect of requiring a larger percentage of a government budget and more tax dollars (or deficit sending). Either way, it leaves less money for government or individual investment or consumption.

From a behavioral standpoint, we have experienced in the last 15 years two significant stock market declines and a global financial crisis. It has heightened the risk temperament of both professionals and individuals. The investment psyche of both is more fragile as a result. Our concern with this scenario is that irrational behavior tends to accompany periods of heightened fear.

Capital flows are immediate and know no boundaries today. Inefficiencies in pricing and value are realized quicker than ever before. Computerized trading pools of capital exacerbate short-term volatility and also create a heightened sense of fear in investors.

So what do you do when confronted with a difficult investing environment? We have often said three characteristics must be present for good investing. They are optimism, patience and discipline. In periods like the current **patience** is a must.

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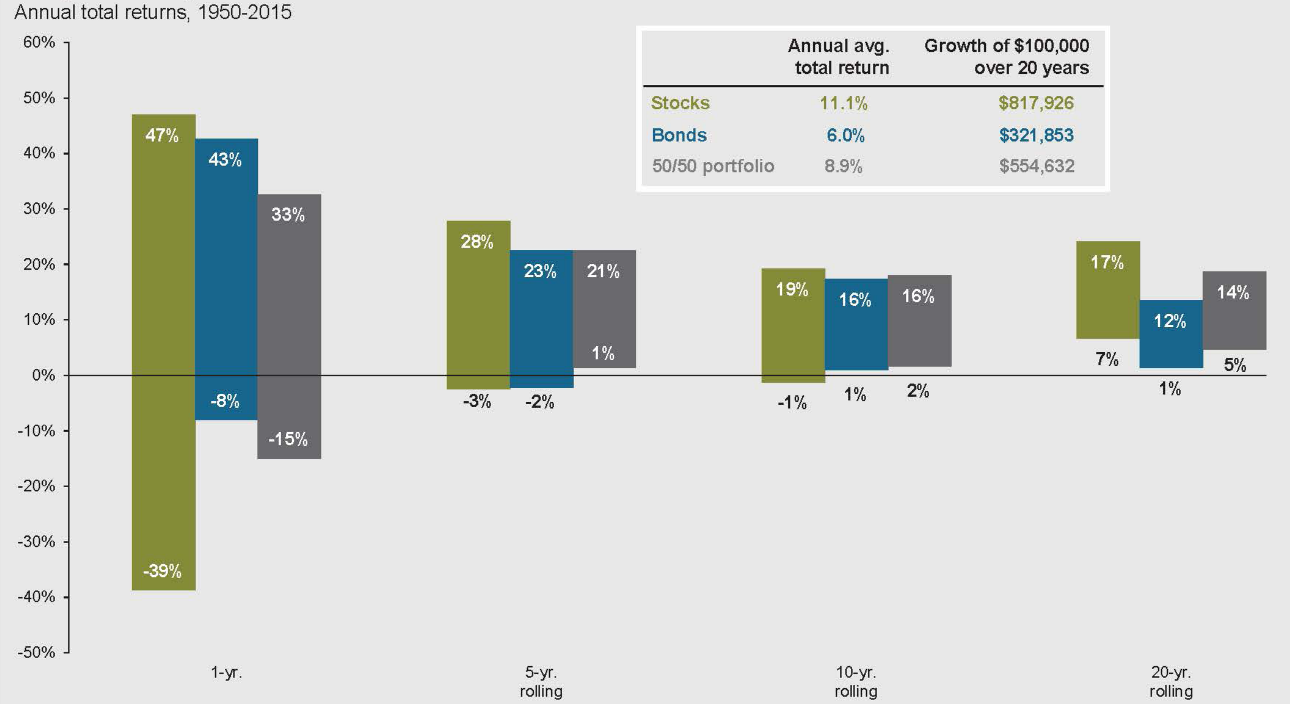
Time, diversification and the volatility of returns

GTM – U.S. | 62

Investing principles

Range of stock, bond and blended total returns

Annual total returns, 1950-2015



Source: Barclays, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2015. Stocks represent the S&P 500 and Bonds represent Strategas/Ibbotson for periods from 1950 to1980 and Barclays Aggregate after index inception in 1980. Growth of $100,000 is based on annual average total returns from 1950 to 2015.
Guide to the Markets – U.S. Data are as of December 31, 2015.

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J.P.Morgan Asset Management

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In our investment discipline patience takes on two forms. One is the patience of investing with a long-term perspective. The second is the patience of investment opportunism.

History and our experience of the markets have taught us that equity returns are more profitable than cash or bond returns, in the long-term. We understand that financial asset prices rise and fall, but generally rise, in the long-term. We know that in any given short-term period both stocks and bonds can produce negative rates of returns. And in some cases they can produce wide variances in prices. However, variability of their prices is narrower and returns positive, in the long-term. The law of large numbers and averages is in effect, in the long-term.

Keeping a long-term perspective is essential to disciplined investing. Cycles are inevitable. Economic growth will be slow and fast. Interest rates will be higher and lower. Inflation will be higher and lower. Stock prices will be higher and lower. Predicting short-term changes in these cycles is a difficult exercise. Understanding regression to the mean and maintaining a long-term perspective is in your and our control. Not always easy, but under your and our control.

We have been sharing a book with friends and family in recent months, 'The Mayo Clinic Guide to Stress Free Living'. The book begins with an explanation of how our brain works. According to the book's author, the brain functions in a restless state and a focused state. The wondering and spontaneous brain is the default mode and where stress and fear cohabitate. Most of us live predominately in this state. We are not naturally wired to be patient.

The focused brain requires training. Training the brain to habitually focus will help you sustain a higher level of rational, meaningful and healthier emotions; train and sustain. That is why eliminating 'news noise' from your life, learning from those with wisdom and having a disciplined process are essential to a focused state. A long-term perspective is a focused state.

Investment opportunism is a second form of patience required for good investors. It is different from a long-term perspective. Investment opportunism requires a narrower focus. It is the difference between 'stocks for the long-term' and picking a stock. Investment opportunism is having the patience to wait for a 'fat pitch'.

Ted Williams, one of the greatest hitters in baseball history, created an infographic of the strike zone with 77 baseball sized cells. The 77 cells were color coded and each cell depicted a corresponding batting average for each place in the batting zone. Waist high down the middle was for a .400 hitter; inside and low a .200 hitter. Only 3 of the 77 cells correlated to a .400 hitter. Only 17 of the cells corresponded to a .350 or better hitter. The very best hitters rarely miss the opportunity to take advantage of the 'sweet spot' of the strike zone. Though as you can imagine the very best pitchers don't afford the hitters that many opportunities in the .400 zone. That would be hitting opportunism.

Investing opportunism is waiting for the markets to provide a 'fat pitch'. It is usually produced in an instance of fear and forced selling where prices are tumbling. Or it can be availed by a disruptive technology or speculative venture. Either way you must be focused and prepared to recognize it, accept it for what it is and respond. Investment opportunism is more tactical than long-term

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perspective and in many ways requires more acute attention and effort. Both are important elements of a successful investment plan. And both require the virtue of patience.

We sense 'impatience' in investors today. They are growing weary of low interest rates and in many cases are chasing yield. They are growing tired of international equity underperformance and concentrating in US stocks. They are impatient with active manager performance and seeking out index investing. They are psychologically burnt by volatility and lower than average returns.

It is during these ground-swells of investor behavior that we begin to sense change. The change is accompanied by bouts of irrational behavior and opportunities are created. Such a change occurred in the first quarter with the lows of oil prices. In our opinion, natural resource and energy-related investments were at 'onsale' prices in the first quarter.

We took advantage of the opportunity by allocating an additional 4% of our equity allocation to energy related investments. The additional contribution to this asset class came 1% from our cash reserves held for investment opportunities and 3% from the sale of large cap growth stocks. To date, the reallocation has been profitable as energy prices have rebounded from their lows over 30%. This may have been one of the fatter pitches the market has thrown recently and is an example of patient investment opportunism.

We remain committed to our long-term philosophy of being value-oriented, strategic, global and active managers. It has been a challenging environment for many facets of our investment philosophy. International equities have under-performed, value has taken a second seat to growth and the bull market has rose all boats with the tide making stock picking and active managers laggards during the cycle. However, our knowledge of the markets and assessment of current valuations gives us conviction that these cycles will change and out-performance is a real possibility for our strategy. We remain optimistic, patient and disciplined in our focused attention on your financial plans and investment portfolios.

"ALL MODELS ARE WRONG, BUT SOME ARE MORE USEFUL THAN OTHERS."
– GEORGE E.P. BOX

Please find following the current equity and income strategies for our model portfolios:

The Abuls, Bone & Eller Equity Allocation As of March 31, 2016:

Large Cap Value	25.00%
Large Cap Growth	19.00%
Small Cap Value	1.50%
Small Cap Growth	0%
International Large Cap	25.50%
International Small Cap	4.00%
Emerging Markets	6.50%
Natural Resources	8.50%
Allocation Funds	7.00%
Cash	3.00%
Total	100%

The Abuls, Bone & Eller Income Allocation As of September 30, 2015:

Core Bonds	69.00%
Global Bonds	15.00%
Multi-Sector Income	15.00%
Cash	1.00%
Total	100%

TEAM NEWS

Welcome!

Please join us in welcoming Liz Levasseur to the Abuls, Bone & Eller Group. Liz has joined our team as a Senior Client Service Associate and will be working alongside Minnie in Client Services.Liz comes to Abuls, Bone & Eller from her position as a Senior Private Client Group Associate with First American Bank where she worked for more than ten years. Liz has an undergraduate degree in Communication Studies from Saint Mary's College. She resides in Elk Grove Village with her husband.We are very excited to add Liz's skills to the team and we are confident you will enjoy working with her.

Congratulations!

Congratulations to Carrie Haney on her marriage to Kevin Lind. The couple wed in Arizona on April 2nd. We wish them all the best!

Congratulations!

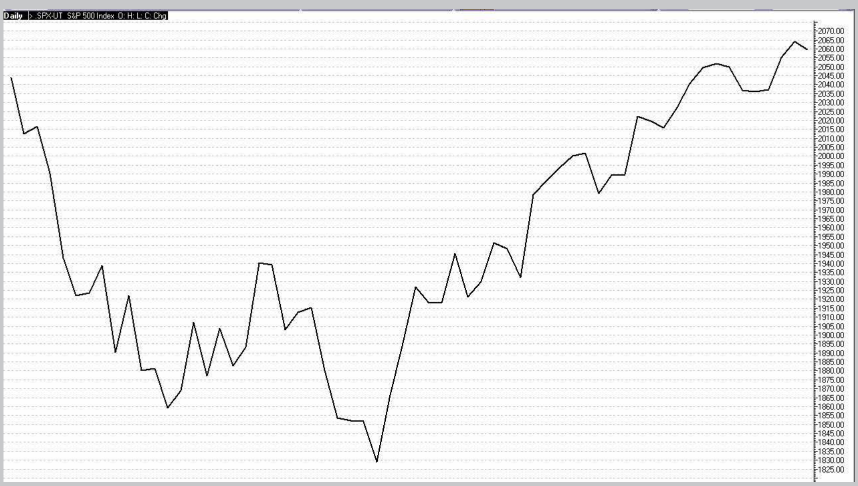
Congratulations to Paul Jesinskis who has successfully passed the CFP Certification Exam! We are very excited for Paul and wish him well in completing the Certification process!

HINDSIGHT IS 20/20

> "The oldest and strongest emotion of mankind is fear, and the oldest and strongest kind of fear is fear of the unknown." – *H.P. Lovecraft*

A chart of the S&P 500 for the 2016 first quarter looks like a diagram of a hike of the Grand Canyon from one rim down to the bottom and back up to the other rim! From peak to trough the S&P 500 was down 11% during the quarter; and yet still managed to return a positive 1.3% for the three months ending 3/31/2016.

S&P 500 – 1ST QUARTER 2016



SOURCE: MORNINGSTAR

The current bull market starting in March 2009 is 86 months in duration and has returned 204% through March 31. It is the second longest bull market in history; only trailing the bull market of 115 months beginning in October 1990. The total return of 204% is the third most profitable, trailing the 229% returned by the August 1982 bull market which lasted 61 months and the 417% returned by October 1990 bull market.

Developed international equity markets returned -2.90% for the quarter. The bright spot in international equities was emerging markets returning 5.8% for the quarter.Emerging markets are closely correlated to the commodity complex. The strength in oil prices into the quarter end and a weakening in the US dollar helped move emerging market equities higher during the last half of the quarter.

Savers continue to bear the brunt of the financial repression imposed by the major central banks of the world. Yields on the 10-year treasury were 1.78% on March 31, 2016. Real yields after inflation are -0.56%. Since the initial Federal Reserve rate hike of .25% (bring the rate to .50%), the rhetoric from the Fed regarding future interest rate hikes has been tempered and dovish. With the US economy percolating at a 2%+/- GDP forecasts, it is difficult to imagine the FOMC original forecast being realized of a 3.00% Fed Funds rate in the next several years.

The yield curve (the difference in yields of US government securities over a 30 year maturity horizon) continues to flatten. With 10-year yields of 1.80% and 30-year yields of 2.60%, investors are willing to accept a miniscule .80% premium to invest their capital for an additional 20 years!

Low interest rates are a global phenomenon. And not only are interest rates generally low across the global markets, the enigma of negative interest rates continues to proliferate. In June of 2014, there was not a country in the world with interest rates below 0%. Today approximately 25% of the world's government bond index has yields that are negative (BofAML Global Government Bond Index). Would you have imagined a time where holding your cash and earning 0% was more beneficial than loaning it to the bank or government and losing money via negative interest rates.

The global debt markets make-up has changed significantly over the last 25 years. In 1990 the US comprised 60% of the worlds' global debt market. Today it represents only 39%. Conversely, during this same 25 years the emerging markets have gone from representing 1% of the global bond supply to 15%. Today the emerging markets contribute 25% of the globe's GDP and continue to gain financial parity with the developed nations. China continues to be the juggernaut in this impressive EM growth. Developed markets ex-US represents 45% of the global debt markets.

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For the quarter global bond markets rewarded risk taking. Emerging markets debt (LCL), corporates and high yield led total returns up 9.10%, 4.0% and 3.40%, respectively. The broadest measure of US bond market performance the Barclays Aggregate returned 3.0% for the first quarter.

Uncertainty is the prevailing perspective in the markets today. Whether it is US elections, China growth questions, oil and commodity market pricing concerns, central bank monetary strategies, currency volatility, etc., there are plenty of questions to plant the fears of doubt in investor's minds. This first quarter of 2016 may be a precursor of market behavior until there is some clarity and continuity to the globe's bigger political, economic and financial concerns.

Numbers 03/31/2016

	Current Yield	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
Equity Asset Classes						
US Large Cap Value	-	1.28	-2.96	8.16	8.75	5.20
US Large Cap Growth	-	-2.45	-2.37	11.07	9.88	6.63
Small Cap Value	-	2.19	-6.88	6.06	6.61	5.11
Foreign Large Cap Value	-	-1.64	-8.74	1.28	0.98	0.70
Foreign Large Cap Growth	-	-2.00	-5.68	2.83	2.87	2.80
Emerging Markets	-	1.39	-2.62	-0.08	-0.13	3.70
Natural Resources	-	6.07	-13.66	-6.68	6.77	-
Fixed Income Asset Classes						
Barclay's Intermediate Credit	0.19	2.35	2.25	1.53	2.59	4.04
Barclays Municipal 1 -10	-0.07	1.24	2.86	2.50	3.68	4.21
Barclay's Global Bond	2.70	5.90	4.57	0.87	1.81	4.35

REQUIRED DISCLOSURES

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Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio.

The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. Barclays Capital U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government / Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The MSCI EAFE (Europe, Australia, and Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. The Dow Jones-UBS Commodity Index aims to provide broadly diversified representation of commodity markets as an asset class. It is not possible to invest directly in an index. The Vanguard REIT Index is a real estate investment trust fund that offers investors wide exposure in the real estate sector at a low price. The fund holds each of its stocks in approximately the same proportion as the weighting in the MSCI US REIT Index. It is not possible to invest directly in an index.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

The value of fixed income securities fluctuates and investors may receive more or less than their original investments if sold prior to maturity. Bonds are subject to price change and availability.

This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return. As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment decision. Raymond James does not provide legal or tax advice on these or any other transactions.

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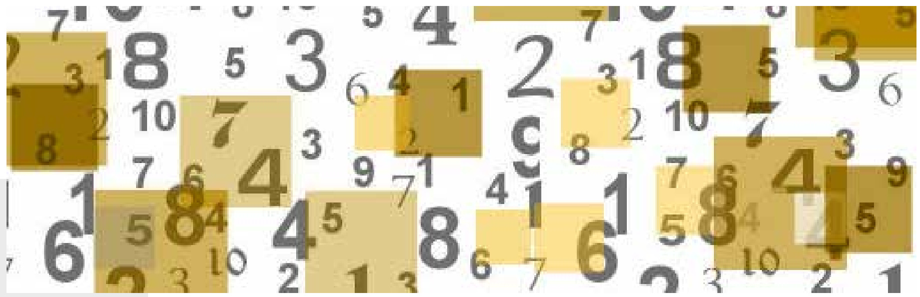

A LOOK AT THE NUMBERS AS OF 3-31-2016

	Current Yield	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
Major Indexes						
DJIA	7.22	2.20	2.08	9.29	10.27	7.54
S&P 500	6.78	1.35	1.78	11.82	11.58	7.01
NASDAQ	6.94	-2.43	0.55	15.63	13.22	8.71
RUSSELL 2000	7.98	-1.52	-9.76	6.84	7.20	5.26
EAFE	6.51	-3.01	-8.27	2.23	2.29	1.80
Bloomberg Commodity Index	3.82	0.42	-199.56	-16.87	-14.15	-6.16
FTSE NAREIT REIT Index	10.17	5.84	4.66	9.85	11.56	6.52
Equity Asset Classes						
U.S. Large Cap Value	-	1.28	-2.96	8.16	8.75	5.20
U.S. Large Cap Growth	-	-2.45	-2.37	11.07	9.88	6.63
Mid Cap Value	-	2.41	-5.46	7.85	8.06	6.10
Mid Cap Growth	-	-1.84	-7.76	8.36	7.57	6.04
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Small Cap Growth	-	-4.33	-11.66	6.34	6.48	5.38
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Barclays Municipal 1-10	-0.07	1.24	2.86	2.50	3.68	4.21
Barclay's Global Bond	2.70	5.90	4.57	0.87	1.81	4.35
Prime Rate	3.50	-	-	-	-	-
Broker Call	2.25	-	-	-	-	-
CPI	-		1.0			
	1 Year	3 Year	5 Year	10 Year		
CD Yields	0.70	1.25	1.60	-	-	-
Treasury Yields	0.53	0.85	1.16	1.73	-	-

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