Starfox Financial Services, LLC

July 2015

MARKET SNAPSHOT

DJIA	**18086**
Nasdaq	**5210**
S&P 500	**2127**
Comex GOLD	**$1132**

(closing values July 17, 2015)

CURENT OUTLOOK AND COMMENTARY

Our tactical investment philosophy is based on some basic rules (Diversify, Buy Value-Sell Expensive, and Control Costs) and an understanding that risks and opportunities associated with various asset classes are constantly changing based on changes in market and economic conditions. We believe it is prudent to adjust asset allocations to reduce exposure to risk and/or increase exposure to opportunities as market and economic conditions change.

Interest Rate Risk

Following 6 years of a Federal Funds Rate of ZERO the Federal Reserve has made clear its intentions to raise rates. Recent statements from the Fed Chair indicate a high likelihood the first rate increase will occur in 2015. Once the Fed Funds Rate is increased, corresponding low interest rates across the yield curve SHOULD begin to rise as well. Although higher interest rates will provide opportunities for greater income, the negative impact of rising interest rates on existing bond portfolios can be VERY dramatic, particularly in longer term bonds.

Credit Risk

Although the likelihood that a significant number of companies will fail to make payments on their debts is rather small compared to the likelihood that interest rates will rise, it is possible that highly leveraged companies won't be able to meet debt service obligations at higher interest rates. A rising rate environment (or a sudden economic downturn) could significantly increase the amount of credit risk in the overall bond market resulting in substantial negative impact to bond portfolios with high yield bond exposure.

Equity Markets Risks

More than three and half years have passed since the S&P 500 has experienced a 10% correction, the third longest period in history without a correction. Because corrections have a tendency to restore price efficiency, long periods of market expansion without corrections tend to result in excess price distortion and lead to corrections of greater magnitude when they do finally occur.

The use of margin debt has fallen steadily since it peaked in February 2014, but still remains near record levels. Low interest rates and a prolonged period of market expansion may have led to complacency and increased risk taking by investors who use margin to fund purchases of other assets. Rising interest rates coupled with a significant correction could result in a need to rapidly unwind margin loans which may push equity values even lower.

The volume of stock repurchases has been at record levels since 2013. Since stock repurchases have the effect of reducing Price per Share (P/E) and inflating the earnings per share (EPS), making stocks appear to have a better value, the abnormal volume of repurchases since 2013 may have resulted in significant mispricing of assets. As the rate of repurchases slows (perhaps as a result of rising interest rates making repurchases less affordable) a more accurate valuation will emerge, potentially resulting in lower market values.

2015 marks a year of record levels of merger activity. This is significant for two reasons. The first being that merger activity usually peaks at or near the end of market expansion periods (as do stock repurchases). Second being the impact mergers can have on balance sheets. The high volume of merger activity could result in further difficulty establishing true company/market valuations. Collectively, high levels of stock repurchases, merger activity, margin, the extended period of market expansion without a correction and years of extremely low interest rates and QE have led to distortions in price and value in both the stock and bond markets. The distortion of price and value warrant extra caution, especially as equity markets hover around all-time highs and a significant change in interest rate policy is likely. History seems to suggest that a correction is eminent regardless of cause but it would seem rising interest rates or economic slowdown could be a trigger or contributing factor as well.

Opportunities

In general we see very few immediately available opportunities in either the stock or the bond markets. The increase in volatility will allow for some short term trades in specific areas. But, these trades may not be appropriate for many investors. The increased volatility and potential for a meaningful correction will provide an opportunity for long term investors to begin to capture profits into rallies and build cash to be redeployed following a correction. Investors who have been underexposed to either stocks or bonds will likely get an opportunity to increase exposure at favorable prices in the months ahead.

Our Current Recommendation

In order to reduce exposure to areas of risk we recommend reducing overall exposure to equities AND fixed income assets and increasing cash/cash equivalents. Limit fixed income exposure to shorter duration investment grade bonds. As appropriate, buy on dips and/or sell into rallies (or use adjust current allocation of contributions) to maintain desired exposure based on current data and expectations.

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

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