FLEURUS INVESTMENT ADVISORY

May 4, 2016

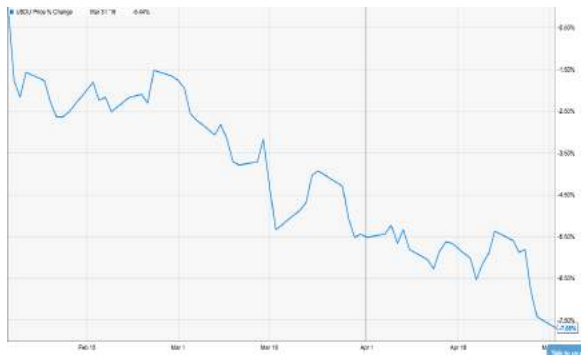
Overview

In April, the S&P's 500 total return index gained .39 %. This compares to 2.30% for international developed markets (EPAC BMI index) and a strong performance in the commodities (DJCI up 9.08%) and emerging market sectors (Frontier markets up 2.32%). Soothing remarks from the Federal Reserve on the pace of likely interest rate increases and similarly market-supportive actions and talk from the central banks of Japan and Europe prompted the USD to retreat a bit more this month. This in turn contributed to a good performance for international equities and risk assets in general, particularly in the commodity sector with oil going up substantially. The ETF that we occasionally use to deploy capital in this sector (USL) was up 12.75% in April.

Our four model portfolios benefitted from this uplift and rose from .75% to 1.70% this month. Year to date (YTD) our model portfolios are up from 1.15% to 3.10% net of fees. This compares to a performance of 2.57% for a purely US-centric portfolio consisting of 50% SPY (ETF for the S&P's 500) and 50% BIV (US bond aggregate ETF proxy), over the same period.

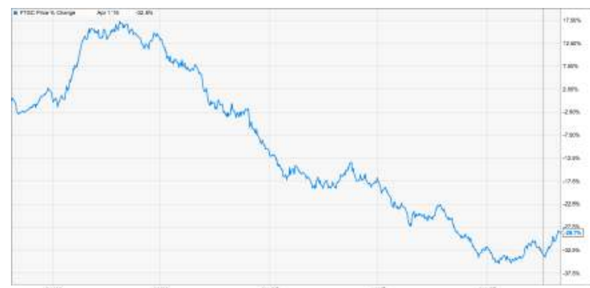
Market developments

During the course of month the USD weakened by about 2% against a basket of major currencies. This is illustrated below in the chart of USDU, an ETF that tracks the performance of the dollar.



By this measure the USD is down about 7% since the beginning of the year and by about 2% since early April (vertical line on the chart). The reasons for that go from accommodative talk from the Fed to massive liquidation of long positions since the beginning of the year.

The downtrend has been particularly beneficial to the commodity sector that appears to have stabilized, after years of decline. The chart below presents the price of FTGC, a commodity sector ETF that invests in oil futures, agriculture futures and metals:



This ETF has bounced well off the trough in mid-February. As for oil, its performance in April was nothing short of spectacular as illustrated below by the price action of USL This ETF is up 12.75% since early April (vertical line) and nicely off its low in February.

The behavior of the USD, oil and the commodity sector in general matters to US equity investors. The stabilization of the oil market is obviously a good thing for the energy sector. However, since it is generally associated with a weakening of the USD, it matters also to all US international companies in that it props up their non-USD earnings. That helps valuation metrics.

As for commodities in general, their price action is indicative of the health of the global economy and that eventually affects all investors. So the upside trend in the first chart on this column is an encouraging sign. Let's hope that it is confirmed over the next few months.

Tilts and Allocations

In April we continued to reduce our USD long positions by selling another third of our USDU investments. We re-initiated a long position in the Russell Small Cap index (using VTWO) after concluding, at the end of March, that the performance gap with the S&P's 500 was particularly wide and likely to shrink. The Russell Small Cap Index bounced up 1.56% in April compared to .4% for the S&P's 500. This helped performance.

We also started investing in FTGC, an ETF with 54% exposure to the agricultural sector. As I indicated earlier, the epic price decline of the commodities sector over the past few years may be over with and now may be a good time to start to carefully gain exposure.

Finally, within the strict asset allocation guidelines that we follow for each of our portfolios, we added to XLE, the energy sector ETF. This helped us again.

Conclusion

Valuations remain high. S&P's 500 earnings have dropped year over year and that makes for a pretty scary picture when looking at the chart of the Schiller PE Ratio below:

If we disregard the two spikes of 2000 and 2008 we still are at the high end of the valuation range (red dot). Granted, the Schiller ratio is backward looking. Nevertheless, earnings have to recover before we can feel comfortable allocating more to US equities overall.

What we conclude from all of this is that this market remains particularly opaque and challenging. Contradictory or soft economic signals globally are contributing to indecision and prudence with sudden bouts of angst on the part of most investors. The first few days of May are a case in point.

While I remain generally optimistic about equities overall, prudence is warranted, particularly when the chart of the S&P's 500 looks like this, with the 200 MA (moving average in yellow) still well below the 400 MA (in blue).

With significant amount of cash in all portfolios, we are ready for whatever the market offers us next.

As usual, please feel free to reach out to me with any questions.

Thank you for your trust and best regards..