Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE MARCH 2016

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MARKET COMMENTARY

Stocks took shareholders on a wild ride during the first quarter. Falling 11.4% from the start of the year, the S&P 500 tested support levels in January and February inciting fears in some investors and analysts that stock indices could plummet 40-50% again. Just as quickly as those fears materialized, they dissipated and stocks rebounded. Large cap stocks in the S&P 500 even posted a gain for the quarter of 1.4%. Stock returns were not uniform, though. Value-oriented stocks outperformed growth stocks. Small cap stocks in the Russell 2000 were not able to recover all their losses and posted a -1.5% return for the quarter while mid cap stocks in the S&P 400 posted higher returns than large caps at 3.8%. International stocks in developed markets also were unable to recover all their losses, and the MSCI EAFE posted a -3.0% loss for the quarter. However, emerging market stocks which had large losses last year, reflected the best performance with gains of 5.4%. With the volatility in stocks, bonds became a safe haven causing bond prices to soar and yields to fall. Even with the recovery in stocks, bond yields did not go back to previous levels so the Barclays US Aggregate Bond Index was able to hold onto a gain of 3.1% during the quarter.

In a reversal from 2015, investors favored more defensive stocks. The utilities sector was one of the worst performers last year. This quarter, investors sought utilities and telecommunications for their perceived safety resulting in gains of 15.1% and 7.5% respectively. Meanwhile, healthcare stocks were shunned after being coveted in prior years and posted the second largest sector decline of –6.0%. The financial sector had the largest loss at –6.1%.

Last year, falling oil prices seemed to weigh heavily on investors, and daily stock returns were often affected by oil prices. In 2016, that relationship continued as oil prices continued to fall along with stock prices. Once oil prices finally reversed their negative trend, stocks also began their rebound. That relationship has started to decouple as recent downward oil price movements have not been replicated in stock indices.

Fourth quarter GDP growth has been revised to 1.4% following the 2.0% growth in third quarter. For the full year, GDP increased 2.4%. The Federal Reserve is projecting 2016 GDP growth to also be 2.4%. Fears that we are heading into recession which surfaced during the turmoil in January seem unwarranted at this point.

Although the US is not in an economic recession, corporate profits have been disappointing. Earnings have had negative growth for the past four quarters.

European and Japanese economies are set to grow at a slow pace in 2016. Emerging markets are struggling with China's slowdown in infrastructure spending and as a result reduced commodities purchases. While worldwide consumption spending has been favorable, capital investment has been weak thereby putting pressure on global industrial companies and even some technology companies. Foreign central banks have eased their monetary policies and many analysts expect this to continue.

The Federal Reserve has reduced their projections for raising short-term interest rates in 2016. In December, they projected 4 increases totaling 1%. In mid March, the Fed cut its outlook to two increases this year. Then, in a speech at the end of March, Chairman Janet Yellen's comments were more dovish making some analysts question whether even two rate hikes were likely. Yellen emphasized that the Fed needs to move cautiously when raising rates and was concerned about global weakness and low inflation. The yield on the 10-year Treasury bond is currently 1.79% down from the 2.27% at the end of last quarter.

Gold experienced its strongest quarter since 1986 with prices jumping 16%. The rally lost momentum during March as investors locked in profits and large traders began to take "short" positions betting that prices will fall. The dovish Fed may keep the dollar from rising which would benefit gold and could help prices rise further.

The strong rebound in stocks does not instill a new confidence that the worrisome issues have been resolved. We expect volatility to reappear throughout the year as fears re-emerge and especially as the uncertainties of election results mount. We will be watching closely to determine whether allocation changes are warranted if stock indices fall and retest February lows. Barring a break in the support levels, we believe investors should continue to follow a strategy of diversification and resist the urge to trade based on the ever-changing news of the day.

2016 BENCHMARK RATES OF RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	1.4%	1.4%
DJIA	2.2%	2.2%
NASDAQ	-2.8%	-2.8%
Russell 2000	-1.5%	-1.5%
International	-3.0%	-3.0%
Fixed Income	3.1%	3.1%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

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FINANCIAL PLANNING

College Planning

With increased attention on higher student debt and the underemployment of college graduates, some parents may be wondering if college is worth it. In short, the answer is yes. According to a study by Georgetown University,

- By 2020, 65% of American jobs will need a college degree compared to just 28% in 1973;
- A college graduate will earn on average $24,000 more per year than a high school graduate;
- Over a lifetime, a college graduate will earn almost $1 million more and those with doctorate degrees will earn almost $2 million more; and
- College graduates have a lower unemployment rate than those with only a high school diploma.

With the economic recovery underway, starting salaries have also been rising. According to the National Association of College and Employers Salary Survey from Fall 2016, the class of 2015 had average starting salaries 5.2% higher than the prior year's class. Engineering and computer science majors had the highest average starting salaries and were between $62,000 and $63,000. Meanwhile Education and Humanities/Social Sciences were lower at $40,000 and $38,000, respectively. For all degrees, the average starting salary was $48,700.

The cost of college can be daunting with in-state public universities' costs averaging around $18,400 per year and private institutions being double or even triple that amount. Plus, tuition prices often increase at a higher rate than overall inflation. For a newborn, the cost of four years of college is projected to cost nearly $200,000 by the time they start, assuming a 5% college inflation rate and assuming they graduate within 4 years.

It is important to start planning and saving early. One of the best ways to save for college expenses is through the 529 plans offered by states whereby contributions often receive a state tax deduction and earnings are never taxed as long as the money is used for college. The earlier families start saving, the more likely they will be successful in meeting college expenses. Financial aid and scholarships may be available to fund a portion of the costs; however, higher-income families will receive less financial aid (and it may be in the form of loans) and some scholarships will have a need requirement as well.

If families have not saved enough, they still have options. Some students may decide to choose a less expensive school, live at home, or work part-time to fill the gap. Many choose to take students loans. Of those who borrow, the average loan balance at graduation is over $35,000 according to Edvisors.com. US families now have more student loan debt than credit card debt. This balance can be a burden to students and cause them to move back in with their parents after graduation and even delay life events like getting married or starting a family. If your family needs help with college planning, please contact your advisor.

CAMBRIDGE ADVISORS NEWS

We were excited to learn in March that Cambridge Advisors was recognized as one of the ***"Top 8 Best Financial Advisors in Omaha"*** by AdvisoryHQ, a financial review and ranking news media platform. To generate a more reflective award ranking of the top advisors and investment managers, AdvisoryHQ went beyond just analyzing the size of an advisory firm. AdvisoryHQ developed a "Top-Down Advisor Selection Methodology" that is based on a wide range of filters including fiduciary duty, independence, transparency, level of customized service, history of innovation, fee structure, quality of services provided, team excellence, and wealth of experience.

AdvisoryHQ uses a 4-step selection methodology to identify, research, and generate its list of top ranking firms:

- **Step 1:** Using publicly available sources, AdvisoryHQ identifies a wide range of financial advisors, RIAs, financial planners, and wealth management firms providing services in a designated area.
- **Step 2:** The firm's review and selection team then applies initial methodology filters to narrow down the list of identified firms. These filters include each firm's fee structure, fiduciary duty classification, and level of independence.
- **Step 3:** After trimming down the initial list, AdvisoryHQ conducts a deep-dive assessment of the remaining advisors. The award criteria takes into account a range of factors, including experience level (broad level of expertise and extensive years of experience), transparency, level of customized services, and website quality. Open door policy, resource availability (number of "available" advisory professionals and supporting staff), and range of provided services are also assessed to build up a broad picture of what each firm has to offer, before the final selection process occurs.
- **Step 4:** Based on the results of AdvisoryHQ's assessment, the firm's research and selection team then finalizes the entities that make it into the respective top ranking lists, which are then published to the general public.

AdvisoryHQ listed the features below as key factors in their decision. We are pleased that these things they like about Cambridge are not new to the firm—they are core values that have been important to us since our inception in 1990.

- Registered Investment Advisor
- Process and Customized Plans
- Long-Term Relationships
- Designations and Ongoing Education
- Team Approach

We are honored to be included on their list. The full report can be seen at http://www.advisoryhq.com/articles/best-financial-advisors-in-omaha-nebraska. Please share with your friends and family who may need an advisor—we always have room to help the people who are important to our clients.