Market Commentary

The first quarter of 2016 was a roller coaster ride for all major stock indexes. The S&P 500 began 2016 with a 7.7% drop during the first two weeks as Chinese stocks fell 16.4% from fears of slower growth, oil prices plummeted to $26 per barrel, and predictions of a global recession increased. However, sentiment quickly reversed course during the second half of the quarter, propelled by higher commodity prices, signs of stable economic growth, and a dovish Federal Reserve, resulting in a 13.7% rebound in the S&P 500 from its February lows. Despite substantial fluctuations, the S&P finished the quarter up 1.4%, close to where it started.

Small company and international stocks remained largely unchanged this quarter and were up 0.4% and down 0.3%, respectively. Accommodative Fed comments and negative interest rates abroad helped push interest rates on U.S. investment grade bonds down, driving a 3.0% return in the U.S. Bond Index. Declining interest rates also helped publicly traded real estate rise 6.3% during the first quarter. The U.S. dollar currency index dropped 4.1% this quarter, helping emerging markets stocks increase 5.4%, as these stocks are very sensitive to a strong U.S. dollar.

Economic Growth Remains Positive but Subdued

On March 25th, the Bureau of Economic Analysis announced that GDP increased by 2.4% in 2015, which was identical to the growth rate in 2014. The general consensus for GDP growth in 2016 is around 2.0%, well below long-term optimal annual growth of 3.0% to 4.0%. Weak manufacturing, low business owner optimism, and the tumultuous political environment have hindered growth, making business owners reluctant to invest in the future through hiring and capital expenditures. While suboptimal, 2.0% growth should continue to create jobs and further push the unemployment rate down from its current reading of 5.0%. In addition, tepid growth will likely moderate the path of interest rate hikes by the Federal Reserve, which should be beneficial for stocks.

April Tax Planning Deadlines

Due to Emancipation Day on April 15th in Washington D.C., the tax return filing and IRA contribution deadline is April 18th this year. 2015's IRA contribution limit is $5,500 with an additional $1,000 contribution bonus for people over 50. Self-employed individuals should consider implementing a SEP-IRA or solo 401(k) to increase annual retirement contributions to a maximum of $53,000 per year. SEP-IRAs have an added benefit of an October 17th contribution deadline for taxpayers filing an extension. In addition, 2015 contributions to Healthcare Savings Accounts (HSAs) also must occur by April 18th and are limited to $3,350 for individuals and $6,650 for families. HSAs are an excellent and often overlooked method of mitigating taxes because pre-tax income can be contributed, invested, and later withdrawn without paying taxes on investment gains if the funds are used for healthcare costs. HSAs are often more advantageous than IRAs considering investment gains are not taxed if used for a wide range of expenses, including deductibles, co-insurance, prescriptions, dental, and vison care.

Comparative Returns

	Q1 2016 Returns	Annualized Performance			
		1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks(1)	1.4%	1.8%	11.8%	11.6%	7.0%
Small Cap U.S. Stocks(2)	0.4%	-8.8%	6.9%	7.2%	5.0%
International Stocks(3)	-0.3%	-9.2%	0.3%	0.3%	1.9%
Real Estate(4)	6.3%	3.9%	10.4%	11.8%	6.7%
U.S. Bonds(5)	3.0%	2.0%	2.5%	3.8%	4.9%

1. *Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy.*
2. *Measured by the MSCI U.S. Small Cap Index.*
3. *Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets.*
4. *Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks.*
5. *Measured by the Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market.*

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