Winslow, Evans & Crocker, Inc.SM

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Many of our clients are concerned that the recent decline in the US stock market is the beginning of a prolonged bear market for equities. The recent decline from the 2015 peak has been about 12.5% which is consistent with a normal market correction. If you look back to the correction of 2011 the S&P500 fell nearly 18% which, at that time, also felt like the beginnings of a bear market. From those dark days of October 2011 the S&P500 subsequently rose from 1,115 to 2,134 by the spring of 2015! The concerns that drove down the market in 2011 are very similar in nature to those that have precipitated the recent decline, namely fear and uncertainty. In 2011 the Eurozone was in turmoil (remember the PIIGS?) as their peripheral countries appeared to be on the verge of default and their overall economy was re-entering a recession after just a two year hiatus from the 2009 recession. This turmoil provided the perfect breeding ground for the kind of fear and uncertainty that would produce the negative sentiment that drove down US equities at that time. After nearly four years of un-interrupted appreciation the US equity market is once again experiencing the same kind of fear and uncertainty as it did in 2011. This time, however, the genesis of this negative sentiment is the concern of a collapse in the Chinese economy and the bad effects of falling oil prices!

Today's concerns, like those of 2011, are certainly legitimate but the negative sentiment that they generate tends to punish the stock prices of many companies with very healthy, long term prospects. Today, the Eurozone economy is recovering and their central bank is being very proactive. The low energy prices will eventually be a global boon to individuals, economies and businesses. The Chinese economy will continue to grow, albeit at a slower rate, and will continue to focus on growing the consumer sector as it pivots away from heavy industry. The US economy is experiencing the best growth in employment and wages since coming out of the recession. Residential and commercial investment is rapidly growing; the US consumer has de-leveraged their balance sheet back to levels last seen in the early 1990's; US banks have very healthy balance sheets with Tier 1 Capital at the highest levels ever; inflation is low; and, despite the recent rate increase, the US Federal Reserve continues to maintain an easy monetary stance. When we look for early warning signs of economic trouble from various financial stress indicators we see that conditions are better today than they were in 2011!

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As long term investors we focus on companies in businesses with secular growth characteristics that will persist beyond these normal cyclical adjustments. For the near term it is impossible to tell when sentiment will reverse but we remain optimistic about US economic growth and US equities. Driven by what we believe will be a stabilization in the energy sector in late 2016 in combination with strong growth in the residential and commercial industries we could see a re-acceleration in growth in 2017. At less than 15x the next 12 months earnings estimates the US market is certainly not in bubble territory especially when compared to fixed income alternatives. Unlike the second half of 2015 forward earnings estimate growth has recently turned positive on a year over year basis and, if this continues, we believe that we could see mid-single digit returns in the S&P500 for 2016.

Please feel free to call you advisor if you have any questions about this commentary.

Thank you

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