OPTIVEST
WEALTH MANAGEMENT

Turning Success into Peace of Mind.

SECOND QUARTER 2016

April 8, 2016

To Our Investors:

By: Mark Van Mourick, CEO
Leslie Calhoun, CIO/COO

Financial Markets Review by Mark:

First Quarter 2016 Review –

What a wild first quarter! After the stock and corporate bond markets had one of the steepest sell-offs during the first 7 weeks of the year (and the S&P 500 was down over 10%), the markets rebounded to end the quarter virtually unchanged for the year. As frustrating and scary as this was, Optivest clients were aided by our defensive start, purchases on dips and continued advances on our REIT holdings, which collectively resulted in one of our best quarters ever.

U.S. Economy –

The year started off with one of the biggest “false alarm” market scares in years. Worries increased about global slowing/recession, deflation, Chinese devaluation, falling profits, excessive emerging market debt and corporate defaults due to cheap oil. The usual “safe haven” investments - gold, U.S. Treasuries and Swiss Franc – rallied, gaining momentum born from fear. Finally, oil appeared to bounce at about $28/barrel enticing “bottom fishers” who first gave the equity and commodity markets a push, then a retest of the bottom, followed by a 7-week rally ending right back where they started the year. “Safe haven” price gains have held while all of the worries remain, indicating future volatility.

So, what's next? We are back up to a 23 P/E on the S&P 500 (according to *The Wall Street Journal*) and while we may not be on the verge of a recession, profits are declining for the third quarter in a row amidst a very weak global market. We have been hearing for four years that interest rates are headed back up, yet despite the one-time Fed rate hike, high-grade bonds are stuck at even lower yields than last year. Our forecast calls for additional churning sideways (50% chance) unless we go into a recession (30% chance) or finally get the GDP growing steadily (20% chance).

Portfolio Update by Leslie:

As we expect 2016 to be another year of sluggish returns, we intend to distinguish ourselves through tactical moves within our diversified portfolio strategy. We continually monitor our models and when we see anomalies in either strategy or risk exposure, we will seek to add value to our typical buy and hold diversified models. We will do so via exhaustive searches for best-in-class managers, strategies designed to thrive in economic cycles, and attractive entry and exit points on both fundamental and technical fronts.

Strategically, we have found low and non-correlated investments to be very attractive during the volatile and flat market. Our non-correlated hedge fund continued on track during Q1 2016, up approximately 3% (March returns are estimated), showing no reason not to expect returns similar to their long-term record of 1% per month.

From a tactical perspective, we found opportunity on the January market drop to reenter the U.S. Equity markets at levels we are comfortable with from a fundamental perspective. For the first quarter, we were up over 9% on our equity investments made mid-January vs. the S&P 500 total return benchmark up 1.35%.

Our propitious diversification into self storage properties during the housing market crash still rewards us today, as the publicly traded NSA REIT shares were up 24.93% during Q1 2016 on top of a 35.92% gain in 2015.

We continue to see benefit in our diversified strategy during the tumultuous times. We believe there are still possibilities for outsized future growth in this slow growth environment, particularly when we continue to see attractive entry points and solid opportunities.

Collectible Cars as Investments?

Tired of low returns? While the S&P 500 has only returned 59% over the last 10 years, collectible cars have appreciated over 500% (according to *Historic Automotive Group International*) in the same time period. Could this be a bubble? Prices have dropped a bit during the first quarter of this year and these high-end cars did go down 15% in 2009, so they are not immune to economic downturns. However, unlike your stock portfolio, you can enjoy driving exotic cars in good times and in bad times. I am active in this market and am happy to discuss strategy to those interested. See you at Pebble Beach!

Closing Thoughts:

After enjoying strong passive investment returns in the 1980s and 1990s, this century has been disappointing. The S&P 500 Index has only returned 2.59% IRR over the last 15.25 years. Today, 10-year government bonds yield only 1.76% in the U.S. and have negative yields in Japan and many European countries. Over the last 10 years broad commodity indexes have been down 71% (*GSG Index*) and national housing prices are also down (according to the *Case-Shiller Index*); this is truly a "lost decade" for investments.

What *is* considered a "good return" for a well balanced portfolio in this environment? A reasonable rule of thumb for a "good return" is two times (2x) the 10-year government bond yield. In past decades, returns above 2x the "risk free" rate have only come from risky asset concentration. Based on this, today's reasonable return target is about 3.5% or nearly twice the rate of inflation. Let's hope interest rates go up! In the meantime, we suggest adopting realistic expectations.

Cybersecurity Precautions:

As cybersecurity continues to become an important issue in our digital world, we are constantly taking precautions to remain ahead in our industry when it comes to protecting your data. Optivest's cybersecurity controls are designed to insure the security and confidentiality of your records and personal information. While we recognize that our security measures can sometimes seem like an inconvenience, we hope you will participate in keeping your data secure by adhering to safe practices such as never sending important documents or numbers through regular email. We will always send you a secure link to upload or receive documents that contain pertinent or confidential information. Please don't hesitate to contact us if you have further questions regarding this important issue.

Until next time,

Mark Van Mourick

Leslie Calhoun

Optivest Inc. | 24901 Dana Point Harbor Drive, Suite 230 | Dana Point, CA 92629 | 949-363-8686 | www.optivestinc.com