George M. Hiller Companies L.L.C.

INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

Financial & Investment Newsletter **January 2016 Edition**

By George M. Hiller
JD, LLM, MBA, CFP®

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Market Outlook

As of January 6, 2016

The bull market, which began in March 2009, (over 6 1/2 years ago) disappointed for the year 2015. Stocks had the worst year since 2008. The Dow Jones Industrial Average lost -2.2% while the S&P 500 was down -0.7% (before adjusting for dividends). The NASDAQ Composite was up +5.7%, turning in a respectable performance (source, "Stocks Post Worst Year Since 2008," The Wall Street Journal, January 2, 2016).

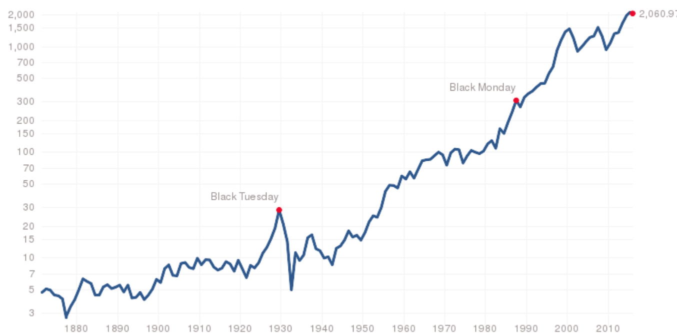
When dividends are included both the Dow and the S&P 500 were positive for the year. After factoring in dividends the 2015 total return for the Dow was +0.2% and the total return for the S&P 500 was +1.2% (source, Bespoke Investment Group). This serves to point out the importance of dividend income in assessing stock investments and performance.

Our longer-term outlook (months to years) for U.S. stocks is positive although we have concerns. Our short to intermediate term outlook (weeks to months) is negative suggesting a measure of caution in positioning new capital into the market at this time.

Despite all the ups and downs of the market, investing in U.S. equities has paid off over the long run. Since January 1980 (35 years ago) the S&P 500 has averaged an annualized return with dividends reinvested of 11.36% as of the end of December 2015 (source, dqydj.net).

The upward trend of the market over time is irrefutable. Below is a graph of the S&P 500 from 1871 to December 24, 2015 (source, multpl.com).

Graph of S&P 500 Historical Price Levels



Our view continues to be that the recent moves in the market are not indicative of a developing bear market. There are underlying signs of improvement in the unemployment rate, monthly new jobs, and other U.S. economic indicators that may translate into continued improvement in stock market results, but there are also mixed signs that suggest caution.

As mentioned earlier our longer-term market outlook (months to years) is positive for U.S. equities while our short to intermediate term outlook is negative. This means we recommend holding investments in U.S. equities, but we also favor building cash reserves, cash substitutes, or investing in asset categories that have low correlation to U.S. equities.

About five months ago we reported that our longer-term outlook for the category of Resources and Materials had turned negative. Resources and Materials typically include investments in chemicals, oil, metals, timber, and other commodities. Although this category has shown some improvement in recent weeks our view continues to be negative for Resources and Materials.

Also, our longer-term outlook for Real Estate, which had been bullish for six consecutive years, turned bearish four months ago. In spite of improvement in

Real Estate in recent weeks we generally recommend reducing real estate exposure.

Almost two months ago, our longer-term outlook for International equities turned negative. We suggest limiting International exposure. We also suggest that you consider having international exposure hedged against currency exchange risks.

Our longer-term outlook continues to remain favorable for the following asset categories:

- US Equities
- Bonds/Fixed Income.

Please remember that no market outlook or indicator is foolproof or guaranteed to accurately forecast future market conditions. Observed historical trends are not guaranteed to occur in each and every year nor in any given year or time period.

For 2016 year-to-date the Dow Jones Industrial Average is negative -2.98%, the S&P 500 Index is negative -2.63%, and the NASDAQ is negative -3.43% as of January 6, 2016, dividends not included (source money.cnn.com). Please note that the Dow, S&P 500, and NASDAQ are all equity indexes.

Most diversified investment portfolios are not invested 100% in equities. Also, while it is possible to invest in various equity index funds, it is not possible to invest directly in the indexes themselves.

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	**Positive outlook for past 1,440 days**
-- International Equities	**Negative outlook for past 54 days**
-- Resources and Materials	**Negative outlook for past 166 days**
-- Real Estate	**Negative outlook for past 124 days**
-- Bonds/Fixed Income	**Positive outlook for past 677 days**

Currently, the top 3 performing sectors (based upon our assessment and ranking methodology) are:

- Utilities
- Consumer Non-Cyclical
- Dow 30

Currently the worst performing sectors are Mid Cap Value, Mid Cap Blend, and Small Cap Blend. We suggest avoiding or limiting new investment in these sectors at this time.

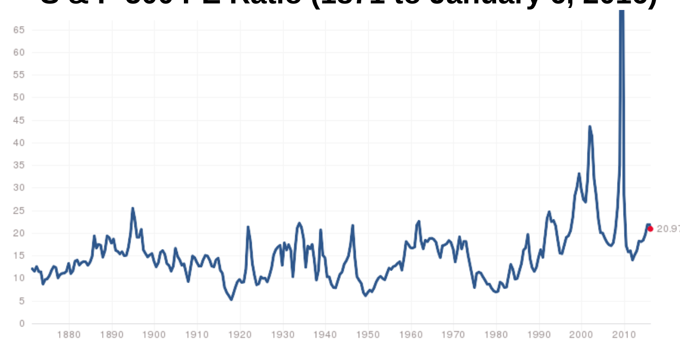
Right now, several economic and business signs we review are positive, but our outlook on certain broad asset categories has been in transition over the last several months. We changed our longer-term outlook on Resources and Materials from bullish to bearish. We changed our longer-term outlook on Real Estate from bullish to bearish. And, we changed our longer-term outlook on International from bullish to bearish. Currently, we remain generally bullish longer-term on U.S. Equities and Bonds/Fixed Income.

Stock Market Valuation Indicators

There are indications that the stock market may be overvalued. This does not mean that the market will not continue to move up. As noted above, our longer-term market outlook remains positive although we have concerns.

The S&P 500 price to earnings ratio (PE) moved down from 22.09 reported in our December 2015 edition to 20.97 as of January 6, 2016 (source multpl.com). This is well above the long-term mean PE of 15.57. This is suggestive that stocks are overvalued. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period. What follows is a chart of the S&P 500 PE ratio from 1871 to January 6, 2016 (source, multpl.com).

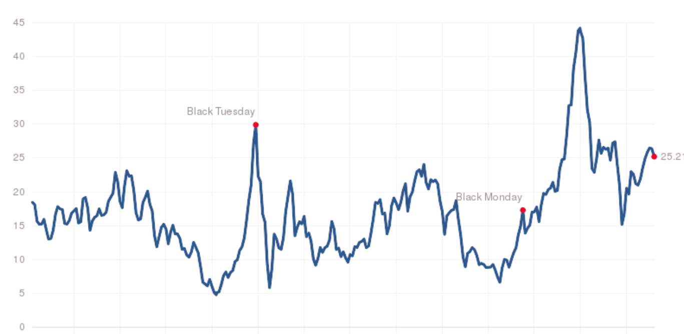
S & P 500 PE Ratio (1871 to January 6, 2016)



Shiller PE

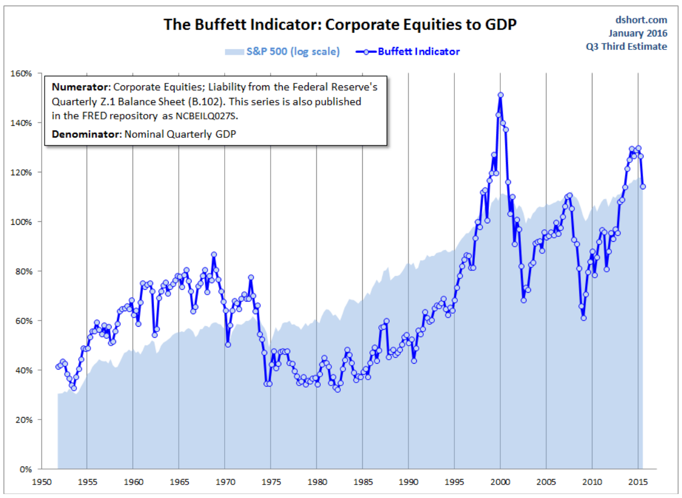
The Shiller PE ratio also known as CAPE is based upon cyclically adjusted price to earnings (CAPE) over a ten-year period. This data series is maintained by Yale economist and Nobel Laureate Robert Shiller. The Shiller PE ratio or CAPE has moved down from 26.50 reported in our December 2015 edition to 25.21 as of January 6, 2016. While the Shiller PE is down slightly from last month the current level is still suggestive of an overvalued stock market. The long-term mean average of the Shiller PE ratio is 16.65. What follows is a chart of the Shiller PE ratio from 1871 to January 6, 2016 (source, multpl.com).

Shiller PE ratio (1871 to January 6, 2016)



These two stock market indicators are at historically higher than average levels, suggesting that stocks are expensive relative to the long-term averages of these indicators. This also suggests greater risk of a market decline. The Shiller PE in particular suggests that the stock market may produce lower returns over the next ten years than what might otherwise be expected.

Another stock market valuation indicator is called the Total Corporate Equities to GDP ratio, also known as the Buffett indicator due to the fact that Warren Buffett has referred to this data as the single best indicator of relative stock market valuation. Below is a chart of the Buffett Indicator from the 1950s to year-end 2015. The lightly shaded area in the background is a graph of the S&P 500 over this same period of time (source, dshort.com).



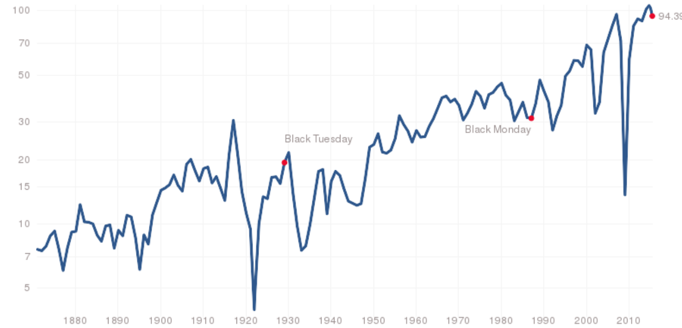
Notice that the Buffett Indicator peaked in 2000 (tech bubble) at about 150% total market cap (TMC) to GDP. It peaked again in 2007 (real estate bubble). It is now at a third peak. This latest peak is higher than where it was at the time of the real estate bubble. Over the last few weeks the Buffett indicator has declined.

The Buffett Indicator may suggest that a stock market decline waits at some future date, but it has not been shown to be a reliable short-term forecasting indicator. Warren Buffett has said that low interest rates support higher asset valuations and has commented that he does not view the stock market as too frothy. Still it is an indication that the stock market may be overvalued.

S&P 500 Earnings

The price of a stock is a reflection of its earnings per share multiplied by its PE (price-to-earnings) ratio. The price level of the S&P 500 can be expressed in terms of its aggregate earnings multiplied by its PE ratio. The current 12 months earnings per share (EPS) of the S&P 500 is $94.39. Below is a chart of the earnings of the S&P 500 from 1871 to June 30, 2015 (source multpl.com).

S&P 500 Earnings
(from 1871 to reported June 30, 2015)

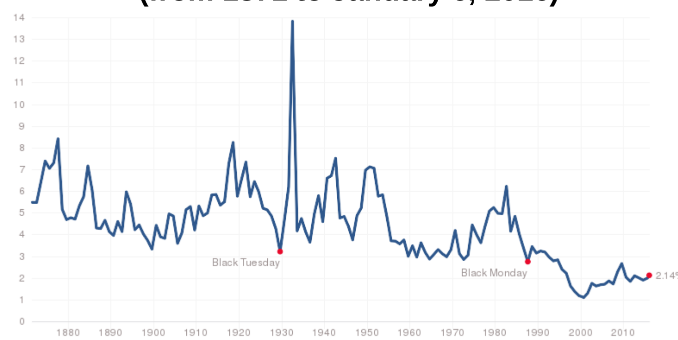


Goldman Sachs forecasts a 2016 year-end price level for the S&P of 2,100. Given the 2015 year-end price level of the S&P 500 of 2043.94, this translates into an expected 2016 gain of 3%. Our own forecast calls for a higher 2016 gain of 5% or more on the S&P 500 Index.

Dividend Yields and Bond Yields

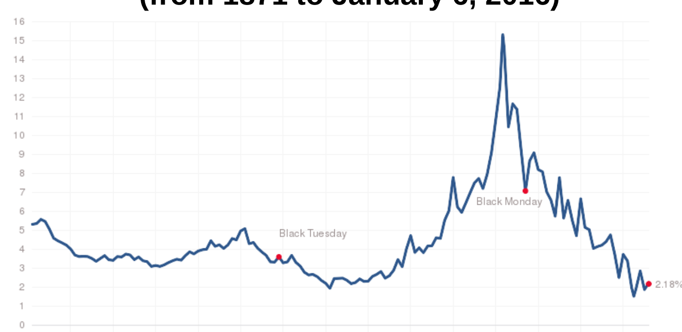
The S&P 500 dividend yield has increased from 2.03% reported in our December edition to 2.14% as of January 6, 2014. Below is a chart of the S&P dividend yield from prior to 1871 to January 6, 2016 (source multpl.com).

S&P 500 Dividend Yield
(from 1871 to January 6, 2016)



The 10 Year Treasury Rate is at 2.18% as of January 6, 2016. Below is a chart of the 10 Year Treasury Rate from 1871 to January 6, 2016, (source, multpl.com

10-Year Treasury Rate
(from 1871 to January 6, 2016)



It is interesting to note that the dividend yield on the S&P 500 at 2.14% is not much different from the 10 Year Treasury Rate at 2.18%. Additionally, qualified dividends on common stock receive favorable tax treatment compared to the taxation of interest on bonds. Note: Interest on Treasury bonds are taxed only at the federal level and are not subject to state income taxes whereas common stock dividends are generally taxed at both the federal and state level. Even adjusting for this difference the tax treatment of qualifying dividends is more favorable that the tax treatment of interest paid on Treasury bonds.

Over time interest rates are likely to rise which may impact negatively the performance of bonds as an asset class over the long-term. It makes sense to us to have a diversified portfolio of dividend paying stocks. The yield of a Dividend focused portfolio can exceed that of 10-Year Treasuries. In addition a Dividend portfolio can receive favorable tax treatment, and provides opportunity for capital appreciation on the underlying equities.

We maintain a research list of dividend paying stocks that we update weekly. If you are interested in further information about investing in dividend paying stocks please contact our offices.

Precious Metals Outlook

Our precious metals outlook is negative. Gold is at $1,078.40 per ounce, down approximately 43% from its high of $1,889.70 per ounce established in 2011 (source, goldprice.org). That does not mean it may not be a good time to buy or add to precious metals. It simply means that the current trend in precious metals is negative and has been negative for an extended period of time.

The price of one ounce of gold has dropped for the last 4 years. As the 10 year gold chart below shows, gold at $1,078.40 per ounce is near a six year low.

Our long-term planning perspective suggests that precious metals should be considered in asset allocation strategy. With a federal deficit over $18.5 Trillion it is likely that the purchasing power of the US dollar over time will be worth less than it is today, while gold and silver are likely to retain a significant storehouse of value under different economic scenarios.

Precious metals represent a form of catastrophic financial insurance in the event of a huge devaluation of the dollar or other world-shaking event. Now may be a good time to begin precious metals investments or add to existing positions in order to achieve a certain target within an overall asset allocation plan.

There are many different ways to make investments in precious metals. Some ways are better than others. If you have questions about how to invest in precious metals and what role gold and silver investments should play in your investment portfolio, please call our office for guidance.

Energy Outlook

Our energy outlook is negative. For almost three years from early 2011 to August 2014 crude oil was trading in a range of about $110 per barrel. Since then it has plummeted to $34.65 per barrel as of January 6, 2016. This represents a decline of 69% from earlier prices of $110 per barrel. Below is a 5-year chart of crude oil prices.

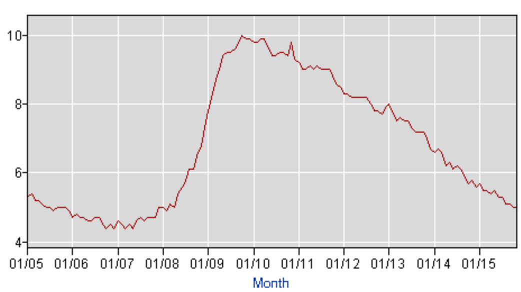
The Economic Environment

Final revised third quarter 2015 GDP increased an estimated 2.0% on an annualized basis. By comparison, this is substantially down from second quarter 2015 GDP at 3.9% (source, Bureau of Economic Analysis). Below is a chart of quarter-by-quarter GDP from January 2013 to September 2015.

The GDP chart indicates that the economy is growing at a sluggish rate. Averaging the annualized rate over the last four quarters results in 2.15% per annum growth in GDP. While it is a slow growth rate, it is positive. Maintaining at least 2% growth in GDP may give the Federal Reserve more data based evidence to support a future rate increase.

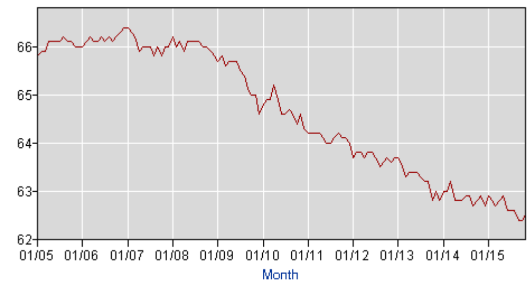
The unemployment rate remained unchanged at 5.0% in November 2015 (source, Bureau of Labor Statistics). The unemployment rate is at a seven year low. The drop in the unemployment rate indicates gaining strength in the economy and more confidence on the part of employers to add jobs. Below is a chart of the official unemployment rate from January 2005 to November 2015 (source, Bureau of Labor Statistics).

Unemployment Rate
January, 2005 to November, 2015



The labor force participation rate ticked up from 62.4% in October to 62.5% in November 2015. This means that among the total labor force in the US, the percentage that is either employed or looking for work is at a low 62.5%. Below is a chart of the labor force participation rate over the last ten years (source, Bureau of Labor Statistics).

Labor Force Participation Rate
(2005 to November 2015)



The labor force participation rate is now at its lowest level in 38 years. This means that despite all the new jobs that have been added to the economy and the record number of job openings created, many hundreds of thousands of people are leaving the workforce.

Nearly 94 million people in the USA are neither employed nor are they looking for work. This low labor force participation rate is a drag on the economy that will extend over many years into the future.

Asset Allocation

In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today's challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned to an asset allocation portfolio. This process of changing asset allocations based upon changes in the market (such as market anomalies or identifying strong market sectors) and in economic data and trends is called tactical asset allocation. Investors have an opportunity to improve investment performance over time through proper implementation of tactical asset allocation.

The United States is one of the best places to invest in the world. Our longer-term outlook for U.S. equities remains positive.

However, given that our short to intermediate outlook is negative it makes sense in our view to maintain or increase cash reserves or cash substitutes and not add exposure to U.S. equity assets at this time. Because our longer-term outlook (months to years) for U.S. equities is positive, we generally suggest appropriate allocation to U.S. equities be maintained.

Due to the fact that our outlook for Resources and Materials is bearish we suggest reducing holdings in Resources and Materials including chemicals, oil, metals, timber and other commodities.

Our longer-term outlook for real estate is also bearish. We suggest reducing or limiting exposure to real estate in the tactical asset allocation process.

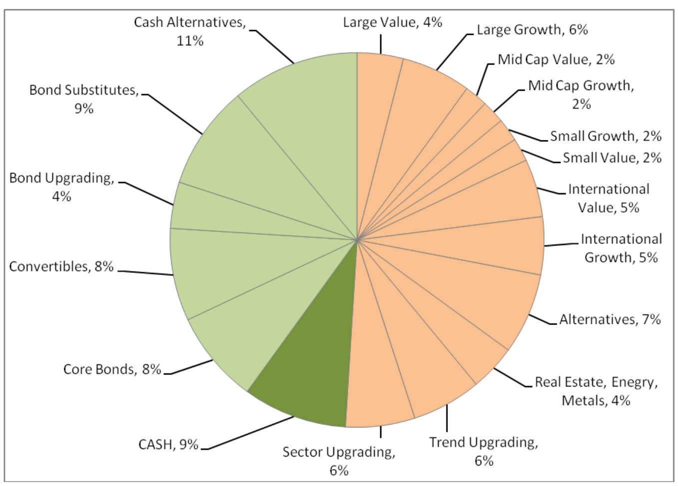
Our longer-term outlook for international equities recently turned bearish. We suggest reducing or limiting exposure to international equities. We also suggest considering hedging international equities against currency exchange risks.

The following asset allocation pie chart is an example of tactical asset allocation. The pie chart shows a reduction in the segment comprised of real estate, energy and precious metals, reflecting a reduction in resources and materials, and also a reduction in real estate.

The asset allocation pie chart shows an increase in cash reserves and cash substitutes compared to a previous asset allocation pie chart. It also depicts a slight increase in bond substitutes compared to previous views. It depicts a relative overweighting in U.S. stocks compared to global capitalization weightings. These changes are based upon an ongoing assessment of U.S. stock market valuation indicators and the evaluation of supply and demand data and performance data using in part our proprietary tracking and ranking methodology.

We also recognize and evaluate certain economic data and trends in developing tactical asset allocation strategy. Changes in investment data and economic data occur regularly and can in turn lead to changes in asset allocation at any time.

Example of Asset Allocation Pie Chart



In summary the asset allocation pie chart expresses tactical asset allocation strategy in pursuit of the following broad investment themes:

- Relative overweighting to US investment assets
- Reduced exposure to Resources and Materials
- Reduced exposure to Real Estate
- Reduced exposure to International Equities
- Increased exposure to Bond Substitutes
- Increase in cash and cash substitutes

This asset allocation example is for educational and informational purposes only. It is not representative of any particular client account. Each person, family, or account has different facts and circumstances, so no single investment allocation can fit all situations. In addition, changes in an individual's time horizon and risk tolerance as well as various economic, financial and market factors can lead to changes in the asset allocation of an investment portfolio for any particular investor.

It is our mission to provide high quality professional and objective financial counsel in the areas of investment management, estate and personal financial planning designed to help our clients improve their financial condition and achieve long-term financial goals.

Sincerely,

George M Hiller Companies, LLC Investment Team

More Resources on our Website

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George M. Hiller Companies, LLC - Financial Newsletter is published periodically by George M. Hiller
Address: 1110 Monarch Plaza, 3414 Peachtree Rd. NE, Atlanta, Georgia 30326
Phone: 1-800-359-0222 or 404-365-0222 Email: ghiller@georgehiller.com Web Site: www.GeorgeHiller.com
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