January 15, 2016

AR SCHMEIDLER & CO
INVESTMENT ADVISORS
A Pine Street Asset Management Company

THE OUTLOOK

What we are observing in the markets today is closely following the views we expressed in our year-end Outlook, and events are unfolding in a more compressed timeframe. The year began with the Chinese currency weakening, the Chinese Purchasing Managers Index (PMI) and the U.S. Institute for Supply Management Manufacturers Index (ISM) both disappointing, oil prices declining sharply, and the Saudi government executing a noted Shiite cleric. China's slowing economy in tandem with lower oil prices is leading to reduced expectations for global growth and a stronger U.S. dollar, which in turn is placing stress on foreign dollar debts and countries needing to import goods that are traded in dollars. These events have combined to unsettle the markets, and conditions remain in place for volatility.

At the same time there are important positives for the global economy that should be recognized. An important support for global growth is the highly accommodative monetary policy from China, Europe and Japan. Lower oil prices benefit those developed economies which are more dependent on consumer spending, especially the United States. The U.S. remains one of the strongest economies and continues to attract capital. Among the many positives for the U.S. are continued improvement in employment, modest progress in wage increases, lower energy prices, and mortgage rates at or below 4%. Europe and Japan have also been beneficiaries of lower oil prices and interest rates, and their economies began to show improvement in the second half of 2015. These large developed economies are major trading partners of China, and their improvement should help China as well. Nevertheless in light of the headwinds described above, global growth should remain muted.

The risks to the global economy continue to be competitive currency devaluations, driven by China, leading to additional capital outflows from the emerging and commodity-producing countries to the United States, further declines in oil and other commodity prices, and the ongoing strength of the U.S. dollar. A strong U.S. dollar is a negative for the rest of the world as it makes U.S. dollar debts more expensive to service and imports traded in dollars more costly. Lower oil prices are raising concerns of potential debt defaults and bankruptcies in the commodity sector and stressing the finances of oil-producing nations such as Saudi Arabia, Iran and Russia. Due to the fragility of the global financial system, we expect the Federal Reserve to exercise caution with the timing of additional interest rate increases.

In this slow-growth environment, the key areas of emphasis for client portfolios are owning high-quality growth companies and high-quality dividend growers while maintaining or building at times reasonable cash balances to be opportunistic. From a portfolio perspective, we plan to take advantage of market volatility when price declines for good businesses make them more attractive investments. Our focus remains on owning select companies benefitting from positive trends in mobility and cloud computing, rising defense spending, healthcare, U.S. consumer spending and the shift to a more service-oriented global economy. We continue to target companies that are gaining market share, maintaining or improving profit margins, increasing free cash flow, increasing pricing power and/or growing dividends. Weak markets have always been the best conditions for purchasing the most undervalued assets to build long-term capital and generate income.

Please call us with any questions or comments.