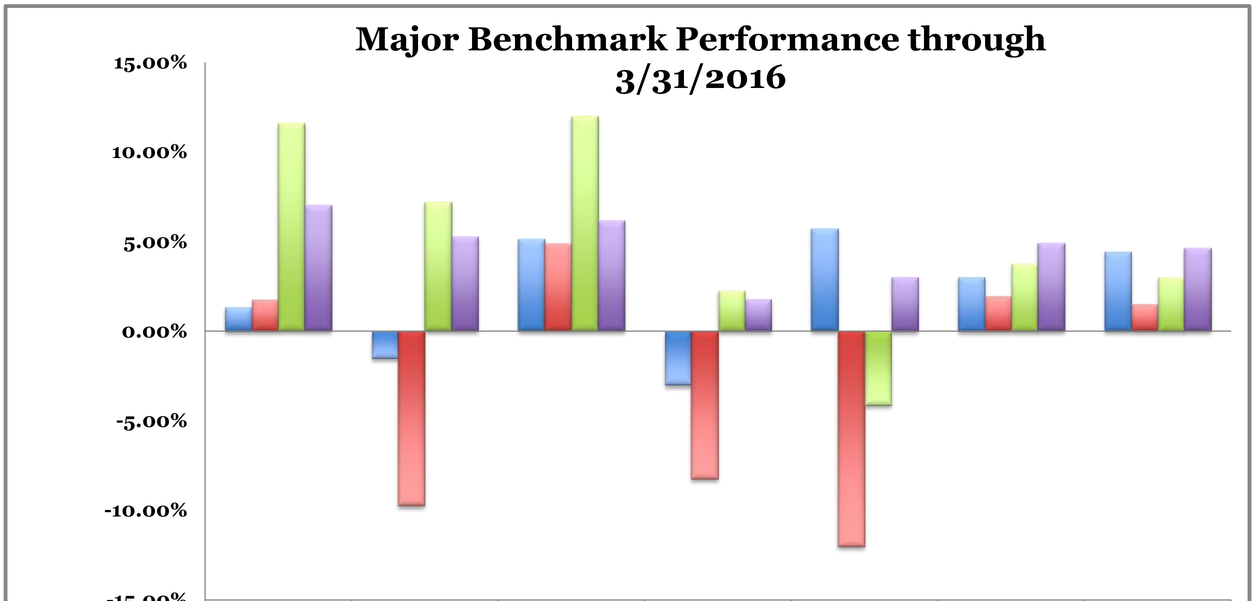
Integral Financial Solutions

Market Summary and Outlook First Quarter 2016

Overall performance in the first quarter was mostly unchanged from the fourth quarter although it is noteworthy how much volatility we experienced along the way.   Equity markets fell by as much as 10% at the start of 2016, but a strong bounce since mid-February puts us slightly ahead of where we started the year.

As has been the case in recent years, the S&P 500 (US large cap) and high quality bonds provided the bulk of the upside. While US small cap and international equities have improved greatly since they hit their lows, they were still negative for the year as of March 31 but are now positive.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
1Q16	1.35%	-1.52%	5.12%	-3.01%	5.71%	3.03%	4.46%
1 year	1.78%	-9.76%	4.88%	-8.27%	-12.03%	1.96%	1.51%
5 Year (ann.)	11.58%	7.20%	11.99%	2.29%	-4.13%	3.78%	3.02%
10 Year (ann.)	7.01%	5.26%	6.17%	1.80%	3.02%	4.90%	4.63%

The equity markets have moved mostly in tandem with oil prices. 2015 ended with oil prices at $37/barrel. After a severe drop in January, oil prices have rebounded and are currently only slightly higher now at $38.

US Economy

To much fanfare in December, the Federal Reserve raised interest rates by 0.25%. When the equity markets wavered in early 2016, interest rates dropped back down to their late 2015 levels. The Fed continues to monitor the world economy and other factors such as unemployment and inflation figures. Depending on whether the current relative calm continues, the Fed may try raising rates again in 2016. Vanguard describes the Fed's approach as "dovish tightening" which we think accurately describes their strategy.

US unemployment remains around 5%. Jobs have been created at a faster rate in recent months. However, the rate is staying at 5% because more people are entering the workforce. Inflation is slowly rising (2.3% year over year according to JP Morgan) but is not rising fast. JPM also is not concerned that we are in danger of deflation. These factors would imply a Fed rate increase sooner rather than later.

However, economists are predicting a low, possibly negative, GDP figure for the 1st quarter (economists expect growth to be about 2% for the year). Earnings growth is down for the third consecutive year. With all these factors combined, the consensus is more slow growth. We do not expect to see the kind of market increases we enjoyed in 2012 and 2014 (when the S&P was up over 30%). We also don't think we are nearing a recession.

International

China has been dominating headlines for several years now. The economy is undergoing a massive shift from agrarian to service-oriented. Economists expect China's GDP to be in the 6-7% range, down from previous double digit highs but still well above the average of 2% economists predict for US long term growth. Despite the slowdown in China, economists do not expect a recession to result.

Ominous headlines dominate for other countries in addition to China. Brazil has been in recession and the lower house just voted to impeach President Dilma Rousseff. However, for every emerging markets "basket case," there are other countries like Mexico that are very favorably viewed by investors. International equities, especially emerging markets, continue to have lower values (price/earnings ratios) than US equities.

Europe is still on track with its recovery. Despite a much higher unemployment rate (10%), it is trending downward.

As we have stated in the past, valuations look attractive in international markets, especially emerging, keeping in mind there is a high likelihood the volatility will continue.

OTHER NEWS ITEMS

Below are a couple of current events that we believe are noteworthy and wanted to mention briefly.

Presidential election: how will it affect the market?

Every four years we hold our national elections and every four years investors ask how the election will affect the economy and their investments.

As with previous elections, we do not think any single candidate will have significant impact on our economy or the markets in the short-term.

For further observations and an excerpt from our Q3 2012 commentary please click HERE

Department of Labor's New Fiduciary Rule
After many years of fierce debate (at least within our industry), the Department of Labor implemented new rules that will apply to all advisors and how we provide advice on retirement. You may have heard us discuss the fiduciary standard, a legal term. We proudly state on our homepage (www.ifsplanners.com) that we follow this standard, which means we put the client's interests first in all circumstances. Many advisors have until now followed the less stringent suitability standard. Expect to see the large firms that we won't name launch public relations campaigns to explain the new ruling to clients and perhaps explain why they didn't follow the fiduciary standard before now.

The new standard will apply to retirement plans (IRA's and employee plans such as 401k's) and implementation of the rule will be introduced over time. The full requirements will go into effect January 1, 2018. Since we are already following the more stringent fiduciary standard, this new rule change should not materially affect how we work with clients. We are pleased with the new rule and are frankly surprised the fiduciary standard prevailed. For more details on the DOL new rule please click HERE.

Panama Papers
In March, a German newspaper broke the story that they had spent the previous year going through millions of records leaked from secretive legal firm Mossack Fonseca about offshore accounts going back 40 years. Offshore accounts are controversial because they are so secretive. Many are set up as a way to avoid paying taxes. While is it unclear how many people this leak will ultimately implicate, it has already cost one head of state his job: Iceland's prime minister stepped down after thousands protested the hypocrisy of his platform of transparency. Other people implicated so far are soccer star Lionel Messi and British Prime Minister Cameron's family (his father had set up an offshore account from which the family was all profiting). We expect other famous politicians, movie stars, and sports stars will be implicated over the coming months. For more details on the Panama Papers, please click HERE.

We bring up the Panama papers here as an antidote to our approach. While we fully acknowledge our approach could be classified as boring, no one with this type of investment portfolio will ever be accused of insider trading or tax avoidance.

The conclusion with such a set of mixed economic signals is patience and discipline. We don't know what will happen short term but we are confident stocks and bonds will appreciate in the long term. We encourage clients to not lose sight of long term goals. As always, we encourage you to call or email anytime.

Sincerely,
Janet & Barry

Sources: Dimensional Fund Advisors (DFA), PIMCO, JP Morgan, Morningstar, New York Times, Schwab, Vanguard, Wall Street Journal.