Starfox Financial Services, LLC

May 2016

MARKET SNAPSHOT

DJIA	17774
Nasdaq	4775
S&P 500	2065
Comex GOLD	$1290

(closing values April 29, 2016)

Could this be the most hated rally ever? Since setting correction lows of 1829 on the S&P500 on February 11th, the markets rallied at a rapid pace through March and spent much of April consolidating, staying within a very narrow range. Unlike the rally that occurred in October that followed the first half of this correction which seemed full of optimism but lacked depth and volume, the current rally has lacked optimism yet has had enough depth and volume to confirm build a strong base. This rather impressive (yet normal) rally has occurred under a massive cloud of doubt and worry that it won't last …and that is exactly why it excites us so much.

The recent series of corrections ended a more than 1400 day rally, during which an extraordinary amount of excess was built into the market. This excess was caused by a number of things but in the end was the result of too much optimism pushing prices too high for too long. Both the depth of the correction and how investors have (and have not) returned to the markets after the correction lows, indicate to us that investors are fearful again …still. Over the past month the amount of money LEAVING equity funds (outflows) is again very high, signaling increasing levels of fear. Often, when the markets remain in a tight range as they have during a period of heavy outflows, a second phase of the rally follows. This second phase is usually a result of investor's fear of loss being replaced by a fear of being left behind. Several factors including the recent outflows and April's pricing behaviors seem to confirm to us that the markets may have an upside 5-8% higher than the highs set late last year.

While the economic picture both globally and domestically may have improved somewhat, that improvement is minimal and many of the same behaviors and headwinds still exist. With these significant headwinds still present, we feel investors should expect to see average investment returns that are much lower than the historical averages for the next several years. The current rally may offer an additional upside but investors should be mindful that without economic improvement, the market peak will not be sustained and profits should be taken as appropriate. Even with the consolidation that occurred in April, the potential for at least one 3-5% pullback before the markets reach any new peaks is significant. Generally, periods of consolidation and small pullbacks that occur near market peaks lead to added market strength and higher highs. What we feel is important at times like this is to be watchful for signs of unique risks and opportunities that are occurring in individual asset classes. We believe the biggest areas of opportunity at the moment lie in avoiding areas of risk and capturing profits nearer the peak.

REGULATORY UPDATE

On April 4, the Department of Labor (DOL) published its long-awaited fiduciary rule, officially called "Definition of the Term 'Fiduciary'; Conflict of Interest Rule—Retirement Investment Advice." The new set of standards and expectations are set to begin taking effect as soon as June of this year and will become fully effective by June 2017. While the new rule is actually quite complex and broad reaching, the basic intention is to reduce the high costs that are often associated with investing in retirement plans and improve the quality and transparency of advice being given. The most startling and unexpected implication of this new rule is that it applies to advice being given across 401k plans AND Individual Retirement Accounts (IRAs).

In essence, the new rule imposes a best-interest test on those who provide advice on retirement accounts, including IRAs and 401(k)'s. The DOL has crafted much of the fiduciary rule around the idea that investors are paying too much and an advisor who is acting in the "best interest" of the client will necessarily attempt to control costs. The rule does not prohibit the use of commission based products, annuities, or any other investment with high fees, it only requires that an advisor doing so, establish documentation showing that a particular investment decision was in the best interest of the client.

As a Registered Investment Advisor, Starfox Financial Services and our advisors have always been held to the higher fiduciary standards so the DOL Fiduciary Rule doesn't appear to require us to conduct business any differently. Whether in a 401k plan or an IRA, our firm is 100% fee only, and the investments we recommend are among the lowest in cost, most liquid and most transparent available. Our firm was established for the expressed purpose of being a fiduciary advisor to our clients, at a time when fiduciary advisors were hard to find.

Those most impacted by the Fiduciary Rule are the brokers and insurance agents who are typically only held to a suitability standard of care. Until the new Fiduciary Rule forcing them to act in the client's best interest(in dealing with retirement plans and IRA's ONLY), brokers would routinely recommend costly products that might share revenues with the broker, or persuade investors to roll money out of 401(k) plans to commission based IRAs. These practices, although defensible as being "suitable" imposed unacceptable costs on retirement investors—many of whom already thought their broker had to work in their best interests. Under the new rule, even brokers and insurance agents who never intended to offer advice to 401k plans must adhere to the fiduciary rules established by the DOL when dealing with client IRA accounts.

Even though we believe the intent behind the fiduciary rule was positive, there is a strong likelihood it does not help the investors as much as it was intended to. Since the DOL Fiduciary Rule has extensive grandfathering provisions, exemptions and allowances, we expect a good number of those who currently have larger accounts with brokers will see little more than another piece of paper to sign. It is quite possible that brokers abandon their "smaller" accounts and stop accepting new investors because the regulatory liability is high and the compensation is severely limited.

Please contact us if you would like to discuss how our recommendations may apply to your specific situation.

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