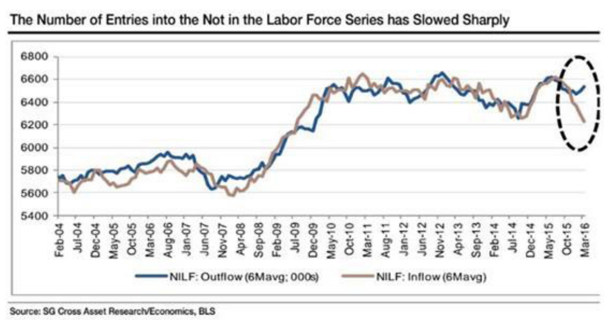
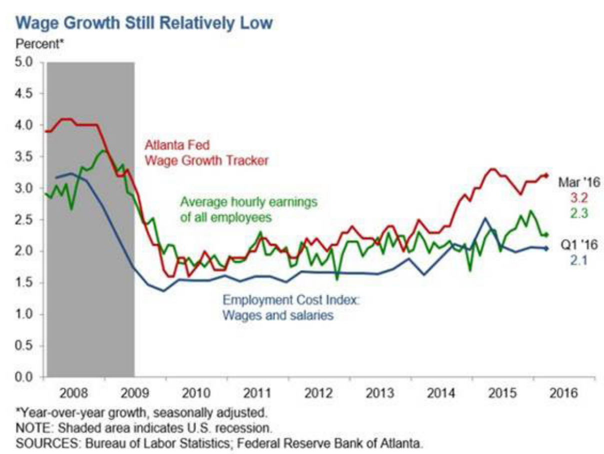
WEEK-END SUMMARY

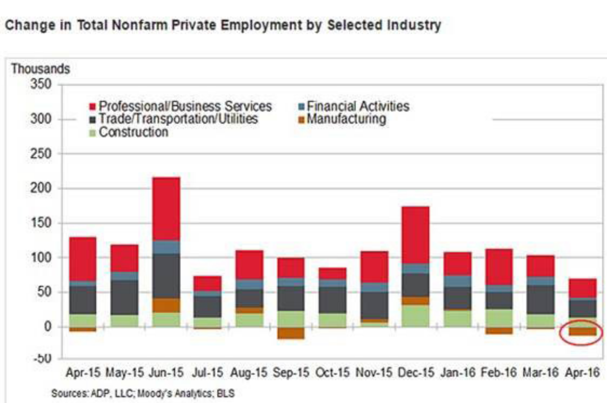
By Jordan Wirsz - Savant Investment Partners

Here we are in the first week of May, 2016, and as it never seems to fail, there are headlines everywhere that confuse the daylights out of investors.

I want to start our Savant Report this week by saying that the Savant Report is meant to be a simple, one-stop read for investors to determine where things stand for the week in a variety of markets, with actionable ideas for you to consider. Keep in mind, however, that high quality actionable ideas don't come every week….Market cycles don't move that fast. I am expressly *not* a trader, and I discourage people from trying to "trade" the markets. I've seen an unbelievable amount of investors try to time the market, and they fail a minimum of 7 out of 10 times. Trading is difficult…Much more work, for a lot less money, than simply trying to time the bigger market cycles and take advantage of strategic opportunities. Therefore, I often talk about the bigger picture that paints the background on which the markets dance. This is perhaps one of the few ways to stay involved, but not necessarily invested week by week.

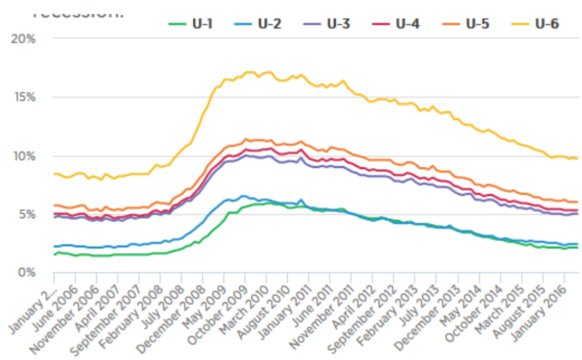






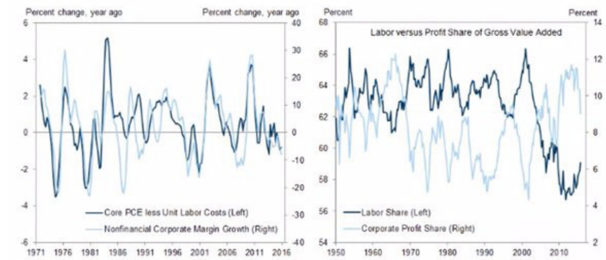
This week, we have major headlines which affect the longer horizon for stocks, bonds, real estate, and commodities. First, lets start with the unemployment rate. The U.S. unemployment rate was left unchanged at 5% in April. However, that 5% figure is what is known as the "U-3 unemployment rate" which is defined as "total unemployed, as a percent of the civilian labor force," but does NOT include a number of employment situations. A broader figure, known as "U-

6” is used as a more “real” number for unemployment. U-6 unemployment is defined as “persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the labor force.” Well, the U-6 number is almost double the U-3 number, coming in at 9.7% for April.



We’ve known for a long time that the unemployment number is not truly inclusive of underemployed or other lacking employment participants, but the U-6 number is significant because it is still several percentage points ABOVE the pre-recession level. Yet, we look at stocks, and we are ABOVE the pre-recession level in many valuations. This disconnect between jobless rate and stock valuation is never in percent harmony, but it is a clue to overvaluation and undervaluation. The trick is to understand that overvaluation can persist for sustained periods of time, and

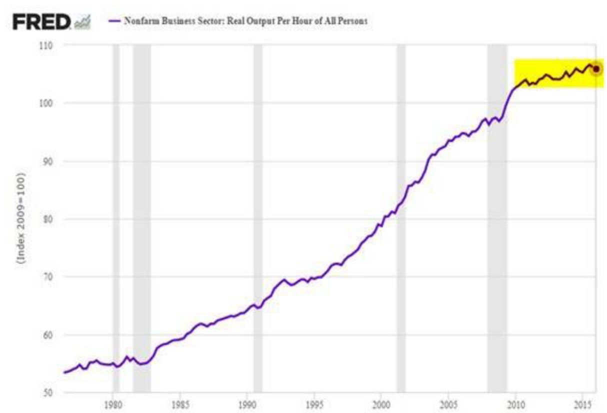
Corporate Profits Margins Declining as Wage Gains Outpace Inflation



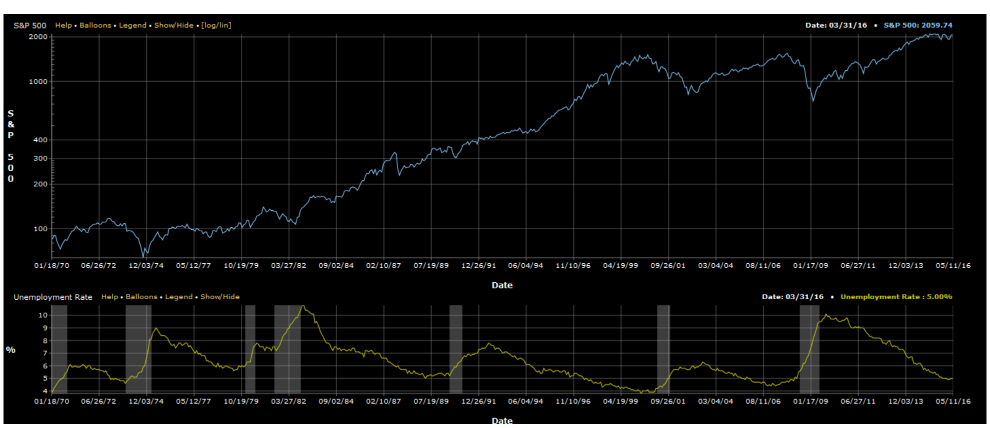
Source: Bureau of Economic Analysis, Goldman Sachs Global Investment Researcl

Here you can see that corporate margins are down, while wage increases are up. This is a fundamental issue that will undoubtedly have a direct impact on valuations.

Another tell-tale sign that wage inflation (what little it is) may drag down valuations is the plateaued productivity curve.



This is a chart of the unemployment cycle versus the stock market cycle, which shows the ebb and flow of both. Based on this chart



showing the correlation, it is not entirely out of the realm of reason to expect a pullback in stocks or a rise in unemployment rate. This would be somewhat common for election and post election years.

Now its time to get political.

POLITICS:
Remember back to 2008 when it was an election year… the markets were hanging on by the skin of their teeth. We had seen quite a substantial run up in equities during the boom, real estate soared, and unemployment was low. 2008 was a year on the fringe, and that election year the world fell apart, starting with the U.S. I hear from stock traders about all kinds of statistics that say election years are good, bad, and everything in between based on statistics that they pull from election years past. But here is what I can tell you, is that this election is nothing like what we've ever experienced before. Take what we've known from the past, and throw it out the window. We are in a uniquely different economic and political environment, and investors and traders alike are grasping at straws to try and figure out which way the markets are going.

When you look at successful investors like Warren Buffet who always seems to be more patient than most other investors, the core principle of success seems to be the idea of relative value with a long term view. When you look at stocks today, and specifically the chart above, it's difficult to say that stocks are cheap like they were several years ago. In fact, we've doubled or more since the lows of the recession. My point is not that stocks are expensive, but that they are not as cheap as they once were, and secondarily, that values are difficult to truly determine in today's environment.

My good trading buddy Jim Willis thinks that we could see a sideways pattern in stocks here for several months to come, and he believes ultimately ending the year on a high note. I believe that the stock market certainly has the potential to go much higher from here, however, at current levels without a technical correction which we haven't seen, there is likely more risk to the downside than probability to the upside. Remember, "The trend is your friend until the end." The trend has certainly been to the upside over recent years.

During an election year, there are going to be a lot of calculated decisions from the big money, and much of which may not want to place a bet one way or the other until after the election. In this case, given the volatility and deep divisiveness in the country, they may not want to make a decision until well AFTER the election to see how things play out. A close family friend is graduating from the Arizona State University in engineering. He has been interning at a massive public company which shall remain nameless, but is intimately involved in defense contracts and is reliant on government spending. The bottom line is that the company will not offer even the most talented intern a full time job opportunity until AFTER the election, to try and determine whether they will have future contracts and revenue to support it. The point is, even the biggest companies are unsure of what is to come this year from the intense political battle that is ensuing right now. That means jobs are likely to remain flat, the market may remain flat, and everything may get the "pause" button pushed until we know who the next president will be.

Like it or hate it, this presidential election will shape America unlike ever before. There is an unmeasurable amount at stake. They say, “what doesn’t kill us will make us stronger,” but this election cycle has the potential to literally turn both the democratic and republican parties upside-down, and with it, has the potential to make or break our economy. Do I really want to be invested in equities/stocks with a bet one way or the other? Honestly, no I don’t. I believe that is a bet that is safer to take after we determine what the effects of the election are going to be. As a trader, the impulsiveness will make you want to be early to the bet…But the wisdom of a real investor will happily sit on the sidelines and see where things trend before making a firm decision. Now again, all of this is predicated on the idea that you have zero invested in stocks, and are making the decision whether or not to get in… Likely many of you already have exposure to stocks, and thus the decision becomes more about how much exposure you want versus whether to be in at all or not.

I tend to believe that Donald Trump will likely win the election in November. If you think that his election as POTUS won’t affect the markets, you’re crazy. There will be havoc in currencies, trade deals, commodities, and markets with the unknowns of the changes coming. I’m not saying it wouldn’t be good, but I’m saying the big money movers are likely to step aside to re-think their long term strategy and plan a likely path forward. Companies like Lockheed Martin, GE, Honeywell, Boeing, BAE, etc. will be held to a new standard of efficiency, as Donald Trump has always prided himself on. Having new contracts with big penalties for being over budget and behind schedule could literally rock those stocks to the core. A more fiscally responsible government isn’t necessarily positive for all stocks and equities.

REAL ESTATE and INTEREST RATES:
The real winner from a Donald Trump POTUS is going to be real estate. The real estate magnet himself will want to see the value appreciation of his own assets, and it is also the one asset class that Trump understands the best. Interest rates tie into both real estate and economic strength, therefore under Trump’s presidency, it is likely that he will want to keep interest rates relatively low. Trump has already cleared the way to replace Janet Yellen as Fed Chair (great news!), and will no doubt keep his finger on the pulse of interest rate impact on the financial markets and the broader economy.

Right now, interest rates remain low. Bond yields are incredibly low. The 10 year yield today was at a whopping 1.75%. The Fed funds rate at .37, compared to .13 from a year ago. Literally 25 bps of change in all rates in the last several years. I don’t think that trend is likely to change, now or into the near future.
are likely to remain flat, the market may remain flat, and everything may get the “pause” button pushed until we know who the next president will be.

So, the actionable considerations for this week are:

1. Although unemployment is at 5%, real unemployment is closer to 10%. The economy may be looking rosier than it really is in terms of the equity markets.
2. Wage inflation, albeit small, is out-pacing real earnings growth. That is a major hurdle for any common sense approach to investing in stocks.
3. The unemployment rate and stock market are correlated, very clearly. Time for both to change directions?
4. The possibility of recession in the next two years remains within the realm of possibility. The real employment numbers, stock valuations, slow earnings growth, and low yields are indicators that we should be paying attention to.
5. Election year stats are difficult to invest with, and on top of it, this year's election is as unpredictable as they get. Trump is the likely election winner…I will put money on it. And if that happens, that isn't necessarily positive for a lot of major corporations. Fiscal responsibility and higher expectations from government contractors is going to be the theme. I'd be looking at what corporations are top heavy in government contracting and consider a long term short position if Trump is elected. Although military spending would increase, standards will be much higher and tighter than many of those contractors have ever seen before.

SAVANT REPORTS FUTURE:

For the past number of years, I have published the Savant Report with great pride and passion for the project. As you have probably already surmised, it is not a "money making" endeavor for me. The Savant Report is a project of responsibility to those who want to pay attention to investing wisdom. However, the growing time commitment that it requires, as well as the growth in my real estate investment firm are both out-pacing my ability to continue to devote the time and effort on a weekly basis to this passionate publication. Although no decisions have been made, I have held several meetings internally within my organization to try and determine how we can continue serving our global subscriber base effectively. Once decisions are made about the publication's delivery frequency, contributing authors, and content layout going forward, we will inform all subscribers and make adjustments as necessary.

ABOUT THE AUTHORS

Jordan Wirsz, CEO

Savant Investment Partners

Jordan Wirsz serves as the founder and CEO of the Savant companies (2011-present) including Savant Investment Partners. Mr. Wirsz brings with him more than 14 years of real estate investment experience in a wide variety of real estate assets representing hundreds of millions of dollars of transactions. Mr. Wirsz is responsible for overseeing Savant's real estate investments including locating and negotiating real estate transactions, asset management, property management, leasing strategies, portfolio strategies, partnerships, investor relations, and administration. In the course of the Savant's business, Mr. Wirsz has spearheaded more than $100 million of real estate investments since 2012.

Prior to Savant, Mr. Wirsz served as CEO of a private capital finance firm (2002-2009) that managed more than $100 million of capital including a private investment fund. As a real estate investment manager, Mr. Wirsz has been a real estate investor and investment manager in many areas across the United States, which includes commercial and residential assets, land entitlement and development projects, industrial properties, office projects, retail shopping centers, and build-to-suit transactions. Mr. Wirsz is a very active commercial real estate investor and has served the roles of investor, developer, lender, fund manager, consultant, and broker. Mr. Wirsz is a nationally recognized real estate expert who has been recognized by members of the U.S. Senate, U.S. Congress, Nevada state government, and has been featured on numerous national television networks including CNBC, NBC, and Fox News. Mr. Wirsz was awarded the prestigious "Young Entrepreneur of the Year" award by the Small Business Administration in 2007. Mr. Wirsz is also a notable author and speaker, and in the past has devoted considerable time to those endeavors through his company Jordan Wirsz International Inc. (2009-2011). Mr. Wirsz continues to speak on investment and business topics when his schedule permits.