Dear Client,

Last week, we had the opportunity for a Q&A with Robert Doll, manager of several Nuveen stock funds. Bob has a long and storied career on Wall Street, having managed money at Blackrock for sixteen years prior to joining Nuveen. Over the entire time period his shareholders have enjoyed a return comfortably above the market. His presentation was particularly engaging, and we are going to share some of his observations.

Without overstating the obvious, the first quarter of 2016 was no picnic for investors. From 1/1/16 to 2/11/16, the S&P 500 dropped 10.3%. From 2/12/16 to 3/31/16, the S&P increased by 13.0%. The market ended the quarter with a positive return of 1.40%. The plunge was anything but orderly. Many favorite stocks in 2015 finally had their comeuppance, posting double digit declines. Financial stocks were the worst hit, as investors yet again grew to accept that interest rates were not going to rise anytime fast. According to Bob, there were five reasons for the six week swoon:

1. Recession Looms
2. Oil can't find a bottom
3. China: big black hole
4. Fed: 4 or 5 rate increases coming
5. Election Fears

In late January and early February, we started hearing the "R" word—recession, that is. Oil plunged to $26 per barrel as worries about worldwide demand grew. Banks were in danger of huge energy related loans going sour. Now there is virtually no talk of a recession in 2016, and oil has bounced to around $40 per barrel. China has stabilized and looks likely to "muddle along" at 6-7% growth. The Fed chatter went from expectations of multiple rate hikes to maybe one in December. The election is still a big unknown, but four of the five reasons were way overblown. The markets often drop in anticipation of the real economy going south, but this time the doctor came up with a false positive.

Speaking of the economy, according to our friend Mr. Doll, the "tail" of foreign trade and declining manufacturing is wagging the "dog" of the consumer. Remember that 2/3 of our GDP is directly related to the consumer. Only 13% of our economy is foreign trade and manufacturing. There are signs of consumer strength. Jobs are being created, wages are starting to creep up, household balance sheets are improving and everyone who drives is getting an "Oil Dividend" at the pump. Asked why the bull market is not over yet, Bob replied that earnings and dividends will continue to grow for several more years, inflation is tame at 1.50-2.50%, monetary policy is accommodative, valuations are not excessive, and investors are very skeptical (a contrary indicator). What would make him worried: Recession, rising inflation, tight money, excessive wage inflation, high interest rates, and investor euphoria. It seems we are a long way away from any of these scenarios.

So what can you expect from your investments in this environment? Bob Doll's ten year forecast is for equities are a range of 6-8%, and bonds 2-4%. A diversified portfolio should garner an average of 4-6% per year. If this low rate, low return environment sounds depressing to you, just thank your lucky stars that you are not a saver in Japan or even much of Europe. Their economies are so moribund that they actually have negative interest rates. That's right; you have to pay for the privilege of loaning money to the government. This can lead to some wacky outcomes, like the family in Denmark with a negative mortgage. Yes, the bank sent him a check last month!* We call it the reverse toaster effect. When you open a bank account, they send someone to your house to take away your toaster. More on negative interest rates next quarter!

*http://www.wsj.com/articles/the-upside-down-world-of-negative-interest-rates-1460643111

Regards,

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