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1st Quarter's Investment Commentary

By

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"Thousands of experts study overbought indicators, oversold indicators, head-and-shoulders patterns, put-call ratios, the Fed's policy on money supply, foreign investment, the movement of the constellations through the heavens, and the moss on oak trees, and they can't predict the markets with any useful consistency, any more than the gizzard squeezers could tell the Roman emperors when the Huns would attack."

Peter Lynch, One Up on Wall Street

Is it over? The correction, I mean, not the presidential race. It was scary, after all the "end of the world" was eminent (once again), but we've lived through worse periods of falling equity values and on a relative scale to those, this one was mild and short (about five months). It appears that February 11th was the final shake out with the DJIA closing down 254 points to 15,660 and now we're off to the races again. 38,000 on the DOW, here we come! Back up the truck!

The DJIA closed the first quarter at 17,685, up 1.47% for the year, while the NASDAQ closed at 4,869, down -2.75% and the S&P 500 closed at 2,060, up .77%. We were fortunate to have done a bit better with our average return of all accounts up 2.8%. After several quarters of trailing the major indexes, it's edifying to out-perform them again. Herd chasing and robo-trading ultimately have to succumb to stock pickers, I hope. So, we'll see if this occurs as the future unfolds.

We were fortunate to find buyers pouring back into the beaten down oil related and natural resource stocks during this past quarter. Almost of all of our positions in these sectors increased significantly. Tech Comino (TCK) jumped by 100%, Encana (ECA) by 19.6%, Companhia Energetica de Minas Gerais (CIG) by 50.7%, Companhia de Saneamento Basico do Estado (SBS) by 43.5%, Pengrowth Energy (PGH) by 78.8%, to name a few. We added several positions during days of apparent optimum fear to accounts with cash. These included Corning (GLW), General Motors (GM), Veeco Instruments (VECO), Intrexon (XON) and Santander (SAN). Adding to our gains continued the parade of takeovers with Anadigics (ANAD), Plum Creek Timber (PCL) and PMC-Sierra (PMCS) consummating in the quarter. Newport (NEWP) will be following shortly and EZChip (EZCH) will deliver our money to us sometime in August.

PLEASE NOTE: the takeover of EZCH has turned out to be a prolonged administrative drag. The government of Israel requires each of us to sign a tax waiver to avoid a 25% tax on our proceeds. These are due by August and we are in the process of completing them now. IF you have sent to us your signed waiver, super. If you have not, please do so ASAP. Meanwhile note that your Schwab statements do not reflect the $25.50 value per share of your EZCH stock position. Thus a significant drop in portfolio value on your March statements most likely is due to this position having been eliminated from your account without a substitution of the cash you will receive from the takeover. Our quarterly performance report does reflect the value of the EZCH position and therefore is accurate.

We expect the remainder of the year to remain in a holding pattern until we get clarity on the U.S. Presidential elections. Additionally, as we approach the summer months, we expect the normal seasonal market weakness with possibly another market shake-out sometime before the U.S. Elections. We will continue to accumulate our dividends and purchase selected companies stocks when the opportunity presents itself. We do not believe that our economy will enter a recession, nor a bear market, with our correction having completed. To the contrary, we anticipate a strong and improving housing market which will provide impetus for a continued moderate economic expansion. Furthermore, the infusion of technology into every process we undertake in our daily lives will continue to unfold and improve productivity and our standard of living.

None of the root causes of a bear market are evident presently. We do not have **tight money** and the Federal Open Market Committee (FMOC) has made it clear that it will maintain an accommodative monetary policy. We don't have rising **interest rates**, as global events tempered our Fed's plans to increase domestic rates. Also, the yield curve remains positive with the three-month Treasury bill offering .30%, the 10-year yield of 1.80% and the 30-year Treasury 2.63%. **High inflation** doesn't exist currently, with the headline number at 1.3% and core at 1.7%. **Rapid Growth**, the fourth component of our bear market indicators, also is non-existent presently, with GDP expansion still under 2%. Our final component, **Stock price overvaluation,** is hardly evident either. We anticipate average earnings of the S&P 500 to settle in the $120 range for 2016 and $128 for 2017. With an average price/earnings ratio of 16 to 16.5 over the past fifty years and 16.5 to 17.5 during times of low inflation, we may find our S&P 500 Index trading in the 2,112-2,240 range by 2017. With an index reading of 2,091 today (April 22nd), we still have a way to go.

Please give us a call should you have any questions or would like to discuss your portfolio and you investments objectives with us. In the meanwhile, we will continue on our present course of collecting our dividends, seeking out investment opportunities and adding to your positions when the time presents itself.

Thank you, as always, for your continued business and confidence.