P3 Parks Capital

Quarterly Market Update

May 2016

Q1 2016 - In the Rear View

The first quarter of 2016 was an interesting one to say the least. While the weather in Rochester was mild and comfortable, the roller coaster ride the US equity stock market endured was neither mild nor comfortable.

In our January 2016 newsletter I had touched upon the historic first week and month we were experiencing at the time. In the letter I had advised against any knee jerk reaction to what seemed like a market's temper tantrum with no clear reasoning or logic.

During the end of January and beginning of February, we diligently monitored the equity market for clear signs of the long term trend breakdown. While things came pretty close, the market held itself and bounced off key technical trend lines on February 11th 2016. Subsequently, the market rallied back 13% to close the first quarter up 0.77% for the S&P500, a trivial outcome for a historic market roller coaster.

Overall the equity market indices ended the quarter as follows:

Table 1: Key Index Returns

	Q1 -2016 %
Dow Jones Industrial Average	+1.49
NASDAQ Composite	-2.75
S&P 500 Index	+0.77
Russell 2000 Index	-1.92
MSCI World ex-USA**	-2.68
MSCI Emerging Markets**	+5.37

Source: Wall Street Journal, MSCI.com

Q1-2016 returns: December 31, 2015–March 31, 2016

**USD

Understanding the Turmoil

If you happen to turn on CNBC in January, you would have heard all sorts of reasons this market was selling off. Talking heads blamed the sharp declines on the Federal Reserve raising interest rates in December or the impending recession in the US economy. Some even claimed that the Federal Reserve is going to implement negative interest rates on deposits.

While there is no way to really know what the true reason is for the market as a whole to react the way it did, we can reach a reasonable conclusion based on facts. The fact is that hedge funds and large institutional investors had a bad year in 2015. Several hedge funds like Pershing Square Capital of prominent fund manager Bill Ackman were down double digit by the end of the year. Even Warren Buffet's Berkshire Hathaway suffered losses in 2015.

In a hedge fund structure, investors are only allowed to withdraw their funds at periodic intervals. These intervals are usually the end of quarters or even in some cases the end of the calendar year. Thus it would be reasonable to assume that these large underperforming hedge funds were hit by several withdrawal requests from unsatisfied investors after the close of 2015. In order to meet those withdrawal requests, funds have to sell securities to raise cash which if done on a large scale can cause a market sell off similar to the one we have seen recently.

Another fact that points towards the validity of this theory is that stocks that had large gains in 2015 seemed to be selling off harder than stocks that did not fare well last year. This would make sense as fund managers are much more inclined to realize gains than be forced to sell their positions that have losses, as they expect their losses to eventually turn positive over time.

In any case, if this is true and the market selloff was merely an operational cash raising exercise by big institutions, then that indicates that the overall health of the economy is in good shape and this cash would eventually find its way back into the markets.

The Road Ahead - 2016

The stock market rally in the second half of the quarter was nothing short of spectacular. It seems the cash is starting to roll back into the market and the bulls seem determined to hold up the long term technical trend of the market.

While all of this bodes well for the long term, we feel that in the short term there are reasons to be slightly cautious moving into the second quarter of 2016. Fundamentally, the markets does not like uncertainty and there seems to be several avenues of uncertainty in the coming quarter. The US political landscape is being defined as we speak and there are several international events like the Brexit (British vote to exit European Union) or the Chinese economic transition or the interest rate policy of the Federal Reserve that can cause market tremors similar to the ones we saw in the beginning of the year.

The Bottom Line

Our strategy in the second quarter of 2016 is to carefully monitor these events and maintain our course with a well-diversified portfolio. We are actively looking for technical signals that would provide us more clarity on the direction of the overall market into the second half of the year.

While we wait for a clear technical direction, we continuously work hard towards making our current portfolios more effective in terms of performance and risk management. We are actively finding new investment products and tools to achieve our goals of serving you with your wealth management needs.

This past quarter, I attended the annual Inside ETF conference in Hollywood Florida. Every year this conference helps me grow a little bit more as a portfolio manager. During this 4 day conference I get to learn about various different investment strategies and products that are coming to the market and ways in which they can help make our portfolios more efficient, cost effective and diverse. The conference also helps me broaden my horizon by listening to market leaders and industry specialist on their views of financial markets. I look forward to using this knowledge in helping my clients achieve their financial goals this year.

I hope you've found this review to be educational and helpful. Let me emphasize, it is our job to assist you! If you have any questions or would like to discuss any matters, please feel free to give me or Gina a call.

Lastly, I want to say once again that I'm honored and humbled that you have given me & Gina the opportunity to serve as your financial confidants and advisors.

Written By:

Rajiv Dixit
Portfolio Manager & Financial Advisor
Parks Capital

Disclosures:

1. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions.
2. Past performance is no guarantee of future results.
3. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.
4. Diversification and asset allocation do not ensure a profit or guarantee against loss.
5. Fixed-income securities carry inflation, credit, and default risks for both issuers and counterparties.
6. This report is being generated as a courtesy and is for Informational Purposes only and is not intended, in any manner, as an official brokerage or mutual fund statement.
7. This report is not to be used as an official books and records statement of the Firm. Please contact the relevant product sponsor if you have any questions about the statements.
8. Securities mention in the newsletter may or may not have been bought in your specific account as all accounts are designed based on clients' needs and risk requirement. For more details on your account please refer to your brokerage account statement or consult with your financial advisor.