

January 4, 2016

Hello Friends,

Happy New Year. I hope that this letter finds both you and your family happy and in good health. Another year is in the books and now we all look forward to more prosperity and happiness in the New Year ahead.

As I begin my third year with our new firm, I have again published my list of favorite stocks for 2016. But first, let me recap the 2015 list and how that group performed. Of the 12 stocks, five did better than the Dow average and seven did worse. My three best performing stocks were United Healthcare (+17%), CyberArk (+15%) and Lockheed Martin (+13%). My worst performer was Yelp, down a disappointing 47%. Overall, the year was a disappointment as the Dow lost 2.1% and the S&P 500 was down 0.5%. This was the worst and first down year for the Dow and S&P since 2008. The NASDAQ did a bit better, but it was a real challenge to try and eke out a positive rate of return.

This year's list of my 12 favorite stocks is a mainstream and less volatile group. My inherent optimistic view of the world leads me to believe that the markets will perform well for 2016, but I want to scale back the risk level just a bit and I prefer to take a more defensive and conservative view of the world. The focus of the list is on dividend stocks and each pick has a current yield above 1%. As much as I still like owning Amazon, Google, and Netflix, these stocks do not pay a dividend.

The direction of interest rates worry me. Janet Yellen raised the Fed Funds rate in December and it is widely perceived that there are either two or four more rate hikes in our future. My view is that additional rate hikes are a negative for stocks and would present additional headwinds. There is a saying on Wall St. "Don't Fight the Fed".

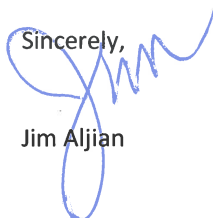
I believe that the economy is struggling and not creating all of the new jobs that are being reported in the employment data. As we approach the November election, it is possible that the Fed will raise rates claiming that the economy is strong and that rate hikes are warranted. Of course, if that backfires, and we slip into another recession in 2017, the results of the election cannot be undone and the Fed will have four more years to back off on interest rates and attempt to fix things. Historically, stock market rates of return have been lower in a rising rate environment.

I'm also anxious about the outcome of the election. If either of the current leaders in the polls, Clinton or Trump, go onto be elected President that could be problematic for stocks. Clinton has already pledged to attack Wall St. and is taking aim against the pharmaceutical and biotech companies. She has proposed tax increases for both income and capital gains rates. If government continues to take a larger slice of the pie, I believe that is a negative for stocks.

Trump could be a loose cannon. I fear that the day after the inauguration he might start firing cruise missiles at every country that doesn't agree with his agenda. If he is successful in building a wall between the United States and Mexico, no doubt there would be a large neon "Trump" sign every mile or so in the same manner that he has plastered "Trump" on his hotels, residences and casinos. My point is that his ego could get in the way of effective leadership, similar to the current President. It seems as if all the Democrats and Republicans are against Trump. No one supports his candidacy except for the voters.

Enclosed is my list of 12 favorite stocks for 2016. The common theme with all of these picks is that they should be less volatile than the overall market and all have attractive dividend yields. If there is a broad market decline, it is much easier to hold a position and collect the dividend while waiting for better days. And if we are all so fortunate that the market surges in 2016, then I would expect this group would participate along with the broader market.

If you have any questions, or would like additional information, about any of these stocks, just call or email anytime. And again, I am always available to discuss and review your risk tolerance and investment objective. I'll do my best to schedule a personal meeting, but as a minimum we'll talk on the phone. Just call. Best wishes.

Sincerely,  
  
Jim Aljian