HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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Volume 68 July 2016

We were never sanguine in our outlook for the 2016 year. Our lack of enthusiasm was evident in this quarterly commentary in January and again in April. We did not think that economic or earnings performance would be strong enough to push stock prices higher.

That situation is unchanged. Now, however, we have all the clamor and confusion stemming from the Brexit event. We view the Brexit vote as having more political than economic impact in the long-run. But, for the moment, it has riled the markets and contributed to what some are calling…"the period of great uncertainty." After Brexit, we wrote our clients that we were assessing the situation and pausing from big new investment commitments. We do not want to seem that we are on some kind of "summer break." But we are restrained and cautious.

The major question is simple: What actually could push stock prices higher? We had expressed hopes in April that a relatively weaker dollar would improve U.S. corporate earnings. The confusion in Europe caused by Brexit will now keep the dollar stronger for the immediate future. That creates headwinds for earnings.

The other big uncertainty is interest rates. To protect their economies, the central bankers in Europe have created what is essentially a negative interest rate. In the U.S., the Federal Reserve has indicated that interest rate hikes are highly unlikely this year. Globally, interest rates are at an historic low point. To partial extent, this situation creates a floor for stock prices and some upward potential.

So, our summer at Hudson Advisors is actually not so easy. We are watching, analyzing, interpreting. We may be taking a break from buying – but we are definitely working. We are looking to find future opportunities for our clients and to know when it will be time to act.

MARKET TRENDS

The accompanying chart summarizes stock and bond market prices in the first half of the year. The stock market was pounded in the early weeks of the year, but rallied in March and grew slowly until late June. Then we saw the panicked decline and quick recovery after the Brexit vote.

Meanwhile, U.S. Government bond prices proved their continued resilience as investors globally flocked to them as the perceived haven of stability and safety.

Equity Market: Stock prices were performing moderately until Brexit. Then we saw some of the wildest days in recent stock market history. In the two days after the June 23 vote, paper assets lost about $3 trillion of value globally. The markets then rebounded quickly in the final week of June. The S&P was up 1.9% for the quarter and 2.7% for the year. The Dow Jones Industrial Average increased 1.4% for the quarter and 2.9% for the year. The Russell 2000 recovered its first quarter losses and was up 2.2% in the second quarter and .3% for the year. The laggard was the Nasdaq Composite Index which was down .6% for the quarter and 3.3% for the year.

Fixed Income Market: Given all the global uncertainties, investors literally scooped up U.S. Treasury bonds. The yield on the 10-year Treasury settled at 1.47% at the end of June – down sharply from 2.27% at the end of 2015. (Yields move inversely to prices.) The decline has continued in early July to below 1.4% -- an historic low point. Some analysts predict it may go as low as 1%. Investors seem impervious to the huge risk that long-term bond prices can fall significantly if interest rates take an unexpected rise.

MAJOR MARKET INDEXES

	2Q 2016 Return	YTD Return
Dow Jones Industrials Composite PR	0.44	5.44
S&P 500 Index PR	1.90	2.69
Russell 2000 Index PR	3.40	1.41
NASDAQ 100 PR	-1.46	-3.82
EAFE Index NR	-1.47	-4.42
Barclays Aggregate Bond Index TR	2.10	5.37

THE OUTLOOK

The Economy: We all were concerned with weak growth in U.S. employment in April and May. That concern was greatly relieved when the number for June came in at

287,000 – much stronger than forecast – and a good sign for the economy. Nonetheless, job growth in the last three months averaged 147,000 – much lower than job expansion in 2015. The annual increase in the GDP is still expected to be in the 2% range.

As we stated last quarter, a major drag on the economy is laggard corporate earnings. They have been negative for the last four quarters. Once results for 2Q are fully reported, the year-over-year decline for the S&P 500 companies is expected to be 5.2%. It will be the first time since the 2008-2009 period that we have seen five consecutive quarters of earnings decline. We did have hope that earnings would turn positive in the second half of the year. The theory was that international demand would improve as the dollar weakened against European and Asian currencies. In the wake of the Brexit events, however, the dollar is expected to remain strong and international demand weak. Thus, the hope for better earnings seems challenged.

Of course, everyone is watching the Federal Reserve. The minutes of their last meeting were skeptical on the economic outlook. They did not seem optimistic on overall GDP, job growth, or inflation. We will see if the June jobs report changes that sentiment. But – based on the overall economic data -- we think it remains unlikely the Fed will move to raise interest rates in 2016.

The Market: As expressed last quarter, stocks are highly priced right now. The S&P 500's price/earnings ratio has a forward 12 month forecast of 16.6 – compared to the 10-year average of 14.3. The gloomy forecast on earnings makes it difficult for stock prices to go higher. Conversely, the situation with low interest rates may have some advantage. Low rates put a floor on stock prices and there may be some upward opportunity for stocks if investors step back from the current mad rush into U.S. Government bonds.

Overall, we stand by our prediction made at the outset of 2016 and repeated three months ago. We will be fortunate to see 5% growth in the major indexes this year. But we would not be surprised to have neutral year-end results. It is a time for vigilance.

OUR STRATEGIES

Asset Allocation: For clients investing new money, same as last quarter, we recommend 55% allocation to equities and the remaining portion to cash, bonds with maturities under two years, and alternative investments. We stagger the time period in which we reach that 55% level. For fully invested clients, we recommend to trim equities to 55-65% depending upon time horizon and objectives.

Preferred Equities: We remain focused on large cap companies with strong balance sheets, sustainable cash flows, and credible business models. Companies that pay attractive dividends are central to our strategy. Some of the sectors we are like are similar to those indicated last quarter:

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- HEALTH CARE: We are attracted to some pharmaceutical companies because of new products coming to market.
- ENERGY: Despite the overall problems in this sector, some companies are interesting such as those involved in propane distribution. Overall, there is upward potential in the sector.
- CONSUMER DISCRETIONARY: We expect consumer spending to improve and there is opportunity here with the affluent and wealthy segments.
- CONSUMER STAPLES: The economy and jobs outlook is strong enough to allow middle class retail activity to be healthy.

Fixed Income: Our repeated aversion to bonds with long maturities remains firm. It is sometime difficult to explain this viewpoint when bond prices keep rising. But we still believe the risk of a sharp decline in prices is too great a risk for our clients. We prefer to find alternatives such as municipal tax liens and other alternative investments. .

Dow Jones U.S. Sectors
(Percent Change for YTD, Ending June 30, 2016)

Oil & Gas	**15.02**	**Consumer Services**	**0.02**
Basic Materials	**8.56**	**Telecommunications**	**23.82**
Industrials	**7.97**	**Utilities**	**23.76**
Consumer Goods	**7.87**	**Financials**	**-1.69**
Health Care	**-0.35**	**Technology**	**-0.79**

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Top 25 Stock Returns for US listed Stocks with a market cap greather than $1 Billlion			
RIC	**Company Name**	**Market Capitalization (USD, Millions)**	**Total Return, YTD (Compounded) (%) As Of: 6/30/16**
CPXX.OQ	Celator Pharmaceuticals Inc	1,284.30	1614.77%
AJGH.PK	AJ Greentech Holdings Ltd	5,254.16	626.50%
CDE.N	Coeur Mining Inc	2,075.63	329.84%
MJMD.PK	MediJane Holdings Inc	1,695.71	300.00%
NERO.PK	Neuromama Ltd	32,765.20	288.46%
MUX.N	McEwen Mining Inc	1,318.73	264.57%
CLF.N	Cliffs Natural Resources Inc	1,222.53	258.86%
FMSA.N	Fairmount Santrol Holdings Inc	1,281.51	228.09%
HL.N	Hecla Mining Co	2,323.28	170.24%
QUAD.N	Quad/Graphics Inc	1,255.61	160.21%
NEM.N	Newmont Mining Corp	21,783.60	117.82%
TLN.N	Talen Energy Corp	1,760.82	117.50%
AXLL.N	Axiall Corp	2,290.56	114.35%
X.N	United States Steel Corp	2,929.94	113.37%
AKS.N	AK Steel Holding Corp	1,176.56	108.04%
CNV.OQ	Cnova NV	2,224.23	105.39%
CNX.N	CONSOL Energy Inc	3,754.72	103.95%
RICE.N	Rice Energy Inc	3,525.37	102.20%
GDX.P	VanEck Vectors Gold Miners ETF	10,700.91	101.97%
OKE.N	ONEOK Inc	9,967.36	100.78%
RGLD.OQ	Royal Gold Inc	5,431.52	100.23%
CLR.N	Continental Resources Inc	15,896.83	97.00%
QUOT.N	Quotient Technology Inc	1,137.71	96.63%
NGL.N	NGL ENERGY PARTNERS LP	1,877.14	91.35%
SLCA.N	U.S. Silica Holdings Inc	2,216.20	84.94%

Bottom 25 Stocks Returns for US Listed Stocks with a market cap greater $1 Billion			
RIC	**Company Name**	**Market Capitalization (USD, Millions)**	**Total Return, YTD (Compounded) (%) As Of: 0M**
ENDP.OQ	Endo International PLC	3,820.87	-74.53%
RH.N	Restoration Hardware Holdings Inc	1,229.16	-63.90%
IONS.OQ	Ionis Pharmaceuticals Inc	3,053.39	-62.39%
PBYI.N	Puma Biotechnology Inc	1,120.69	-62.00%
LC.N	LendingClub Corp	1,667.68	-61.09%
CVI.N	CVR Energy Inc	1,251.24	-58.74%
FIT.N	FITBIT INC	2,981.51	-58.70%
RARE.OQ	Ultragenyx Pharmaceutical Inc	2,063.41	-56.40%
PCRX.OQ	Pacira Pharmaceuticals Inc	1,356.23	-56.08%
INSY.OQ	Insys Therapeutics Inc	1,086.08	-54.80%
PTLA.OQ	Portola Pharmaceuticals Inc	1,345.12	-54.13%
SCTY.OQ	SolarCity Corp	2,410.58	-53.10%
SRPT.OQ	Sarepta Therapeutics Inc	1,024.19	-50.57%
HALO.OQ	Halozyme Therapeutics Inc	1,172.18	-50.20%
PRTA.OQ	Prothena Corporation PLC	1,524.07	-48.67%
SPWR.OQ	SunPower Corp	2,067.93	-48.38%
SAGE.OQ	SAGE Therapeutics Inc	1,078.94	-48.32%
DATA.N	Tableau Software Inc	3,751.04	-48.08%
TOUR.OQ	Tuniu Corp	1,161.91	-47.25%
FGEN.OQ	FibroGen Inc	1,076.03	-46.14%
LPLA.OQ	LPL Financial Holdings Inc	2,054.37	-45.98%
YY.OQ	YY Inc	1,882.20	-45.78%
ALKS.OQ	Alkermes Plc	7,435.83	-45.55%
OMF.N	OneMain Holdings Inc	3,234.03	-45.06%
CYH.N	Community Health Systems Inc	1,483.35	-44.82%