Wealth COACH Financial Services Inc.
(614) 734-9584

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Dear Investor,

Flat ... it was a heck of a roller coaster ride indeed but in the end we simply ended up flat for Q1, just like we did for 2015. The S&P 500 and Dow Jones Average closed up 0.8% and up 1.2% respectively in Q1 while the more aggressive Nasdaq and Russell 2000 dropped -1.5% and -1.6%. Investors who managed to ignore the markets until March 31st surely think we had quite a boring quarter, but nothing could be further from the truth!

By the end of January, the investment world was shaking at its core, riding "the worst start to a year ever". It simply collapsed on the heels of the Federal Reserve's first rate hike in 10 years, a measly 0.25%. More likely, stocks were just beaten down deliberately by Wall Street to give Fed Chair Janet Yellen cover to back off her rate hike theatrics. Janet kindly obliged, placing two quick phone calls to two Goldman Sachs' alum, first on February 11th to England's central bank head Mark Carney at the depths of the market sell-off. The second went to the ECB's Mario Draghi. Result? Queue 'the 'biggest rally since 1933' of course! A growing number of traders now openly refer to the 'free markets' as a bad joke that will end worse. It is hard not to agree.

The number of concerned voices is increasing rapidly, almost as fast as the central banks embark on their next utterly desperate move. Last week, the Fed held two 'expedited meetings', then Yellen met privately with Obama and Biden allegedly for just a light chit chat. Stocks of course immediately rose again. Also last week, representatives from the G-20 group of nations met in Washington, as did the World Bank and International Monetary Fund. Let us be very clear right here and now: for years we have stated *'the math will win'* this dishonest game the central bankers are playing. Math is winning right now as Q1's 0.1% GDP suggests. We suspect with good reason central banks and finance ministers are now panicking. Consider this quote:

> *"Here's the math: across the nation the median rent for a two-bedroom apartment is $1,300, according to Apartment List. So a 3.7% rent rise is about $48 which means that just the official rise in asking rent prices* ***swallowed the entire average salary "gain" of $48 in after tax dollars.*** *Oh and that excludes Obamacare: as the government also reported, medical bills soared: in February, medical care grew at the fastest rate in more than three years."*[1] - Marketwatch

You can see real math now winning outright in rising economic pressure, in the disenchanted electorate surfacing in the U.S. presidential races, and in disenfranchised populaces in Europe, Japan, China and especially South American countries like Brazil and Venezuela (which has collapsed). In short, the treacherous systems that have artificially inflated wealth for a few while destroying the wealth of the majority seem to be now reaching their exploitable limits.

Stock markets have become nothing more than 'tools' to be constantly manipulated by central bankers as they try to keep stocks and real estate prices artificially inflated, as you will see from the detail that follows. They may indeed succeed. In fact, they just might send them to the moon in hyperinflation. The rebound in gold, silver, oil and other commodities are suggesting just that. One thing we can count on is that they will not stop voluntarily. Stocks may soar indeed, but not for sound reasons, and odds are that they could do the exact opposite in a hurry. We believe the amount of risk each investor chooses should be based largely on confidence in central banks, nothing more. As always, call if we can assist you with your allocations.

Best Regards,

Mike Sullivan, President, Certified Financial Planning Professional ®

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Market Update & Backdrop

Following a flat 2015 during which the Dow and S&P 500 returned next to nothing, Q1 2016 did the same, finishing flat at the end of its wild ride. As you can discern from the opening letter, the theme for the markets remains precisely the same as it has for many quarters running: without money printing, stimulus and pinned-to-the-floor interest rates (that support corporate stock buy-backs and ultra-cheap borrowing for everything else), asset prices ***simply do not lift.*** **Five** central banks, led by the European Central Bank which stepped completely out into the wild, used the January beat-down to deliver what their trained speculators demanded via the decline: more free money for them to play with. Here is what they delivered in Q1:

INDEX	TYPE	2016 Q1
Standard & Poor's 500	US Based Large Stocks (500)	0.8%
Dow Jones Industrials	US Based Large Stocks (30)	1.5%
Nasdaq Composite	US Based Large Stocks	**-3.5%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	2.2%
Russell 2000	US Based Small-Cap Stocks (2000)	**-1.9%**
Dow Jones Transports	US Based Transportation Stocks	**-1.8%**
Dow Jones Utilities	US Based Utility Stocks	21.5%
MSCI EAFE	International Large Cap	**-3.4%**
Nikkei 225	Japanese Stocks	**-12.0%**
Hang Seng	Chinese Stocks	**-20.0%**
Barclay Int Bond	Intermediate Bond	3.03%
3 Month Treasuries	Cash Equivalent	0.05%

- Rates of return for the quarter ended 3/31/2016. Data from Morningstar, yahoo.com

The rocket-ship award for the quarter goes to utilities. Utilities are very capital intensive so when interest rates decline they tend to do well. Most sectors and many companies are seeing pressure on revenues as the Consumer is clearly under great pressure. Earnings per share are a different story again since the 'stock buy-back' game continues to work magic for insiders and stockholders. Most major indices more or less floundered around, moving up or down almost solely on the whims of the central bankers. Central banks are really all that matters these days, *if they can hold it together*… they've distorted every market and asset price so massively that other considerations mean little.

From so many traditional standpoints, and on the basis of too-many-to-list data points, these stock markets are heavily overvalued. Here are just a few examples: Using Robert Schiller's 'capital adjusted price-vs-earnings ratio' (CAPE) we are now at 26.4, the same level we reached just prior to the Housing Bubble collapse in 2008. Only two other episodes since 1900 exceeded this level: 1929, which delivered the Great Crash, and 2000, the year of the Nasdaq Bubble 'Tech Wreck'. Housing starts plunged -8.8% in March, both single and multi-family units. Retail sales cooled off, notably in the auto industry as sales dove -2.3%, the biggest drop in over a year. A lot more data suggests growing weakness and many other indicators are similarly stretched, putting the 'everything is great' narrative solidly into question. Despite obvious failure, they will amp up *more* of the same policy.

Gross Domestic Product dropped to an anemic 0.1% for Q1 according to the Atlanta Fed, only one-tenth of one percent above recession. The Atlanta Fed has been the only reliable Fed region in terms of forecasting. Other regions hold abysmal forecasting track records. Unfortunately, with Atlanta now reporting a near-recession, it looks like they may have offended the mothership: the NY Fed pressured them to revisit their numbers (i.e. revise them up slightly), then announced it that going forward NY would begin reporting the GDP forecast! Gotta keep, control of the narrative, don't they?!

If fundamentals still mattered to markets prior to all of the central bank hocus pocus, investors would quite likely care a lot that earnings for the 500 S&P companies are down -8.5% so far in Q1,

and a full -15% year over year from Q1 2015.[ii] For those keeping score at home, that makes four quarters in a row that earnings have declined quarter over quarter.[iii] Revenues are down again too, but at a 'less worse' rate of only -0.2%, however they too are on a rather undesirable losing streak, down *five* quarters in a row year over year. Good thing we have these central banks, right?!

What ***may*** be of legitimate concern for the months ahead is the fact Bank of America (BofA) reported their large 'Smart Money' clients have been selling their stocks for *13 straight weeks, the longest such streak in the tracking study's history,* directly into this delightful rally. Last quarter we suggested we should see a nice bounce and indeed this has been a good one, taking us back near prior highs. But, it has not been a healthy rally under the hood and based on the above information, the big boys seem to be using the returning complacency that the rising market creates to talk things up while they hand off more of their shares to retail investors.

Even recently, making note of BofA's shared activity use to be very worthwhile to anyone trying to discern the near-term trend …. Presently, however, only central banks truly seem to matter. Recent trade activity does not seem to matter, fundamentals do not seem to matter, housing starts do not seem to matter, and P/E ratios do not matter. Really nothing at all does seem to matter other than the games of the unelected bankers in suits … which is why stocks just continue to rise despite everything. What does matter is that market participants have been trained by these bankers to beat markets down to force the hand of central banks, rewarding traders time after time. Because asset prices *must rise,* and the planners must not let anything fail no matter how visible the manipulations are, the free markets have been ruined. Wall Street firms know that a 10% smash-down in the market will cause 'the suits' to give them more loot. And, so they deliver them. We fully expect that regardless of how absurd, fake, rigged and now fully visible the 'central planning' techniques may be, they will continue. The suits have zero personal accountability and they have proven they will hand over endless money from the country's Treasury on demand. While we believe there is a very strong likelihood that a real failure will occur at some point, it has become a fool's game to try to pinpoint that timetable. That is why we suggest each investor's allocations should be based primarily on the amount of faith that investor specifically has in the central banks … nothing more, nothing less.

We earlier referenced the February phone calls that Janet Yellen made to her cohorts at the central banks in England and Europe. Here is a visual representation of what happened next:

We trust you can see why we suggest the central banks have fully gamed the system? The furious increase in absurd actions taken by the central banks over the past few quarters is truly stunning. In fact, it is also truly scary that so many wild actions are being taken so frequently. Investors *do* indeed need to consider the possibility of failure at some point too, however small a probability they think that may be, as they weigh their confidence in all of this central bank hi-jinx.

We will offer two specific central bank actions for discerning investors to consider: First, the Bank of Japan is now a Top Ten 'owner' of 90% of Japanese stocks.[iv] Second, the ECB's new decision to print Euros and use them to buy corporate bonds, something never before done. This policy illustrates the

complete desperation and the madness of all central banks very well. If there is a more accurate term to describe these desperate actions than 'ponzi', we would like to hear it.

With nearly a dozen countries imposing negative interest rates on their societies, some large healthy businesses can now issue corporate bonds that offer *negative* rates. That means, the buyers of the bonds (lenders) are effectively paying those companies to lend their money to them! Since the ECB is now a new 'buyer' in the corporate bond world, it is effectively *paying* companies to borrow money. With a wink and a nod, it is also encouraging those companies to use it to buy back their own stock!

With fewer shares outstanding, earnings per share will rise of course and logically so should the price of each share of stock. It is the same scheme the Fed promoted so successfully in the U.S. Of course it doesn't hurt that the European companies may be making a few bucks on their bonds either, does it?! Just think of the absurdity of that scheme, then lay it next to the notion that the ECB is *causing* those companies to pile more debt on their balance sheets to keep their game going. Wild, is it not? Such activities in the private sector would have different labels: counterfeiting, collusion, money laundering, securities fraud … the list is long and the penalties would require lengthy jail time …

Bank of America calculates there are 489 million people living in countries now foisting negative interest rates upon them. In many places in Europe and Japan the negative rates primarily reside in the 'reserves' market and so are directly assessed primarily against the banks. The logic is that the banks will be 'charged' money to hold onto their reserves, so they will then hurry to get the reserves off of their books by lending it … which will stimulate the economy. The problem is that the central planners have so destroyed the normal economic function that they have destroyed demand. Thus you cannot really lend out money if you do not have anyone that wants to borrow it. Further, it forces banks into a frenzy to make loans, including bad ones, the opposite of what should happen. Bloomberg estimates $7.6 TRILLION in government debt is now yielding negative rates (i.e. you are guaranteed to *lose* money). And Jim Bianco of Bianco Research reports that 46.2% of all non-US bonds are yielding negative rates. Does that sound a) normal, or b) healthy? We thought not either.

This past week, the following high-fliers of the leading Nasdaq index missed revenues and earnings: Intel, Microsoft, Google. Apple fell into a bear market. Alongside those flagship issues, major misses arrived in Caterpillar, Starbucks and Kansas City Southern, one of the major rail companies. Major health insurance companies announced they would be pulling out of many state exchanges as they are losing money in the 'Affordable Care Act' exchanges. Several major carriers announced they would be raising health care premiums in Affordable Care by 15% - 20% in 2017. We tend to think the 'healthy consumer' may not weather that expense increase very well, despite the fact that the President would accuse us of 'peddling fiction' for pointing it out. Something has to give, does it not?

Or … the Fed can just print more money, pile more debt on everyone's backs, tell us how well its going … and manipulate stocks to the moon. A commodities trader recently wrote a letter describing the explosion in volume in the various commodity pits. With a decade of experience in the pits, he indicated he has never seen anything like it, attributing the change to the likelihood the central banks' deputies have likely stepped in there too, to further drive up the prices of food and other input cost.[v] His thought is that the Fed needs to have an excuse to raise rates and justify getting out of the mess they themselves have created. Last week the Fed scheduled 2 expedited (spontaneous) meetings and Yellen even held an impromptu get-together with Obama and Biden. Everything must be going swimmingly! If it's not, we're sure she will meddle some more to make it so.

Thus, investors should make their risk-decision based on faith that Janet's Fed Follies can continue. As always, we will be happy to help you with your allocations accordingly and to provide insight on what sectors, companies and investments may ride the scheme best. If an investor wants to bet on Draghi and Yellen's meddling omnipotence, it seems European and food company stocks might be the place to be. If not, cash sounds nice! Call us if we can help at (614) 734-WLTH. Have a great Spring!

[i] http://www.marketwatch.com/story/americans-are-spending-almost-all-of-their-pay-raises-on-rent-2016-04-14
[ii] www.factset.com
[iii] http://www.investing.com/analysis/lack-of-earnings-quality-and-debt-downgrades-limit-s-p-500%E2%80%99s-upside-200125632
[iv] http://www.bloomberg.com/news/articles/2016-04-24/the-tokyo-whale-is-quietly-buying-up-huge-stakes-in-japan-inc
[v] http://www.zerohedge.com/news/2016-04-20/one-commodity-trader-writes-what-happening-has-absolutely-no-reasonable-explanation

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