Starfox Financial Services, LLC

November 2015

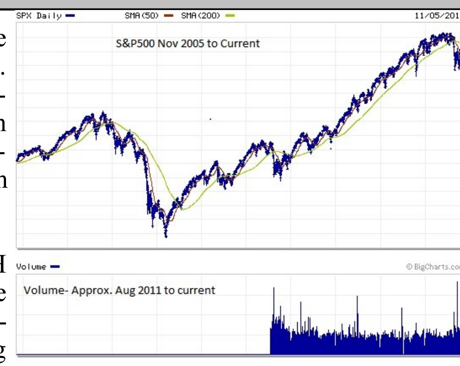
MARKET SNAPSHOT

DJIA	**17828**
Nasdaq	**5127**
S&P 500	**2104**
Comex GOLD	**$1136**

(closing values November 2, 2015)

Buy Backs can't cover up the sins of bad management

CURENT OUTLOOK AND COMMENTARY



October is being touted as the best month in four years, with both the S&P 500 and the DOW gaining more than 8% and the S&P 500 returning to positive territory for the year. The rally continued into the first trading day of November finally turning the DOW positive for the year and pushing the S&P 500 above 2100, less than 2% from the high set in May. The extraordinary rally that occurred in October (much of it in the last week) followed a correction that bottomed dramatically after a weeklong cascade-like fall from August 17-25 and remained near that bottom through the month of September.

A closer look at the August/September correction and the October rally shows, BOTH have had tepid volume and little breadth. Because corrections are typically fueled more by fear and technical indicators than by rational evaluation of fundamental data, a correction cannot end without broad market participation and sufficiently increased trading volume. Confirmation that the correction may not yet be done could be the October rally itself. The recent rally has been largely a result of large-cap blue chip stocks. Large portions of small and mid-cap companies as well as entire sectors have not participated in the recent rally. The lack of breadth and volume leads us to view this rally as a moment of increasing market risk rather than a signal of improving strength. As the rally begins to include even fewer stocks and even more uncertainty about monetary policy mounts, the markets may very well return to correction territory.

Even with a technical market correction 'on the books' and a rally underway, we think it is important to point out, NOTHING has changed or improved in terms of market or economic fundamentals, and many of the same geopolitical risks and issues remain active concerns. The Federal Reserve monetary policy (which is as they say, "data dependent") appears to confirm economic data is not improved. Additionally, the Fed's frequent parsing of words regarding when and under what conditions they intend to move from their current ZERO rate policy has had the effect of adding more uncertainty. Against this backdrop and in light of the tepid trading volume & lack of breadth, we feel the S&P500 (and other indices) remain overbought and a consolidation phase is overdue. We believe the consolidation phase that began in September is not over and won't be complete until the September lows (S&P500-1867) are tested again with substantially more trading volume. With the distortions in values created by continued low interest rates, large buy backs and M&A, the market may experience more volatility and additional consolidation down the road. Until the overbought condition is addressed through a proper period of consolidation, the risk associated with owning a diverse basket of equities is higher than usual. In our view, this excess risk warrants a reduced exposure to equities.

Record Volume of Stock Repurchases Continue

Stock repurchases have the effect of creating the appearance of improved earnings per share (EPS), making it appear that earnings are improving even if they are not. When a significant number of company's structure record levels of buy backs to occur over several years, the individual price distortions can lead to broad market distortions. Buy backs can be an effective way to use excess cash to improve investor returns ...but buy backs can't cover up the sins of bad management.

Since 2013 the pace and volume of stock repurchases has been at new record high levels, however 2015 brings an interesting twist to the record volume of stock buy backs done by the largest companies of the S&P 500. A growing number of large companies that have been buying back stocks at record levels have had poor market performance despite the effects of the buy back. (ex: Exxon and IBM both bought back more than $13B in stock, yet they are each down more than 10% into this rally.) An index called "**The S&P 500 Buy Back Index**" which measures the performance of the top 100 companies of the S&P 500 with the highest buy back ratios has underperformed the S&P 500 since May when the market peaked. The previous two crashes were preceded by a similar period of excessive buy backs followed by an underperformance off the peak. While the recent underperformance may not be indicating a crash is eminent, it should serve as a reminder of what can happen when systemic distortions exist.

With a mixed bag of data, showing a GDP growth that is below target, continued improvements in unemployment rates AND low inflation it is difficult to guess when or even IF the Fed may raise rates for the first time. Experts from all sides have been speaking out about whether the Fed should raise rates in December or wait until sometime next year. Some experts are even suggesting LOWER rates are needed (negative) in order to spur proper growth. Raise, lower or wait? What ever the Fed does or does not do in December will certainly stir the pot and likely add more anxiety for investors.

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

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