Hughes Investment Advisory Services LLC

April 1, 2016

Dear Clients and Investors,

As I sit here at my desk on this first day of the second quarter the S&P 500 has registered a slight gain of approximately 1% for the first quarter of 2016. A 1% gain sounds like a quiet quarter, but as we all know, it was not! The year started very poorly for equity markets and at one point, depending upon which index we are talking about, stocks were in a correction and/or Bear market. A correction is 10% below the most recent high while a bear market is 20% below the most recent high. The S&P's quarterly comeback is the biggest reversal since 1933! As I wrote in early February to you, the markets downdraft seemed like an over reaction and not based on solid fundamentals and indeed it was a good buying opportunity as the indexes bottomed on February 11th.

Since the market bottomed in February, oil has risen about 25% and the U.S. dollar has weakened/stabilized. Why are these good for stocks? Though low oil prices are good for the US consumer, a crashing oil price is bad for energy related company earnings and insolvent energy companies are not good for the banking system or the long term outlook for a healthy/productive and growing US energy sector. Why is a weaker US dollar positive? A strong dollar acts as drag on US multinational companies earnings and decreases their competitiveness. Additionally, extreme low oil prices and a strong dollar distort the global economy hurting the integrated business community.

Therefore, I see the upcoming earnings season notching a better than currently forecast performance. This would be the first time in many quarters that corporate earnings start coming in with upside surprises and I would not be surprised if companies start to guide analyst earnings estimates higher for the balance of 2016. For these reasons I would not be surprised if the S&P 500 hit a new all-time high during the next 3-9 months. The last record high was on Feb 17th, 2015. The index would only need to climb another 2.2% to reach this milestone. I am keeping with my January prediction of plus 10% for the S&P index in 2016 at this point. We should also receive a tail wind from very negative current market sentiment and very high short interest positions currently. Positive retail money flows along with short covering can move the markets a lot in a short period of time and I would not be surprised to see both occurring in the months ahead.

The Federal Reserve's comments in recent weeks have also been supportive for the equity markets. Fed Chairwomen Yellen recently dampened expectations for higher interest rates, suggesting only two rate increases in 2016. These statements are in line with my expectations from last quarter and are supportive for equities and especially dividend/income-focused investments. Its becoming more and more clear to market watchers that the Fed does not want to make any policy mistakes that could derail the recent stabilization in the global financial system by tightening too quickly.

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Other positive themes emerging in recent weeks:

Manufacturing data are improving as evidenced by the recent Philadelphia Fed manufacturing index, which rose to its highest level in more than a year.

Consumer spending/retail sales continue to be a source of strength for the economy. I believe that the consumer sector is the healthiest it has been since the great recession in 2008. Sentiment is high, savings are strong and Americans are spending at a sustainable level.

Inflation is rising slowly and so far this is desirable since deflation has been more of a risk than inflation post recession. The Fed targets 3% inflation.

Recession risks are receding.

Corporate profits may have bottomed and should be heading higher for the reasons mentioned above.

So in the last three months we have had a "correction" and then the biggest reversal in 83 years, which raises the question, have stock prices risen too far too fast? I really don't think so since the world's central banks are all still supportive and promising more stimulus. China's currency and economy have stabilized. Oil prices have climbed and the dollar has weakened. So, what could derail the positive, "Goldilocks" scenario that I have outlined above? Well, once again it is politics! We are in a Presidential election year as everyone is well aware and the press is having a field day so far with the primary elections. I have been a student and close follower of political elections since I was 10 and standing at the polls handing out campaign flyers for my father who was a State Representative. I also studied politics in college and have a degree in Political Science but none of this has prepared me for what we are witnessing today… I have to say that I don't know what is going to happen next, never mind in the period between today and the elections in November. Markets don't like uncertainty and that is what we have with the current election process so we will have to hope that politics does not derail what I believe is an excellent backdrop for our investments.

Given the political situation and big gains seen in the last 6 weeks I remain optimistically cautious about the near term. So after a pause I think that stock prices can continue to advance over the coming year. I will also be looking to see if the ISM Manufacturing Index remains below 50 or moves above 50, a strong signal that US manufacturing is moving back into a higher gear.

At this time I continue to favor large-cap, dividend paying, multi-national companies with strong balance sheets. Internationally, though most all emerging markets are inexpensive, I find only select economies in Asia attractive on a risk/reward basis. Select multi-nationals in Europe that fit into the same category as our US companies are also attractive. Risk/Reward continues to favor equities over fixed income, and finally Value stocks over Growth stocks. Select MLP's, REITS, convertible bonds and municipal bonds continue to look good as income producers.

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