LAUREATE
WEALTH MANAGEMENT

**LWM Market Commentary**
January 21st, 2016

Dear Clients and Friends,

The S&P 500 is down roughly 9% on the year currently. I thought it might be helpful to briefly review some of the causes for such a poor start to 2016. Accordingly, I believe the market is currently fixated on the following two issues:

1) Energy Story: The price of a barrel of oil has declined roughly 75% since late June, 2014. Wow! This spectacular decline is made even more painful by the massive amount of borrowed money that was used to make profits on oil prices above $100 per barrel. Now that these investments are unprofitable --- the associated debt has to be "unwound". Thus, markets are reacting in typical financial crisis-like fashion.
2) China Story: China's economy is slowing down dramatically. And it is shifting from a manufacturing-driven economy to a service-based economy. This transition is not necessarily unhealthy. However, just like the energy sector --- China's manufacturing-driven growth was also fueled by massive amounts of borrowed money. The same debt unwind that is occurring in the energy sector must now also occur in China's manufacturing sector. Accordingly, China's financial markets are responding exactly as one would expect --- in typical financial crisis-like fashion. The risk of contagion to other world economies is substantial as the global economy is quite interconnected. China's lack of economic transparency exacerbates this issue. As does its socialist political structure which is now moving increasingly toward dictatorship.

There are plenty of other concerns:

1) Divergent Monetary Policy: The U.S. central bank (Federal Reserve) is moving, albeit slowly, in the opposite direction as the rest of the world's major central bankers. Right or wrong ---- when all central banks were moving in the same direction, there was very little ambiguity as to what monetary policy "should" be implemented. Now that this divergence exists, there is naturally a conversation about which policy is right. And which policy is going to win the economic day.
2) Middle East Geo-Political Tensions: The emergence of the Islamic State (IS) has created a tectonic shift in the geo-political arena. Suffice it to say that the region is significantly less stable currently than it was prior to IS.
3) Eurozone Drama: The refugee crisis in the Eurozone is still in its infancy. The solvency issues that keep recurring in Greece are likely to resurface in Italy this year as substantial debt burdens are coming due. Great Britain is considering leaving the Eurozone. And Angela Merkel is facing serious opposition to her position as chancellor of Germany.
4) Valuations/Recession Risk: Here in the U.S., our economic expansion is beginning to look "tired". In fact, we are nearing an historically unprecedented length of growth without recession. To make matters more frustrating, the growth we have achieved is extremely

anemic. And to top it all off --- the market is priced expensively as measured by most valuation metrics.

5) With all of the above as a backdrop, my base case expectation is for a continuation of the current downward trend early this year --- but a substantial reversal as we move toward the back end of the year. I expect the leverage unwind in the energy sector will continue to contribute to the market's current downward trend. (Hat tip to David Zervos at Jefferies.) However, I believe the election cycle will assist the shift in the back half of the year as the markets start to figure out who our next President may be.

I readily admit that my base case could be dead wrong --- and that we could be on the edge of a substantial bear market. If that is the case, here is a list of investments that I believe should work in either case:

1) Tax Liens Investment Strategy: I expect no sensitivity to economic cycles from this strategy. It should make 8% to 11% in 2016 regardless of the market's direction.
2) Life Settlements Investments Strategy: Same here --- no sensitivity to economic cycles. Should make 8% to 12% regardless of the market's direction.
3) Mobile Home Parks: Leasing a small patch of ground to working class poor families at $250 to $350 per month has virtually no correlation with the overall economy or stock markets. While the underlying value of the real estate may change over time --- the cash flow is stable and typically somewhat counter-cyclical to the economy.
4) Managed Futures: This is the oldest hedge fund strategy in existence dating back to the 1960s. Systematic, trend-following computer algorithms make money on market moves. When markets are "quiet" --- these funds don't do as well. But when markets crash --- there are obvious trends to profit from. This time is no different.
5) Various Real Estate Deals: Everybody has to live somewhere. These real estate strategies are similar to mobile home parks --- except that the cash flow can be slightly more tied to the economic cycle in certain cases. However, owning leasable real estate in desirable locations is generally producing solid yields to investor capital.

If you are a client of LWM, you will be familiar with all of these strategies --- as we have spent the past 3 years building allocations to all of them. To the extent that you are invested accordingly, I believe that your portfolio is built to weather the next storm, should it be upon us. So --- let the rain come. Because on the other side of the rain there will be opportunities. We are already looking hard at some of them.

As always, please feel free to reach out with any questions.

Warm Regards,
Jeremy Boynton

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