Vorpahl Wing Securities

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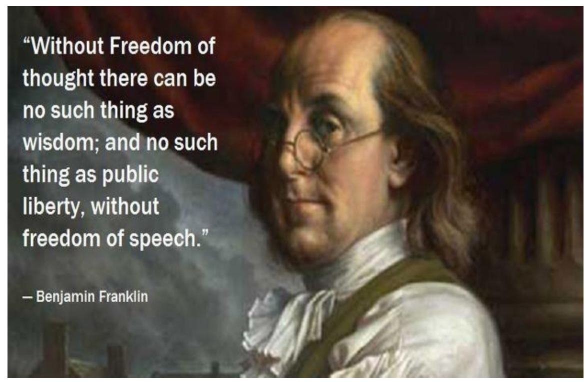
The Top 10 Economic & Investment Predictions for 2016

The Investment Policy Committee

The Investment Policy Committee (IPC)—a group comprised of the top financial consultants at Vorpahl Wing Securities (VWS)—meets once a month. They discuss sound investment advice and appropriate investment vehicles for our VWS client base. We delve into such topics as macroeconomic thoughts, theories, and trends and how these trends relate to the markets on a short-, medium-, and long-term basis. We also discuss current geopolitical events and how we think such events will affect the markets. IPC has compiled the top 10 investment themes for 2016; so before you take that first sip of champagne or even after that first toast, give these a read. Maybe even share with friends whose glasses you just filled with bubbly.



The 2015 Scorecard

Some of our predictions for 2015 were right on, some were close, and some missed, which surprised us all.

The Good

With the U.S. dollar still the currency of choice, we believed it would remain strong, and it did. Not only did it remain strong, it increased almost 15% against the Euro and increased in value compared to most currencies.

We believed the Fed would not raise interest rates early in the year but would wait until the third or fourth quarter. As the year draws to a close, the consensus is that the feds will raise rates this month.

Although the healthcare sector--based on the Health Care Select Sector SPDR ETF (XLV)--did not perform stellar as it did in 2014 (25.14%), XLVs finished in positive territory, up 5.03% for the year.

The Not-So-Good

With the economy growing, albeit slowly, we predicted the 10-year treasury would end the year around 3.0%. It is currently hovering around 2.33%.

Hand-and-hand with this is the expectation of flat yield curve. Since the 10-year treasury did not make it to 3.0%, the yield curve shape instead turned upward and linear.

Large-capitalization stocks (based on the Russell 1000) were growing slowly throughout the year until August. That month they dropped over 11%. The Russell 1000 has since recovered, but because of this dip, it is basically flat for the year.

Energy, oil specifically, started the year around \$66 per barrel. As of this writing, oil is around \$40 per barrel. That's almost a 40% drop, surprising the most astute oil analysts.

Any additional increases in the FFR could be a sign of an economy heating up.

Executive Summary

Those drilling for energy employs new technology, assuring no shortage of oil and natural gas throughout the world. Even though we are surprised by the speed oil prices dropped, we are equally surprised by OPEC and their decision to not cut production. According to one of our oil analysts, Saudi Arabia can produce oil at $20 per barrel and still break even. But because they have so many entitlements, they need oil to be around $88 per barrel. At the current lower prices, these entitlement liabilities caused the Saudis to lose $150 billion. They can't endure these losses forever. According to sources from the *Wall Street Journal,* the last OPEC meeting lasted six hours and was very heated. Saudi Arabia wants to cut production, and they want all the other OPEC producers to do the same. However, the others are reluctant to do so. We believe it's only a matter of time before the OPEC nations begin to cut production, which will drive oil prices higher.

With the presidential election approaching, the first half of 2016 might be a little volatile in the markets. Markets want clarity and it may remain unclear for a time who - the final actors will be in the political sideshow. But once those candidates are known, we predicate moderate growth in the economy, with GDP finishing somewhere between 2% to 3%. We also see wages inching up and with that inflation will also begin to creep up to around 2.5%

Interest Rate Rising? The End of Cheap(er) Money?

We believe the feds will boost the Federal Funds Rate (FFR) by another 0.25% in 2016. This could be a positive sign for the equity markets, since the feds intention is to raise rates if they believe the economic fundamentals are on a strong foundation and not overheating. Any additional increases in the FFR could be a sign of an economy heating up. If this happens, we believe the economy will continue to grow, albeit slower, but still grow. Watch for this possible slowdown if the 10-year treasury approaches 3.0%.

The Top Asset Classes

(All Returns as of 12/10/15)

Large-cap stocks, based on the Russell 1000, were basically flat in 2015. Assuming the economy will grow around 2% to 3% in 2016, we believe these companies will do well in 2016, growing around 5% to 7%. We continue to like healthcare and technology. We also like consumer staples, consumer discretionary, and financials.

Small-cap companies did not do well in 2015, losing 4.62%. based on the Russell 2000. We believe this asset class is well positioned to recover, and we expect a decent return in the coming year.

Mid-cap stocks, based on the S&P mid-cap 400, did not do as bad as small-cap stocks, but still were down 2.83%. We expect these stocks, along with small-cap stocks, to recover nicely in 2016.

International stocks also had a down year based on the MSCI ACWI ex U.S. This index lost 3.85%. But we think there are some interesting developments internationally. The ECB (European Central Bank) have been lowering their discount rate to stimulate growth. If you recall in 2008, when the Feds began lowering the discount rate in the U.S., those who didn't panic and stuck it out got a return of about 160%, based on the DOW. The same type of growth could happen again internationally, maybe not as stellar, but good growth nonetheless.

We believe fixed income should be part of most portfolios; however, with the possibility of interest rate hikes, we manage risk in fixed income by keeping the duration short.

Energy

As we said earlier, we believe it's only a matter of time before we see oil prices rise. Many countries, in order to balance their budgets, set the price of oil around $70 to $75 per barrel. We believe this scenario will force higher oil prices. Also, with the clean energy push, natural gas prices will also rise. We believe it's an excellent time to invest in the energy sector. Not all companies can weather the storm of low oil prices, though, so it is wise to use caution when choosing companies.

Commodities

Commodities are bulk goods and raw materials such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa that are used to produce consumer products. This sector is normally very volatile year after year; one year it could be the top performer and the next the worst. It did not fare well in 2015, and we see commodities still struggling in 2016 until a pickup in the economies around the globe creates higher demand.

Market Predictions

After a slightly down year for The DOW in 2015 (-1.3%, as of December 10, 2015), we think the DOW will show decent growth in 2016. Our range predictions for the DOW are between 19,000 and 19,500 for the new year.

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Emerging Markets

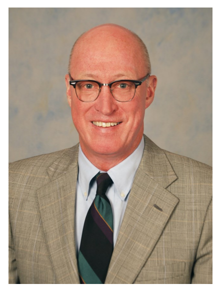
A strong dollar bodes well for emerging markets. Low oil prices do not. Citizens of these emerging market countries want to move from the farms to the middle class, but this is a slow process. Emerging markets were basically flat in 2015 and we expect the same for 2016.

Vorpahl Wing Securities, Inc.

Investment Advice for Every Generation

Tim Vorpahl

Jon Strine



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