Mimosa Investment Management

1st Q 2016

Mimosa Memorandum

2015 and the start of 2016

Stock market returns for 2015 were in a range from slightly positive to modestly negative. According to Morningstar data, with the exception of the large cap growth stocks, all US equity sectors declined. Small and mid cap stocks did not perform well, and global stock returns were negative as well.

Index	2015 Total Return
Dow Jones Industrial Average	**+0.2%**
S&P 500	**+1.4%**
S&P Mid Cap 400	**-2.2%**
Russell 2000 Small Cap	**-4.4%**
FTSE All World	**-1.7%**
Barclay Intermediate Gov/Credit	**+1.1%**

The two primary headwinds for the equity markets in 2015 were plunging oil prices and the strong performance of the US dollar. Oil prices declined by over 30% in 2015, after a 46% decline in 2014. Saudi Arabia increased production, and has stated that they will pump whatever additional amounts may be needed to accommodate demand. Meanwhile, Chinese economic growth has sputtered, and its increased demand for oil and other natural resources such as iron ore and copper has waned. It's difficult to see that these markets will improve significantly in the short run.

The US dollar continued to appreciate against most foreign currencies as the year progressed. This appreciation make our exports more expensive and less desirable in world markets. Manufacturing growth has slowed due in large part to this headwind. In addition, all US companies with foreign operations have to report reduced revenues as the foreign currencies are converted back to US dollars. While the US Federal Reserve continues to increase interest rates, the US dollar is likely to continue to appreciate against most foreign currencies.

The narrow path to growth in 2015

According to Morningstar indicies, every stock sector in the US declined in 2015, with the exception of large cap growth stocks. The positive returns in this sector were driven by a small handful of stocks - Amazon + 118%, Alphabet (Google) +47%, Facebook +34%, Netflix +134%. The top 10 performing companies in the S&P 500 gained, on average, 71% in 2015. The rest of the market, or some 490 stocks, were down over 4.5% for the year.

The Start of 2016

As the new year kicked off, weakness in Chinese data caused a sell off in the first several trading days of the new year. As we reviewed in our 3rd Quarter Memorandum, China will continue to struggle to grow as rapidly as it has in the past. Wage rates have increased to the point where they are no longer the low cost producers of many goods. Manufacturing jobs are migrating to other places like Vietnam, where goods can be produced more cheaply. The US economy continues to grow slowly and is forecast to grow at same 2% to 2.5% as the past 6 years.

Our Outlook

We believe that while the stock market will continue to face obstacles in 2016, growth is likely in the new year. Lower prices at the pump will provide additional spending dollars for US consumers. Although job growth has slowed in manufacturing, services growth is continuing amid a still low interest rate environment. We expect Federal Reserve interest rate increases we'll be few and slow in coming. The election cycle will likely produce plenty of volatility but little in the way of meaningful policy changes. With valuations near historical norms and rates well below norms, we expect the market will end the year in positive territory.