Sound Investments Inc.

Fourth Quarter 2015

DJIA 17425 S&P 500 2043 NASDAQ 5007

Summary

An analyst for Wells Fargo recently wrote, "As far as the domestic economy is concerned, we see growth continuing." RBC Capital Markets economist, Tom Porcelli, sees the same things, stating, "The U.S. economic backdrop is relatively sound." The economy can grow at 2 -21/2% per year, which isn't great, but is a sustainable pace.

Fear and uncertainty caused the market to decline approx. 10% during the first 14 days of 2016. The usual suspects are receiving most of the blame: collapsing oil prices, slowing growth in China and the high U.S. dollar.

Louise Yamada states that while interim bounces in the marketer are possible, she thinks we are in a cyclical bear market. She believes the S&P 500 may well drop to the 1600 level which would equal to the market tops in 2002 and 2007. (See the blue line ion the back of this page.) I think we are range bound, which, is highlighted on the chart on the back of this page.

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This investment letter is mailed quarterly to our clients and friends. The intent of this publication is to share some of our more interesting views and research.

Short Review of 2015 - No Place to Hide

2015 was a tough year. Both the Dow Jones and S&P 500 were down approximately 1%. However, prior to this year, we had 6 years of good gains. U.S. Large Cap Stocks lost the least in 2015. Small cap stocks lagged for the second year in a row. Developed foreign markets were down, and emerging markets had a terrible year. Both government and corporate bonds were down as well, as they anticipated higher interest rates in the years ahead. I review Almost all asset classes except, cash, lost ground.

Rough Start for the New Year

As I write this on Jan 19th 2016, the character of stock markets have changed, with the Dow Jones index falling 1400 points in the first two weeks of the year and is off to it's worst start ever. Later in the letter I will review the reasons for this, but first, I wanted to look at the existing state of the economy outlined as follows:

1. Job growth appears to be stable. Our expectations that the monthly gains, which averaged 221,000 in 2015 but 284,000 during the fourth quarter, will hold near these levels. Such a showing could push the jobless rate, now 5.0%, down.
2. Layoffs are at low levels. More workers feel they have job security, which boosts confidence.
3. Car sales are on fire, hitting record levels in 2015. Purchasing a car is a big financial commitment, one U.S. consumers are increasingly more comfortable making.
4. American homeowners have recovered almost all their equity lost during the housing bust. Overall, net worth, which includes financial assets like 401 k's etc., is close to record levels.

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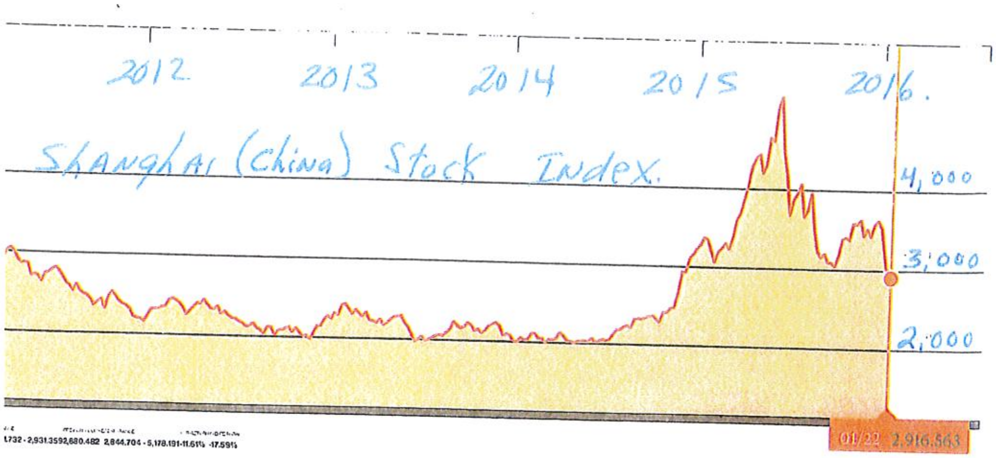
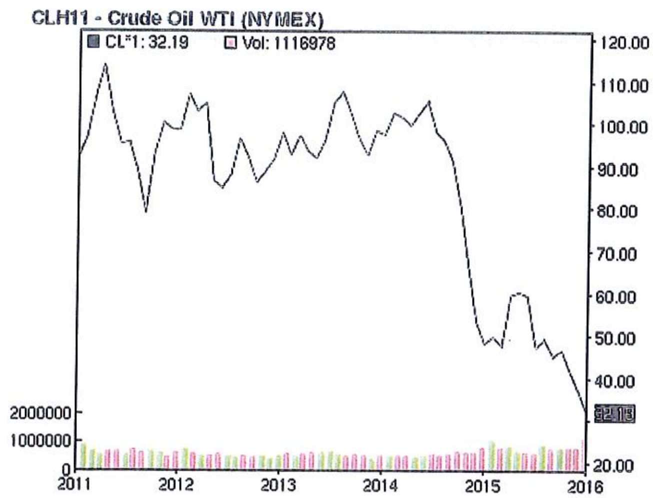


WILD SWINGS IN PRICE OF CHINESE STOCKS

CHINESE PEOPLE WERE FIRST ALLOWED TO BUY STOCK IN 2015.



PRICE OF A BARREL OF OIL CHOPPED IN HALF.

U.S. DOLLAR INCREASED FROM 84 TO 100 OR 19%.

So What's Causing the Market Turmoil?

Fear and uncertainty caused the market to decline approx. 10% during the first 14 days of 2016. The usual suspects are receiving most of the blame: collapsing oil prices, slowing growth in China and the high U.S. dollar. The decline in oil prices not only affects energy companies but steel and home building as well. The oil patch was a bright spot of the recovery and is now gone. China, the world's second largest economy, grew at 10% for 30 years but lately, it's growth has started to wane. With China there is a lack of disclosure. We don't know how successful they have been at converting a manufacturing orientated economy to service driven economy. It may be a hard landing for them. The high U.S. dollar has caused a marked slowdown in manufacturing as products are priced higher in foreign markets. The bottom line is that we are seeing a world wide slow down. Global tensions in the Middle East and South China sea have added to the list. Even our own political process is adding to the uncertainty. As a result, investors are concerned that profits will disappoint due to the slowing world economy. To account for the higher risk, valuations have to be lower. What this means is that one dollar worth of earnings on average, used to be worth $16.5, now the market may pay only $14 dollars due to higher risk. I began this paragraph talking about fear,and uncertainty .... There are times when the market just doesn't act logically.

It's also worth noting the market has been struggling for over a year -- as I recorded in my quarterly client letters. I wrote about a possible 10% correction, how the slowing economy was testing the markets and how we started to pare back our holdings in the third quarter.

What the Charts Say

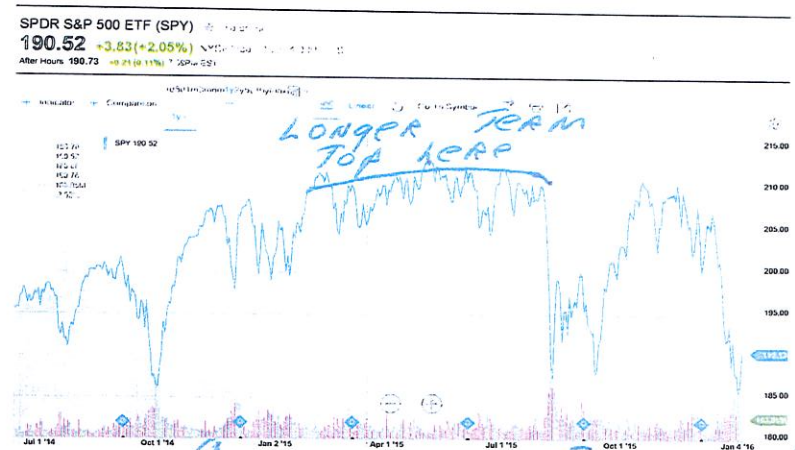
When I began my career in the investment business, I tended to look at sales and earnings and didn't have a lot of faith in charts. Over the years, I've learned to pay attention to the charts and have reviewed the S&P 500 chart, on the back this page, with many of you. In my last client letter (third Quarter 2015), I quoted Louise Yamada, a well known stock chartist, who basically said the market looked tired and there was resistance at the 2060 level and progress beyond that would be muted or difficult. Well, she was right!

Louise, In her last report, stated after Friday close (Jan 14th 2016), that while interim bounces in the marketer are possible, she thinks we are in a cyclical bear market. She believes the S&P 500 may well drop to the 1600 level which would equal to the market tops in 2002 and 2007. (See the blue line ion the back of this page.) I think we are range bound, which, is highlighted on the chart on the back of this page.

Conclusion

The market character has changed and it may take some time for the markets return to normalcy. Capital preservation comes first and that means been cautious in a downturn. The problems are daunting. I don't know if the bull market that began in the dark days of 2009 is finally over, or if this is is just another one of those brief pull backs that turns out to be a buying opportunity. I welcome your phone calls.

I recently received the Five Star Wealth Manager Award and am featured in January issue of the Kansas City magazine. Thanks for for loyalty and confidence in us throughout the years.



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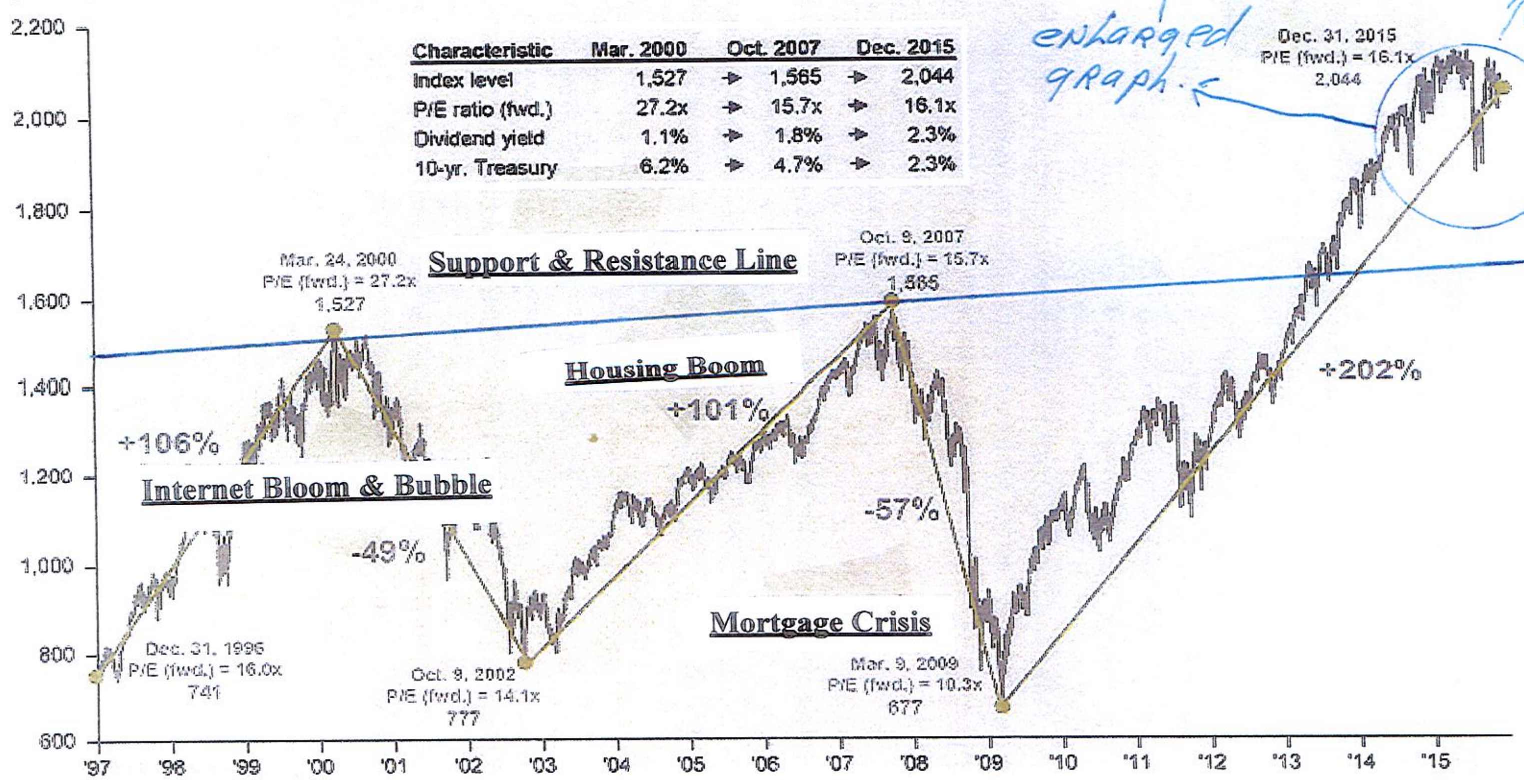
Equities

S&P 500 Index at inflection points

S&P 500 Price Index

Characteristic	Mar. 2000		Oct. 2007		Dec. 2015
Index level	1,527	→	1,565	→	2,044
P/E ratio (fwd.)	27.2x	→	15.7x	→	16.1x
Dividend yield	1.1%	→	1.8%	→	2.3%
10-yr. Treasury	6.2%	→	4.7%	→	2.3%



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.