“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential and Downside Protection Since 1995.”

January 2016 Market Commentary

(Note: Please see our previous Annual Forecasts and our Blogs
for considerable background on our forecasts)

2015 Review and 2016 Forecasts

A quick review of 2015:

Stocks - The Dow Jones Industrial Average was down 2.5%
- The S&P 500 was down 0.7%
- The Russell 2000 was down 5.71%
- The Dow Transports were down 19.6%

Bonds - The U.S. Treasury 30 Year Yield went up 23 basis points to 2.98%
- The U.S. Treasury 10 Year Yield rose by 9.8 basis points to 2.27%
- High Yield Taxable Bonds (“JNK”) dropped by 12.3% (down 5.2% for 2014)

Commodities
- The CRB index was down 23.4% (also down 25% for 2014)
- Oil was down 37% (also down 27.6% for 2014)

Real Estate – Of course, real estate is regional but some generalities can be made.
The market moved up for the year (5.8% according to Case Shiller through 10-2014)

For 2015, at least on the surface, big stocks were down slightly, small capitalization stocks were down more, and the Transports were down fairly large. Yields o f high quality bonds were up slightly but yields of junk bonds were up quite a bit. Commodities continued to fall by large percentages.

Digging a little further, junk bonds and commodity prices continued their notable drops of the previous year (2014).

A longer term perspective (from previous tops to now (1-22-2016)):

Dow Jones Industrials are down 11.6% from its 5-15-2015 high
S&P 500 is down 10.5% from its 5-21-2015 high
Wilshire 5000 is down 12.9% from its 6-23-2015 high
Value Line Arithmetic Average is down 19.1% from its 4-15-2015 high
Russell 2000 is down 23.2% from its 6-23-2015 high
Dow Transports are now down 26.2% from their 12-29-2014 high

Junk Bond prices ("JNK") are down 21.4% from their 5-8-2013 high

CRB is down 67% from its 7-2-08 parabolic high, down 57.8% from its 4-29-2011 high
Oil is down 81.7% from its 7-3-2008 parabolic high, down 76% from 5-2-2011 high
Gold is down 41.9% from its 9-5-2011 parabolic high
Silver is down 71.5% from its 4-28-2011 parabolic high

China is down 44% from its recent 6-9-2015 parabolic high (lower than its 10-16-2007 high)

Over the longer term, they are all down noticeably! - Importantly, most of the prices of these indices have put in lower lows (and lower highs) and therefore are technically in downtrends. The lone domestic exception (barely) is the Dow Jones Industrial Average is just shy of its previous low. Internationally, China is a major exception to a lower low, but has had a huge drop – while it dropped 72% from its 10-16-2007 parabolic high (prices increasing at an increasing rate), it, so far, has dropped 44% from its most recent (lower) parabolic high of 5-2-2011 (but is still 68% above the earlier low). Still, the recent drop is 44%! and if you look at the graph, the trend is down.

Thus, although not really discussed in the major nor financial media, pretty much all prices are technically in downtrends, with the transports, small caps, and junk bonds leading the trend and the large caps lagging but still heading downwards.

Forecasts

Equities - To us, the trends, as discussed above, have been established by the lower lows and lower highs – of course, in conjunction with all the fundamental analysis we have done over the years (please see our previous Annual Forecasts and our Blogs). Downtrends have been established in all but the Dow Jones Industrials, which just barely missed taking out its lower low a few days ago. Lower capitialization stock indices, junk bonds, and the Transports are already down more than 20% and so are officially in "bear markets." In addition, it is only a few select stocks that are holding the narrower large cap indexes to smaller losses.

Looking forward, we believe the huge drops in commodity prices and Chinese equity prices are creating **ripples** which will only get larger. We have been beating this drum for several years now with respect to oil prices dropping and leading the charge. Oil prices are now down 82% from its 7-3-2008 high, down 76% from its 5-2-2011 high. We have also been beating the drum about the junk bond market being a leader of the cycle with equities likely to follow – they now have, unfortunately. Also, now China is down 44% from its recent 6-9-2015 high.

We do not believe the losses in the commodities markets, the junk bond market and the Chinese equity market have yet been fully recognized in the prices of vehicles (like hedge funds, pension plans, etc.) that are invested in them. We believe there are a lot of shoes to drop – we have seen almost none so far. It seems we are in a situation like the previous cycle top (2006-2007) where very few saw any large problems due to the mortgage/derivative market situation until Bear Sterns and Lehman Bros. "suddenly" blew up.

Accordingly, we are forecasting a continuation of the drop in equity prices and expect to be in bear markets across the board shortly.

Interest Rates - One possible scenario due to the implosion of oil prices and the large drop in prices of Chinese equities could see a rise in domestic interest rates – not just low quality but also high quality interest rates. China and the oil exporting companies are the first and third largest holders of U.S. Treasuries (Japan is the 2nd largest holder). It may be that one or the other or both will be selling (or lessen their purchases of) U.S. Treasuries to raise cash to make up for deficits caused by the large price drops. In this way, we could see domestic high quality interest rates rise even as economies are plunging. Of course, low quality interest rates would shoot up even faster and defaults of low quality issuers could rise dramatically.

As we pointed out last year, "Utilities, which we used very well as a proxy to forecast the top of the bond market in 1993 (see our Press Clippings for 1994), have seen a parabolic rise in price from 2012 through the end of 2014." - The parabolic rise has topped out 1-29-2015! Since then, the Dow Jones Utility Index fell 16.9% to a low on 9-4-15 before putting in a choppy sideways "breather" move. Last year we pointed out, "Normally parabolic rises are unsustainable. A break of the parabolic uptrend will be a confirmation of rising interest rates. We have not seen that break yet; however, if and when it occurs, we would not be surprised to see a full & swift retracement of that parabolic rise (which would be a drop of 32% in price)." - Now, we have seen that break and a sizable drop and, if we are correct, as we were in late 1993, rising utility yields will be a precursor of rising interest rates in general.

Thus, we expect that lower quality interest rates will continue to rise and higher quality interest rates will follow them upwards. Of course, we will see.

Commodities - As show in the tables, commodities have been demolished – some since their all-time highs of 2008 and some from all-time highs of 2011. For example, oil is down 81.7% from its 7-3-2008 all-time and parabolic high, and is also down 76% from its lower high of 5-2-2011. Silver is down 71.5% from its all-time and parabolic high of 4-28-2011. Importantly, over the past several months, we have been speculating in our monthly blog The Contraction Resumes that, given the huge drops in commodity prices, we expect there could be a correction of the downtrends (a choppy rise or sideways move) and also, that there could be a disconnect between financial commodities (like gold) and non-financial commodities (like oil and copper, etc.). On January 17, 2016, we said, "That is what has happened over the past month or so – while Gold has rallied a bit and silver has gone sideways, oil has fallen another 20% since December 31, 2015. Of course, sooner or later after such a free fall, we would expect at least a "breather" correction of such drops. Ultimately, if the U.S. Dollar continues to rally, we expect to see financial commodities continue to outperform (rise, or drop slower) relative to non-financial commodities." We still expect that could be the case.

Deflation – As we said last year, "Importantly, while we seen some of the benefits of commodity prices plummeting, we believe we have only begun to see the fallout of those plummeting prices at least in the U.S." Recently, we've seen prices of gasoline drop

precipitously – now down by 69% from their April 2011 top. As stated above, we've yet to see the negative effects. One area where the negative effects could be noticeable is in the finances of **municipal entities**. Plummeting taxes and revenues could put short term strains on municipal finances – plummeting investment values could further expose the longer term problem of unfunded pension liabilities. Further, the more baby boomers that retire, the more the burden will be on the remaining workers – it is an accounting pyramid time bomb that is waiting to explode, unfortunately. Why the rating and accounting agencies will not step up and expose this situation while there is still time to fix it is a mystery but it would likely cause the prices of general municipal bonds, which people believe are bullet proof, to fall in price.

From last year, "The current problem is that deflation is sweeping the rest of the world. Many countries are now in recession (or depression), are experiencing negative interest rates, and/or are experiencing outright deflation of credit/debt and prices of goods and services." – We believe those statements still stand and that, unfortunately, we are further along in those trends, abroad and here in the U.S., and that the big ripples they are creating will be coming to light shortly.

Real Estate – If prices of junk bonds and stocks are falling and all interest rate categories are rising, we expect that prices of real estate (and real estate related investments) will be falling noticeably, likely similarly to 2007 to the 2009 financial crash bottom. We expect that those areas which have seen the largest increases in real estate prices, will, in general, see the largest declines.

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In summary, we believe deflation is taking hold. We believe we are in a situation similar to that of 2006 down to the financial crash bottom of early 2009 when the U.S. Dollar rose and everything priced in it dropped. We believe that is a reasonable model to monitor.

We believe ultimately, the problem is the huge debts and future promises made relative to our underlying incomes and productivity. It seems we are getting closer to the point of recognition of these huge imbalances, unfortunately.

As outlined above, we believe asset price trends have turned downward and we believe, unfortunately, the downside possibility for risky assets is large.

We are looking for dramatic lows of prices of risky assets, with dramatic drops and rebounds (which we have seen in commodity prices and more recently in the stock market) on the way to the bottom.

Of course, we will see, but, to us, the upside potential in the riskier markets seems trivial to the increasing downside probability.

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As mentioned previously, please review our previous Annual Forecasts and Blogs if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

Since 2001, "Safety" was our watchword for the 2000-2009 decade. Unfortunately, "Safety" is our watchword again, until we get to the final bottom, which we believe is still much lower.

(Posted January 24, 2015)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite's monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite's quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client's returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part,

responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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