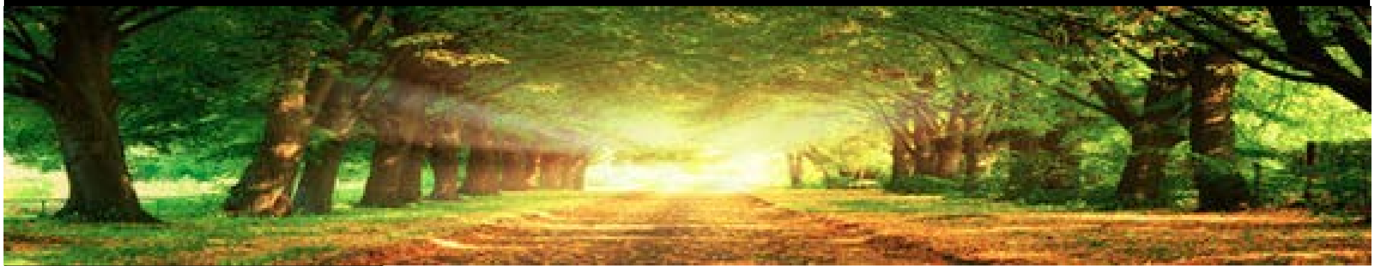

Celestial WEALTH MANAGEMENT

IN THIS ISSUE

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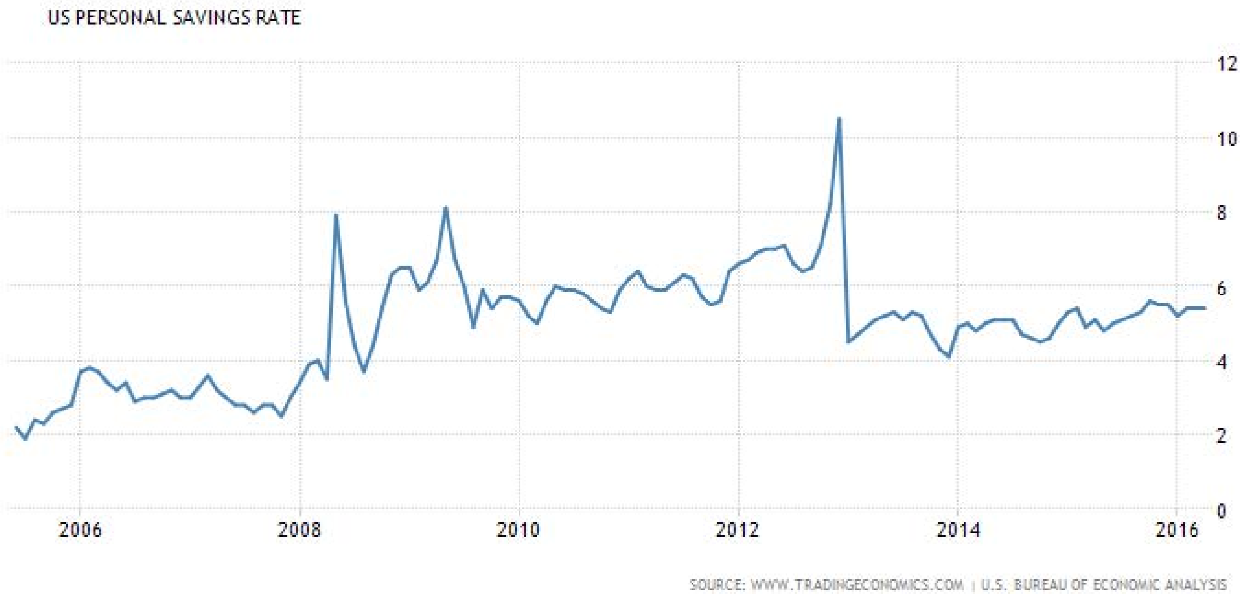
Summary

- As if on cue, as soon as the U.S. stock market got within range of its 2014 and 2015 highs it began trending lower. In my opinion, the swiftness of the rally from the February lows through the mid-April highs made it more likely that at least a pause if not a correction would occur. It seems that may be unfolding now.
- Foreign stock and bond markets in general seem to be correcting at the exact same time. Most stock markets seem to be moving in tandem over the past six months.
- The U.S. dollar has now corrected to the lower end of its channel and briefly breached its lower level in early May before bouncing back up. This correction started around Thanksgiving and has worked off the overbought nature of the dollar. In fact, many of those who spoke of a higher dollar in early winter have left and are now talking about how much lower it could go. This could be setting the dollar up for its next rally.
- Not coincidentally, gold and silver are having their best run since 2013 as gold hovers around $1,300 oz. Gold has rallied 25% this year from a low of $1045.40 in December to a high of $1,306 May 1st. Silver has done even better, rising 32.6% from its December low of $13.62 to $18.06. Mining companies have done even better. The HUI gold miners' index has rallied 138% in five months!
- Treasury Bonds have rallied as questions about how many times the Federal Reserve will raise rates this year have subsided. Now the question is if rates will rise at all in 2016!
- Two new investment themes to think about are detailed below….
  - Take advantage of e-commerce growth through warehouse real estate
  - A potential infrastructure upgrade cycle in the U.S. and abroad

In my opinion, the Federal Reserve has expected outcomes from its policies based on academic research that just don't happen in the "real world". For instance, taking interest rates to zero and robbing savers of interest income doesn't incentivize them to spend more, it does the exact opposite. Not having the interest income to spend incentivizes people to save more and spend less. Is it any wonder why the U.S. savings rate has almost tripled since 2006 when the Fed's interest rates were north of 5%? What sounds good on paper often has unintended consequences in the "real world".

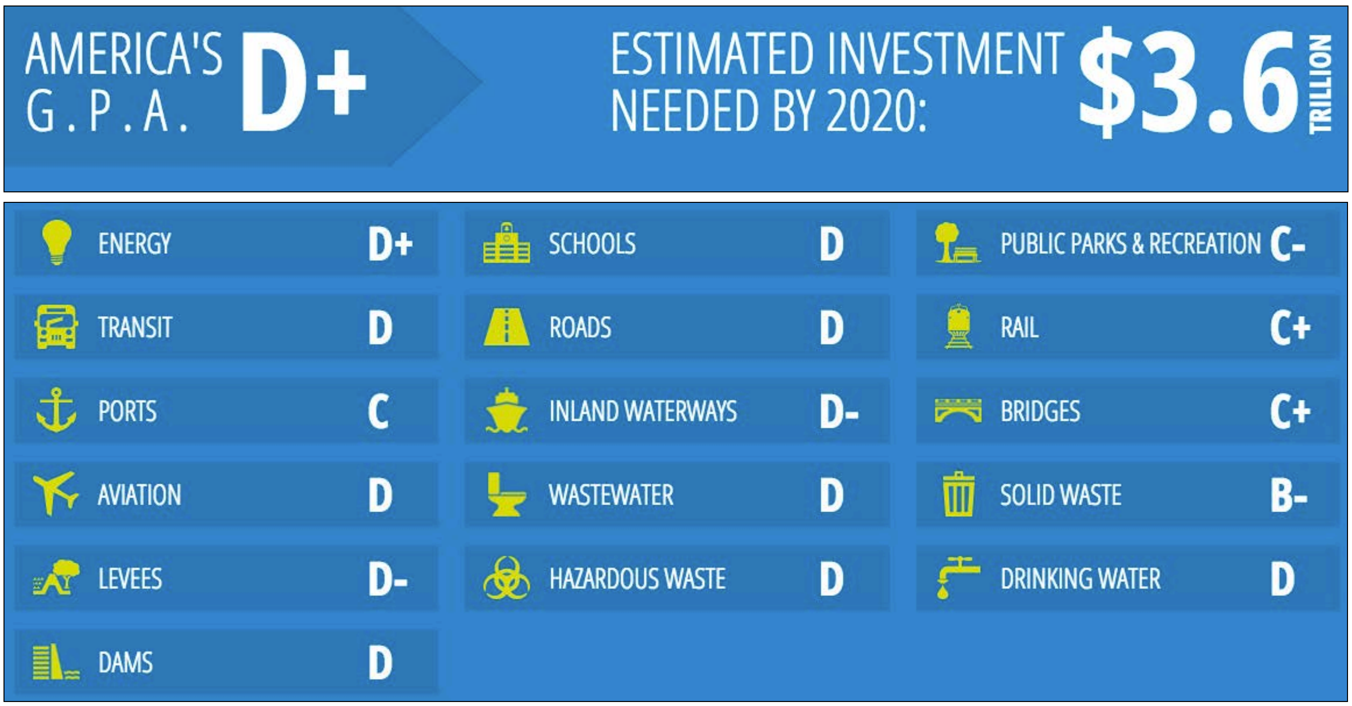


The government has tried many programs since 2006 to pull forward economic demand to goose the economy. Rather than encouraging real, sustained investment in future growth each policy enacted has had a goal of increasing economic output now as opposed to the future. For their next potential act, read on.

Infrastructure….will the repair finally begin?

It's no secret that U.S. roads and bridges are in dire need of repair. Our airports are often substandard when compared with those in other developed nations. The recent water availability issues in California and lead poisoning in Flint, Michigan have brought attention to the age of the existing water delivery system. After years of underinvestment and often neglect from the Federal and State governments, United States infrastructure is in need of a major upgrade.

The American Society of Civil Engineers assigned a grade of D+ to America's infrastructure in 2013, noting that $3.6 trillion of estimated investments are needed by 2020 just to get our systems to a grade of B. But, as we know our lawmakers have struggled to reach an agreement on a long-term funding solution.



I will never put forth a political view in these newsletters, however I have a belief that no matter who wins this election, a bill will be introduced and ratified by both houses of congress to appropriate funds for a large scale infrastructure upgrade project within the next four years. I know that is ambitious to believe that both sides of the aisle can come to an agreement, but I believe as Winston Churchill said, **"You can always count on Americans to do the right thing-once they've tried everything else."** The slowing growth of our economy and increased view that millions of Americans have been left behind following the GFC (Great Financial Crisis), could be the impetus for our incoming President to propose the largest infrastructure project since FDR's New Deal in 1933. All three Presidental hopefulls have publicly endorsed an infrastructure build out, and all three think the best way to pay for it is with borrowed money. While I completely acknowledge the large debt level of the United States, I also realize we have absurdly low interest rates currently that may not exist 5-10 years from now. If ever there were a time to borrow money for an infrastructure project, surely that time is now.

A project of the scale I foresee coming would most likely be widely accepted by voters because they acknowledge and can actually see the problems that exist with our infrastrucuture (as opposed to social security and Medicare which seem far-off to the voting public). The incoming President could use the program as a platform to put those left behind back to work, thus improving the productivity of our population. When used appropriately, low-cost debt can be used to enhance productivity. It's too bad that most of the debt that has been accumulated to this point has done little but pulled forward demand.

In my opinion, there are significant investment opportunities in stocks that could benefit from the increased expenditures both here and in what is already underway in the emerging markets. Let's take a look at a few different ideas.

- The first phase could be the global engineering and construction firms which are contracted to design these large projects and bring them to fruition
- Companies such as toll-road operators that maintain and operate infrastructure projects after they are completed
- Utilities offer an opportunity for growth not normally associated with them. Much of the existing water infrastructure is over 100 years old. A sale of those assets to private utility companies would provide local governments with cash and allow potentially more efficient management and upgrades of those assets

If you would like to learn more about how you may be able to take advantage of this theme feel free to give me a call or shoot me an email.

E-Commerce

The rise of online shopping has indeed come a LONG way since 1995 when Amazon began selling books online. As global consumers adopted this new way of purchasing goods and became more secure in paying for purchases online, e-commerce began to surge. The rise of Cyber Monday during the holiday season has secured as much fanfare as Black Friday sales. According to Bloomberg, in the year 2000, online sales totaled roughly **$27 billion**. In data released by the U.S. Department of Commerce, 2015 web sales totaled **$341.7 billion**. That was a 14.6% increase over 2014 and now accounts for more than 1/3 of total retail sales growth.

According to a 2015 study by CPC Strategy, consumers prefer shopping online to save time, access more product variety, comparison shop and avoid crowds. All sound logical to me. In attempting to find ways to invest in this theme that others may not be thinking about it pays to be a second level thinker. I have no idea what people will buy online but they will probably buy more things online. That means more packaging. Take a look at the bottom of each box that arrives from Amazon or Macy's. They each have a stamp on them that tells the company who manufactures the boxes. I have no idea what will be sold online in the future but I would be willing to bet it will arrive in some sort of box.

Thinking deeper brought me to what might be the center of the e-commerce revolution….distribution warehouses. Distribution warehouses link product manufacturers with consumers by providing essential storage and fulfillment centers.

Rather than being stored on retail shelves at your local Target, Wal-Mart or Macy's, products purchased online are stored on shelves in warehouses around the country. Typically, high demand centers are near the coasts or in the center of the U.S. in places like Indianapolis, Louisville, Chicago and Kansas City. **Did you know you can reach 60% of the population within 24 hours on truck from those central locations?** I didn't realize that until I looked into it. That is why those cities are such desirable places for distribution centers.

These warehouses aren't exactly the most elegant looking real estate. They typically have four non-descript walls, a tall roofline, truck access bays and little if any landscaping. A key differentiator is efficiency. How easy is it for trucks to enter the bay, fill up and leave? That determines profitability for the trucking companies and ultimately the online retailers.

What about growth? A key benchmark for demand is the amount of occupied space. According to Avison Young and Dividend Capital, **from 2000 through 1Q 2013, the amount of occupied distribution space increased by 86.2%**. In comparison, over the same time frame, the amount of occupied retail space grew just 10.9%.

I recently had a conversation with a client who works for Georgia Tech University in Atlanta. When discussing this topic she spoke of the fact that Amazon is opening a distribution center on campus to create faster and more efficient shipping for Tech's 25,000 undergrad and graduate students. It will be approximately 2,500 square feet and offer students and Prime members free same day pickup for orders placed by noon. She spoke of the fact that the first few days of each semester were by far the busiest for the campus post office. If greater e-commerce efficiency could be created, that would be quite attractive. Amazon is opening four more locations in 2016 including U-Penn, UC-Davis, Texas and Akron University. It should come as no surprise that demand seems to be increaseing for prime distribution locations as the e-commerce war heats up.

Lastly, in August of this year S&P and MSCI Inc, announced that they will create a new Real Estate Sector. It is being moved out of the Financials sector into its own sector. Various pension funds, endowments, insurance pools and other institutional managers often use investment strategies based on MSCI and S&P indexes. Many of these investors include them in their mandates, thus the changes will directly affect how these portfolios are positioned.

Those indexes are now underweight REITs when looking at them broken out. As of February, they stood at about 2.3%, however, after real estate is its own GICS classification, that number should be closer to 5%. That could cause north of $100 billion dollars to flow into REITs by the end of 2016 solely based on the index changes.

As the stock market becomes more discerning, warehouse distribution could be an attractive theme over the next 3-5 years. With a number of fundamental drivers behind the theme and the technical driver of the index rebalancing, this could be a nice portfolio addition. If you would like to learn more about available opportunities, please feel free to contact me.

U.S Dollar Update

It is amazing how much the dollar's direction has impacted global markets since 2014. As you already know, I think getting the direction of the dollar right over the next three years could be extremely important for portfolio returns. After correcting and retesting the lower end of the sideways channel, it looks as though the bottom has held. After a pause for the past eighteen months, the dollar could be recharging its batteries for another run higher.

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

The impact of the dollar's strength on global earnings has been well documented. According to Evergreen GaveKal, over 80% of global trade is financed in U.S. dollars. A stronger dollar typically results in lower earnings for U.S. based multi-nationals. This could be a significant reason that global export revenues are currently down 15% year over year.

Investment Ideas

- **Rather than trying to "beat the market", focus on beating inflation and the rate on cash. Plan for safety and liquidity while seeking positive returns.**
- Equity valuations are very rich but masked due to the distortion of the Treasury curve. Volatility is returning to the markets and I think long/short managers are best positioned to capture this volatility by owning companies with strong businesses, barriers to entry, and good valuations and selling short weaker companies with high debt loads that have risen sharply with the broad market rally. I think this strategy of hedged equity may have the potential to produce attractive risk-adjusted returns if and when investors begin to question the valuations of companies. Stock investing involves risk including loss of principal. No strategy ensures success or protects against a loss. Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

- *(NEW) Monsoon country investments. Attempting to take advantage of demographic, educational and investment possibilities in the countries surrounding the old spice routes of the Indian Ocean. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.*

- In 2013, the Affordable Care Act began implementation. There will be many winners and losers in the healthcare industry as a result of the biggest change in the healthcare industry's history. With the largest portion of the U.S. population entering their golden years, healthcare needs will become even more important. Long/short Healthcare seems to be a very attractive way to invest in a sector with lots of potential and lots of potential pitfalls. Investing in a specific sector involves additional risk and will be subject to greater volatility than investing more broadly.

- A potential U.S. infrastructure upgrade cycle may be around the corner. Moving from our current grade of D+ to B would require an investment of $3.6 trillion by 2020.

- Supply problems remain high across the energy asset class. While there isn't a current shortage of energy on the planet, it is taking more and more energy and capital to discover, drill, transport and refine it. Long term Demand should continue to grow globally, particularly in China, India, and other developing countries.

- Potential food shortages due to inclement weather and higher demand from the emerging Asian middle class could result in a boon to agricultural land and potash fertilizer companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

- The rise of E-Commerce has coincided with an increased desire for efficient warehouse distribution real estate. As e-commerce moves toward even faster delivery, positioning of distribution becomes even more important.

- Precious metals mining companies have been extremely beaten down over the past four years. Mining is an industry that spans hundreds of years. Companies that mine for commodities are often highly cyclical, meaning they have sustained moves both up and down. When investing in the mining space it is important to be a contrarian. Ideally, you would want to accumulate miners when sentiment is poor around them and sell them when sentiment is positive. Historically this has been a good strategy.

  No strategy ensures success or protects against a loss.

Regards,

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- The NYSE Gold BUGS (Basket of Unhedged Gold Stocks) Index, also called the HUI Index, is a modified equal dollar weighted index of 15 major gold mining companies.
- The Philadelphia Gold and Silver Index, or XAU Index, is an index of 30 precious metal mining companies that is traded on the Philadelphia Stock Exchange.