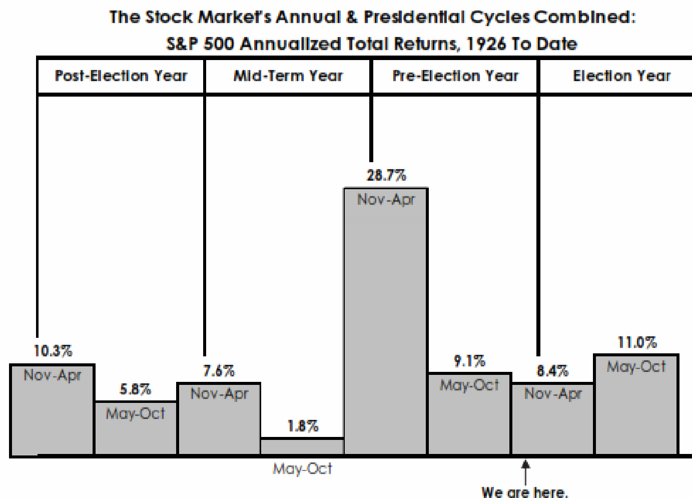
9000 Keystone Crossing #630
Indianapolis, IN 46240
www.thearcherfunds.com

Archer 2016 Annual Update and Outlook:

All we can say is thank goodness 2015 has come to close! 2015 was supposed to be a typical pre-election year with a solid advance in the S&P500 just as it has been every other pre-election year all the way back to 1939, the last time it was negative. During that time frame the United States was getting drawn into WWII. Even 1987, the year of "Black Friday" the market turned in a higher return than 2015. With a return just north of 1% in the S&P 500, this has turned out to be one of the worst pre-election years. Typically those who control the White House have staged the market for solid returns with policy that induces economic expansion so their party can stay in power.

Pre-Election Year	S&P 500 Total Return
1927	37.5 %
1931	-43.3
1935	47.6
1939	-0.4
1943	25.9
1947	5.7
1951	24.0
1955	31.6
1959	12.0
1963	22.8
1967	24.0
1971	14.3
1975	37.2
1979	18.4
1983	22.5
1987	5.2
1991	30.5
1995	37.4
1999	21.0
2003	28.7
2007	→ 5.5
2011	→ 2.1
2015	→ 1.4
Average	**17.9**
Median	**22.5**

In difficult years like 2015, there is usually a rainbow that shines and shows us solid returns in our diversification strategy. Asset Allocation strategists like ourselves diversify so that when one area is weak, there is usually an area to be thankful for. According to Bianco Research, LLC and Bloomberg there has not been one year since 1995 where at least one asset class did not return 10% or more. Further, over the last 90 years, there were only 4 years where returns were under 4%. 2015 happens to break the track record since 1995. It did not matter what you invested in: Stocks, bonds, foreign developed, emerging markets, commodities, real estate. They all turned in boring returns at best and, in the case of commodities and Emerging Markets, returns were sharply negative. Real Estate was the top performer in 2015 at 2.5%.



Enough of 2015, what roads will be paved in 2016? What is going to give us a smoother ride? The answer is not so simple. The groundwork has been laid by the Fed clearing the way for higher rates. Historically when the Fed begins a tightening campaign as the first chart shows below, the road gets a little bumpy and then smooths out later. 2016 may be no different. Rates have been set higher and thus we might see the volatility associated with this move only to have a much smoother road by the second half of 2016. Our outlook for 2016 is much like our past outlook for 2015: Muted Returns. As you might recall we were only expecting an approximately 6% return.

The 2nd chart below shows how foreign markets have historically behaved. Clearly, the world markets fair much worse than the United States. We maintain this is simply based on the relative economic strenght of the United States. The US economy is usually doing well when rates are hiked by the Fed. This is the case this time as well. The rate hike was predicated on a recovery of the US economy for the previous 18 months. Most rate hikes are not because inflation is out of control. Why the rate hike then? Especially since the economy at this point has improved, but is looking a little long in the tooth in terms of improving. The Fed is looking to give itself some wiggle room if they need to drop rates later as to add some powder in the keg for later.

Performance Around 1st Hike - S&P 500

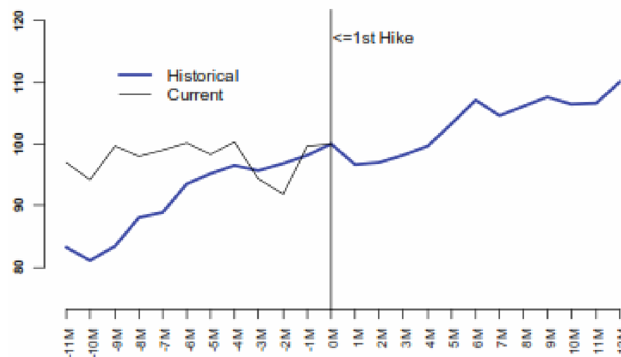
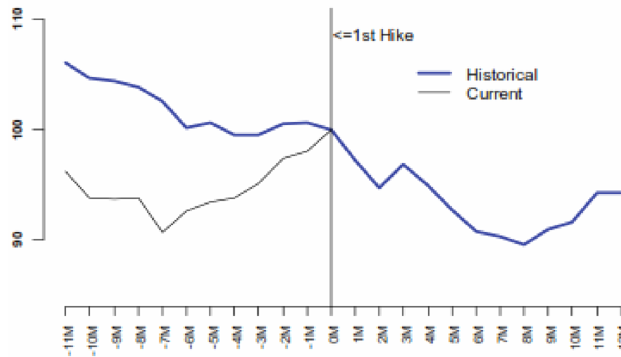


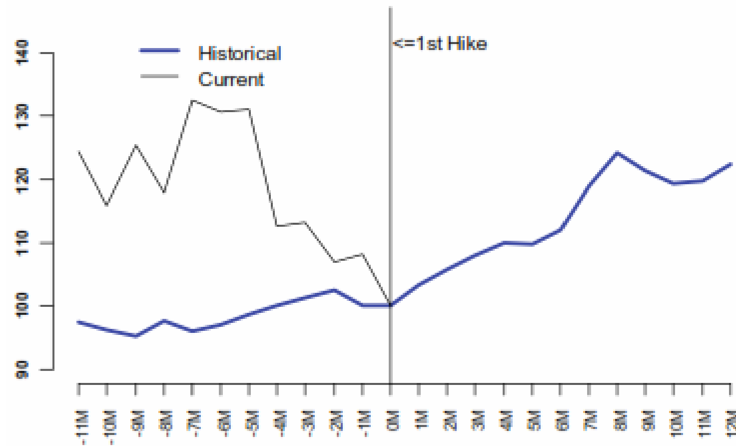
Chart 5

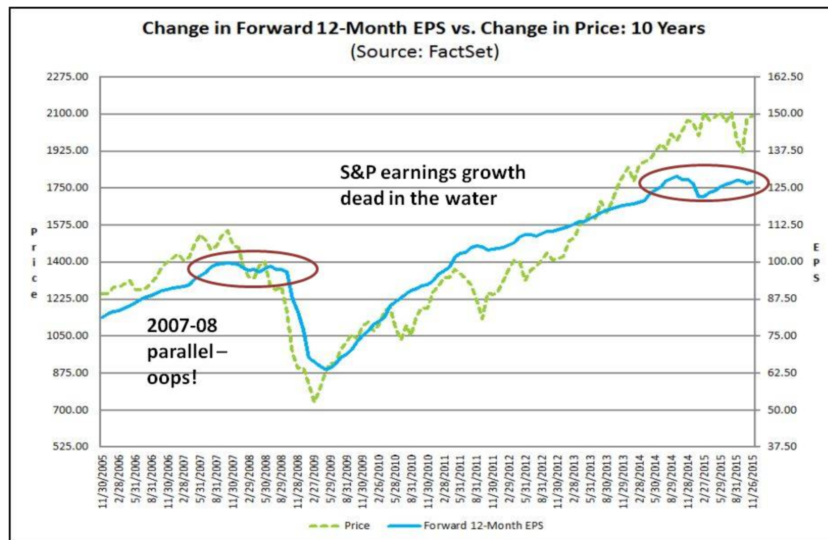
Performance Around 1st Hike - MSCI US/World ex US



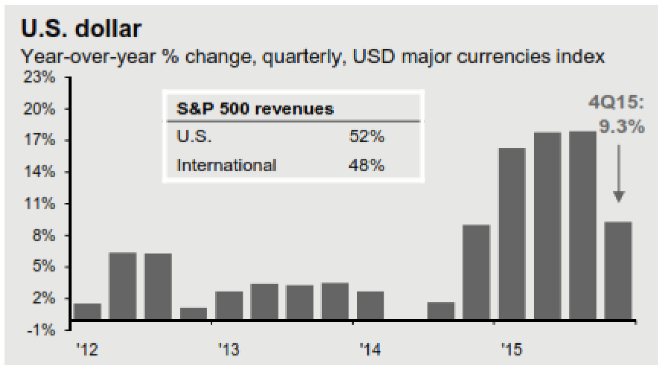
Let's look at another chart showing how the commodities generally fare after the first rate hike. As we have seen in 2015, the market has had a tough time convincing the consumer they are saving money with the fall in oil prices and prices at the pump. The amount of capital expenditures in the oil sector has fallen like a rock off the shelf. If

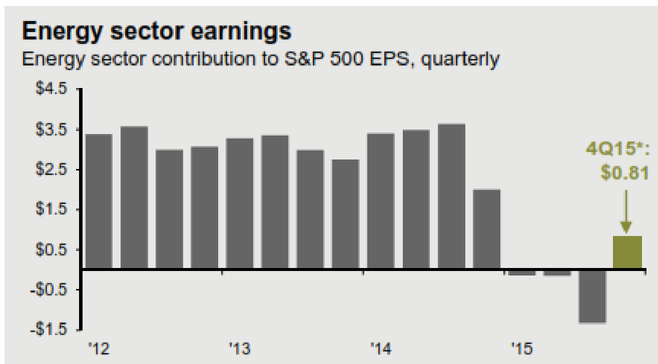
commodities turn around and more capital goes into the sector or we can just stop the bleeding, we may see not only oil and commodities rise, but the markets may rise in tandem with the commodities.





To ascertain how 2016 will perform, let's look at the main earnings growth drivers, or lack thereof, for 2015. In 2015, we saw margin expansion of near 0.8%, share repurchases of 2.2% (corporations had excess cash and some issued low cost debt to buy their own stock), but we saw revenue decline mainly due to the increase in the US Dollar. This negatively impacts those corporations doing a majority of their business overseas. The increase in the dollar not only impacts revenues but ultimately impacts earnings as well. Another main driver of negative earnings (EPS) in 2015 was the decline in Oil and Commodities (also partly due to the increase in the Dollar). See the JP Morgan charts below how oil impacted earnings and how it will likely assist in pulling the market back out of the earnings slump we saw in 2015.





If Oil and the US Dollar were to stay unchanged this would help the year-over-year percentage change in revenues. If the Dollar stays even for 2016, we could see revenue increase up to 4%. However, we think it will be more like 2%. The same with earnings growth, we expect earnings growth of 3-5% since it will not have to fight the US Dollar as it did in 2015. These factors with ongoing share repurchases similar to 2015 and no margin expansion should make way for an increased market by 5-7%. We believe these catalysts will keep the markets in positive territory. Again, as mentioned in previous outlooks, the amount of cash available to return to shareholders has grown and the supply/demand of stock continues to decline due to stock buybacks by companies in the S&P 500. Albeit, this is not organic growth in earnings, it is still growth as less shares and the same earnings equates to higher earnings per share.

With potentially added volatility in 2016 from the Fed raising rates, muted earnings and sales growth, a possible slowing manufacturing, why would the markets turn in a positive performance in 2016? Currently, the Forward P/E ratio is 16 which is close to the average of 15.8 since 1990. With growth of GDP in the US between 1-2%, and interest rates at all-time lows, this Price to Earnings ratio appears appropriate. Therefore, we think the market is currently fairly valued and if earnings rise near 5-7% from a combination of share repurchases and earnings growth, we think the market (S&P 500) will perform in the same range.

Regards,

The Archer Team

Troy C. Patton, CPA/ABV
Steven C. Demas
John W. Rosebrough, CFA