KEEP SAFE INVESTMENTS

# Welcome to the KEEP Safe Investments Quarterly Newsletter

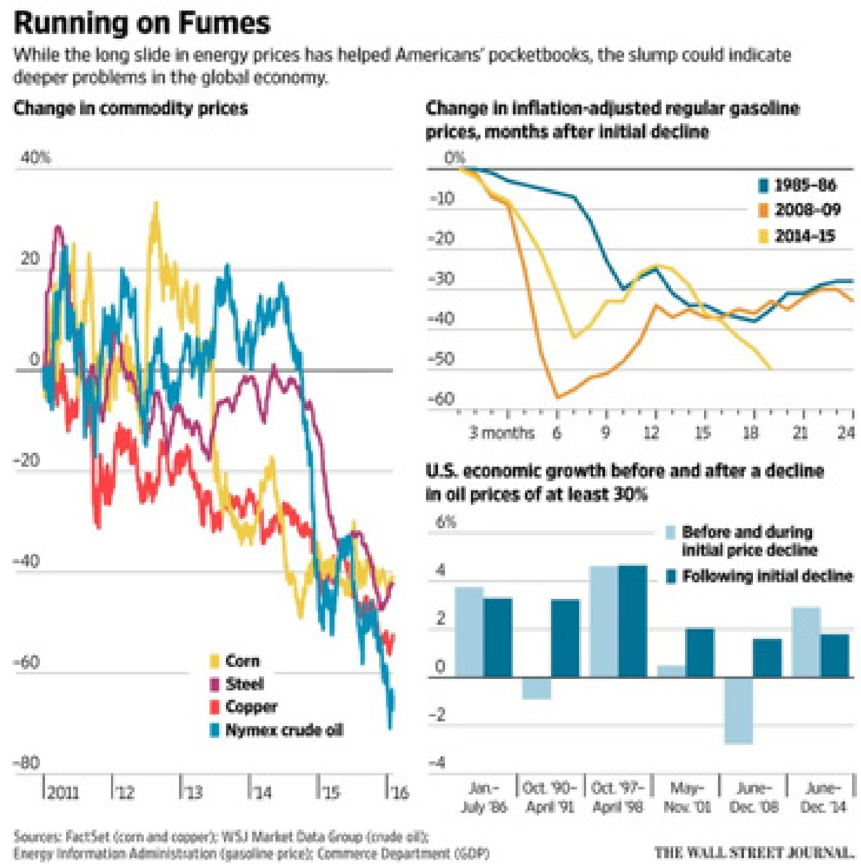
**1st Quarter** 2016

## Volatile Start to 2016

What has been going on this year? And to think we thought 2015 was a volatile year! The equity markets took a massive beating this year, down 18%-24% from their 2015 highs. The strong equity rally in March led the indices to a -3% to +1% return to end the 1st quarter of 2016. So, what happened?

The year began with concerns over both China and a continued weakness in oil. China's slowing economy along with the depreciation of its currency hit the financial markets. The Shanghai Index fell over 20% in 2016, putting it into a bear market. Beijing tried to weaken its currency but that move spooked investors causing Chinese stocks to plunge and spark a sell-off across global markets. This also led to a dive in oil prices. In mid-January, crude oil traded below $30/barrel for the first time in a decade.

Oil prices have fallen almost 70% from its highs, and shed 20% this year alone. In normal market conditions, oil prices and the S&P 500 are inversely correlated. However, we are now experiencing a 92% correlation between the two indices.





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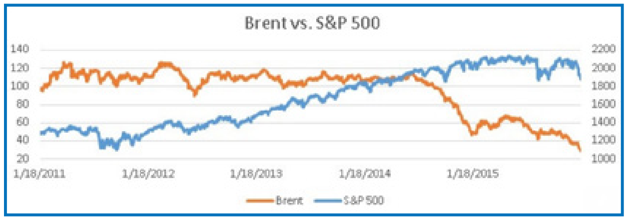


Brent Crude versus S&P 500 since 01/18/2011

Over the past 20 years, there has been a negative 72% correlation between oil and equity prices. The positive correlation might explain why investors have been so perplexed by the inability of equities to rally as the plunge in oil accelerated. Lower fuel costs would normally be very good for the U.S. economy, however we are now in a very abnormally period where this is no longer the case. While we might be happy when we fill up at the pump, it is not a good sign for the economy.

During periods of downside movement, asset prices become correlated. Oil has continued to break the psychological barriers of $100, $90, $80, and $70 all the way to $30, which has shattered investors' confidence and made many of them hit the panic button.

**Central Banks**

In February the Bank of Japan became the latest central bank to move its interest rates into negative territory. Negative interest rates are a modern phenomenon and are a product of a struggling global financial system trying to reinvigorate economic growth. The era of negative interest rates began in July 2012 with the Danish National Bank setting its deposit rate below 0% in order to help stimulate its economy. As the Fed continues to struggle with slow growth over the past seven years, they too, are looking at possibly going into negative interest rate territory if need be.

At the January meeting of the FOMC, the Fed stated they had perhaps reacted too quickly in December when they increased interest rates and for the time being would hold off on any further rate hikes. Across the globe, financial conditions have become less supportive of economic growth and stresses in China and other foreign economies could weigh on the U.S. economy. In their March meeting, the FOMC continued to sound dovish and kept rates frozen. The markets are now expecting only two interest rate hikes this year, compared to the predicted four hikes at the beginning of the year.

Fed Chairwoman, Janet Yellen, descries the U.S. economy as mixed so far this year but expects to see further improvements in the labor market. She doesn't see any urgent threat from inflation and feels the economy is resilient and feels the economy is close to its maximum employment goal.

## KSI | FUN FACTS

The day after Thanksgiving is the busiest day of the year for plumbers.
(Source: Roto-Rooter)

20% of the world's population has a Facebook account.
(Source: PBS Newshour)

The Fed decides how much money should be printed annually. In 2010, $974 million was printed. In contrast, $30 billion of monopoly board game money is printed each year.
(Source: PBS Newshour)

12 billion, the Average number of Web searches conducted each month by U.S. Consumers.
(Source: Journal of Financial Planning)

The largest US currency every printed was the $100,000 bill in 1934. It was used primarily between Federal Reserve Banks. It has not seen circulation since the 1960's.
(Source: Business Insider)

In April 2006, it cost 1.4 cents to produce 1 penny.
(Source: U.S. Department of the Treasury)



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## The Remainder of 2016

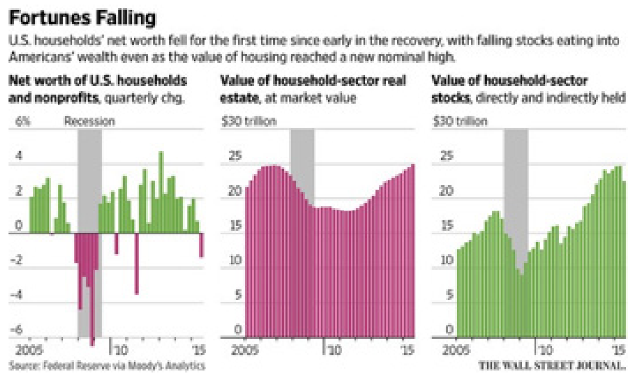
Efforts by many of the world's central banks to weaken their currencies are failing raising concerns about whether the central banks are losing the ability to wield control over financial markets. This was the case with Japan who numerous times tried to push down its currency, only for the Yen to end up 8% this year. This disconnect could produce more volatility in financial markets. The European Central Bank has tried a similar tactic to that of Japan with the same dismal results.

## Oil

Oil will continue to be the main driver of any equity rally or fall. OPEC has still been unable to commit to coordinating any type of freeze of oil output. It appears as if Iran is the outlier when it comes to agreeing to any type of cut in production. After more than three years of crippling Western sanctions over its nuclear program, Iran feels like they need to make up for lost time and is adamant they will not cut production. While they support efforts to calm oil markets, they will not agree to cut production and are actually attempting to increase production.

## Five Things to Know

**1.** Americans lost $1.2 trillion in wealth in the 3Q, mostly thanks to the late summer stock market gyrations.




**2.** The annual deficit fell to its lowest level in nearly 8 years in January at $405 billion, as the U.S. ran a budget surplus.

**3.** Import Prices fell for the 7th straight month in January on the back of low oil prices. Falling prices typically signal weak demand and the Fed is hoping to see some prices pick up as it looks for signs that inflation is stabilizing.

**4.** Business Barometer: small business owners registered their gloomiest sentiment in 2 years amidst stock market turmoil and concerns about slowing growth overseas.

**5.** After seven years of slow growth, the U.S. now sees more of the same. Economists, business executives and American workers have waited a long time for the U.S. to shake off its post recession hangover to no avail. Most Federal policy makers and private forecasters are giving up on the long awaited breakout and instead predict little change in 2016 and beyond with some thinking it might take until 2020 for oil prices to stabilize.

Unfortunately, it's more of the same… ugh.

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## About KEEP Safe Investments

KEEP Safe Investments is a Registered Investment Advisor. We are dedicated to enhancing the financial lives and enriching retirement funds of our clients. We are a single fee, non-commission based firm.

As a privately held asset and financial advisory firm, we endeavor to offer independent, unbiased financial advice focusing on each individual client's retirement goals.

## Kristi Berge

Founder and CEO of KEEP Safe Investments, LLC. Kristi has worked in the financial industry for 15 years at Morgan Stanley and the Guinness Family Office (Iveagh Ltd).

A graduate of Columbia University with degrees in Economics and Mathematics, Kristi is fluent in French. Upon graduation, she joined Morgan Stanley where she worked on the bond sales and trading desk in Paris, London and New York. Kristi returned to London and joined Iveagh Ltd to work on the Investment team covering a range of products: equities, fixed income, currencies, commodities, alternative investments and property.

Kristi holds the Series 63 and Series 65 as well as the SFA and Life Insurance license.

## Amanda Fink

Investment Advisor Representative for KEEP Safe Investments, LLC. She graduated from DeSales University with a BA in Law and minor in Business. She has worked in the finance industry for over two years dealing with client investment services as well as assisting portfolio managers regarding investment selections.

Amanda holds a Series 65 and Life Insurance license.

## Carin Johnson

Carin serves as Chief Compliance Officer for KEEP Safe Investments. Carin is charged with being an independent and objective resource that oversees implementation of KEEP Safe Investment's compliance and regulatory efforts.

Carin's experience in the financial industry spans more than 20 years. Previously serving as a Financial Center Manger with Wells Fargo Bank, N.A., she was responsible for the overall operation and success of the branch. As a managing Assistant Vice President, she coached her team in service, sales and financial guidance. Carin was a prominent face in the Wells Fargo community, cultivating relationships with many of the area's businesses and leading her region in performance.

Carin attended Northampton Community College and East Stroudsburg University and holds a Series 65 license and Life Insurance license.



## Contact Us

As always, please do not hesitate to contact us if you have any questions or concerns.

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