LOCUST CAPITAL

1st Quarter 2016 Review

Dear Friends: April 8, 2016

The volatile markets of 2015 aggressively carried over into 2016 with both domestic and international equity markets declining steeply through the middle of February only to show an about face and end the quarter slightly positive.

The high volatility of the first quarter came from concerns about the health of global growth; specifically, Chinese economic weakness and the impact on the world's capital markets. In Chinese domestic markets volatility was heightened when twice during January the Chinese Stock Exchanges were halted due to rapidly falling equity prices. Fortunately, Chinese market officials soon realized that closing, then opening, and then reclosing markets was exacerbating volatility and adjusted course to try and foster stability. This heightened market volatility reflected the uncertainty as to whether Chinese economic weakness is a temporary event, or a natural and permanent result of China's attempt to transition from their historically manufacturing economy to one dependent on domestic services and consumption. What we do know is that this uncertainty created volatility in the Chinese market which impacted global markets broadly.

In the United States we observed the equity markets decline over 12% from year end, the ten-year treasury yield declined 23% and Brent crude fell to below thirty dollars a barrel. The price movements of oil dominated headlines throughout the quarter as equity markets became highly correlated with the price of oil. This caused markets to swing violently as movements in the price of oil were met with equal price movements in overall equity markets.

February and March saw efforts from the U.S. Federal Reserve, European Central Bank, and Bank of Japan to stabilize markets which led to a reversal of losses. Central Bank Presidents seem to be in agreement that the danger of under-stimulating or slowing down their economies too quickly greatly outweighs the danger of over-stimulating and letting their economies overheat. Fed chairman Janet Yellen continued to emphasize the need to be cautious despite inflation readings of above 2% and unemployment under 5% (both figures should indicate that the Fed would be raising rates). The ECB increased stimulus efforts by $20 billion Euros per month and began buying corporate bonds to make it easier for corporations to borrow money while Japan moved to negative interest rates. By quarter end the world central banks had calmed the capital markets and we ended close to where we had begun.

Perhaps the most valuable insight from the dramatic market swings of Q1 2016 is that taking a long term perspective to investing is key to not getting off course in the short term. Investors who sold at market lows or attempted to pick the direction of the markets were not those who succeeded in this first quarter of 2016. Going forward we will continue to communicate with you regarding the markets, their impact on your financial plan, and what we believe is the most reasonable course of action for the long term.

Index	**Index Close**	**Quarter Price Change (%)**
S&P 500	2,059.74	0.77%
DJIA	17,685.09	1.49%
NASDAQ	4,869.85	-2.75%
Barclays Aggregate Bond	110.83	2.61%
MSCI Europe-Australasia-Far East	57.16	-2.66%
MSCI Emerging Markets	34.25	6.40%

A final note, we are pleased to have Chris Hines our new CIO take over as the author of our communications. We look forward to you all meeting Chris in the coming months. Enjoy the Spring.

Best regards,

Locust Capital Management, LLC