TOWNELEY CAPITAL MANAGEMENT INC
ESTABLISHED 1971

2016 First Quarter

APRIL 2016

The first quarter of 2016 gave us a bumpy ride. At one point, stock markets were down 10% from the beginning of the year, moving into correction territory. However, between February 12 and quarter's end, domestic and international equity returns were up over 13% to bring us back to the break-even point for equities. In spite of this spotty equity performance, your well-diversified Towneley portfolio(s) benefited from gains in fixed income and commodities.

In this newsletter, you'll find a recap and commentary on the markets and the economy, information about your portfolio, and news from Towneley.

The Domestic Economy

The economy has shrugged off stock market volatility to hold steady. Declining corporate profits and industrial production, increasing bond spreads, and renewed worries over China's economy combined to stoke fears that a recession might be on the horizon, which left a mark on the markets during the early part of the quarter. In February, a still-strong jobs report and better-than-forecast retail sales helped the market bounce back. We note the continued disfavor of small-cap stocks, down 9.8% over the trailing 12 months; in uncertain times, large-cap stocks offer the sense of safety that investors prefer.

We expect job growth to slow soon, which is a healthy development at this stage of recovery. The market is pricing in only one or two interest rate hikes this year as the Fed indicated it would raise rates at a much slower pace than previously announced. As interest rate expectations declined, the 18-month U.S. dollar rally began to stall, which should boost the profitability of domestic companies with foreign operations. Wages in the U.S. have been increasing, putting downward pressure on profits even as it fuels consumer spending. The impact of this wacky election year on the economy is anyone's guess.

The Global Economy

Around the globe, the first quarter brought several interesting developments. In Europe and Japan, the central banks have spent all their economic ammunition in their efforts to boost growth. Now they are trying any possible stimulus, such as using negative interest rates to devalue the currency, hoping to increase exports. In Europe, unemployment has been declining, and loans are in strong demand, two factors which should help to boost GDP. China's official reports indicate that growth has slowed, so they are trying to increase domestic consumption. The goal is to drive growth apart from government initiatives. In June, British citizens will vote on the matter of leaving the EU. The results of the "Brexit" referendum will affect the UK and Europe in many ways, including trade, immigration, travel, and jobs. Numerous uncertainties revolve around this decision, and the outcome is too close to call as we write.

Japan drew media attention early in the new year when in January, the Bank of Japan adopted a negative interest rate policy in response to stagnant GDP. Once the dust settled, the international impact was negligible as stock market returns in Japan were already lower than other developed countries'. In an interesting response, the Japanese public has created a surge in sales of safes, which residents presumably use to hold cash at home. Moreover, while Japan's move grabbed headlines, worldwide we find that 28% of government bonds have a negative yield, and another 35% have a yield under 1%.

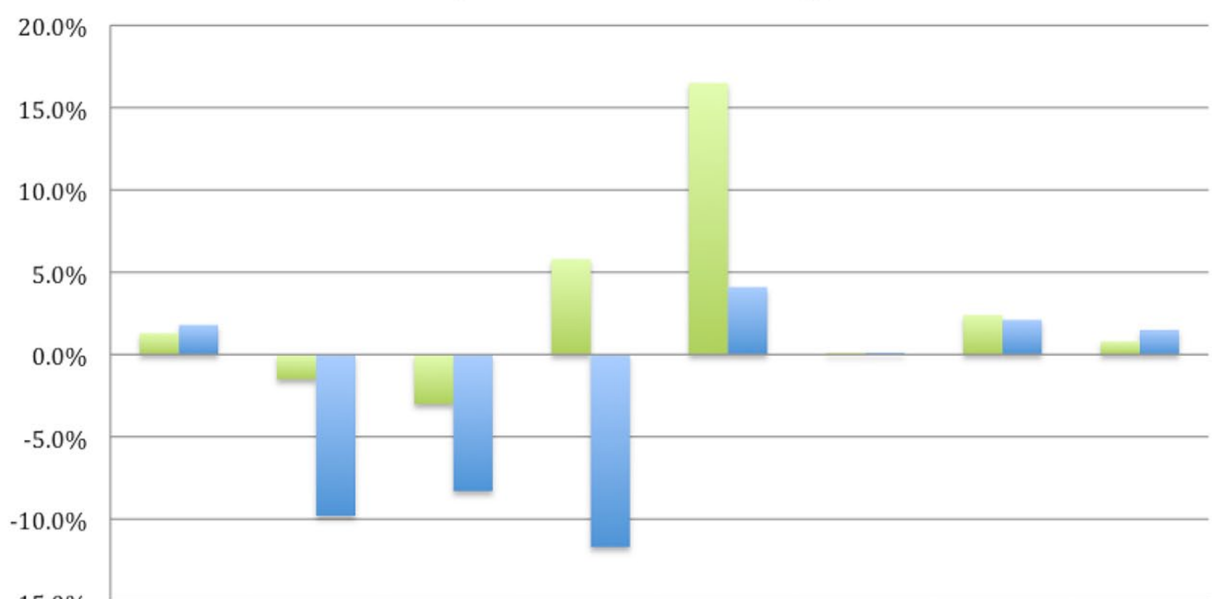
2016 First Quarter

APRIL 2016

The Saudi Squeeze

The decline in crude oil prices has continued to dominate the headlines, as it dipped below $30 a barrel during the quarter--a drop of about $10 since the beginning of the year, but a whopping 75% decrease since June of 2014. Essentially, the OPEC nations have responded to increased American oil production by maintaining their production levels. The goal is to drive the U.S. producers, who relied on debt to tool up for increased production, out of business. Then the OPEC members would reduce their production to force a return to high prices. By quarter's end, the price had rebounded to the price it commanded at the beginning of the year but remained far below the 2014 peak of $107. This decline impacts many countries and industries. We'll be examining the oil situation in more detail in our second quarter bulletin, due out in late May.

Market Returns: First Quarter and Trailing 12 Months



	S&P 500	Russell 2000	MSCI EAFE	MSCI Emerging Markets	S&P GSCI Gold	90 Day Treasury Bill	Barclays Intrm Govt/ Credit	Barclays Muni 3 Year
First Quarter	1.3%	-1.5%	-3.0%	5.8%	16.5%	0.1%	2.4%	0.8%
Trailing 12 Months	1.8%	-9.8%	-8.3%	-11.7%	4.1%	0.1%	2.1%	1.5%

2016 First Quarter

APRIL 2016

Your Portfolio

During the first quarter, we rebalanced to increase international equity and decrease domestic equity–taking gains that had accumulated in domestic mutual funds since the bull market began in 2009. With the proceeds, we bought more international equities, which appear to be comparatively cheaper than domestic equities right now. This purchase included increasing exposure to emerging markets, which had a good quarter, up 5.8%.

We increased positions in high-yield bonds in 2015 because they had a promising outlook. They did well in the quarter, up 2.5%. We are evaluating fixed income positions now to determine if further changes are in order.

Board Member Confidential

- If you are welcoming new people to your board, we can help! Board turnover need not be burdensome. Let us help you acclimate your new members. Our Fiduciary EdgeTM program includes a briefing for your new board members to bring them up to speed on your Towneley portfolio, investment policy statement, recent financial decisions, and any other information that will help flatten the learning curve. If your new board composition means changes to the signatories for your Towneley portfolio, contact your portfolio manager so we can prepare the proper forms to make those changes.

Fiduciary? Why Does it Matter?

The Department of Labor ruling on retirement advisors has made fiduciary an investment-news media star these days. The key point for our clients is that Towneley has always acted as a fiduciary to you with respect to any portfolio we manage on your behalf, so you have always enjoyed the legal protection that the DOL ruling is meant to extend. If you ask us for a spending analysis or assistance with deciding how to fund the purchase of your headquarters, you can rest assured that we have based our recommendation on your best interests.

Investment Policy Statement Review

The IPS is the keystone to your organization's investment program. As your trusted advisor, we will review your IPS annually for continued compliance with your state's UPMIFA, our investment strategy and prudent practices, then provide you with a letter reporting our findings. Retain this letter together with records of your in-house review of the IPS (which we also recommend you conduct annually) to demonstrate your completion of this important fiduciary task. Together, we will maintain your organization's IPS as a vital record of prudent investment stewardship.

2016 First Quarter

APRIL 2016

News from Towneley:

Our new website is live!
We'd love to hear what you think.

Sheila Lagrand is Towneley's new Director of Communications. She is responsible for client communications and serves as editor for special pieces like our quarterly bulletins and information for our website. She earned her MA and Ph.D. at UCLA. Sheila has been with Towneley since 2006.

As always, if you anticipate any changes in revenue, spending, or other factors affecting your financial situation, let your portfolio manager know so we can evaluate your portfolio in light of the new information.