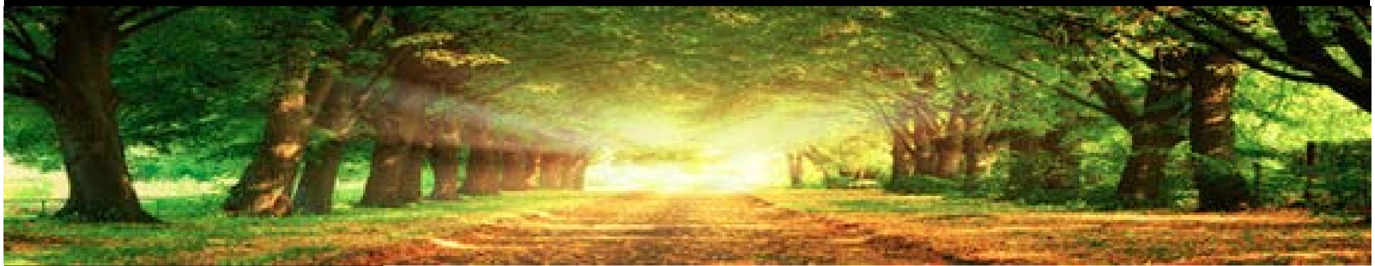
SEPTEMBER 8, 2016



Celestial WEALTH MANAGEMENT

IN THIS ISSUE

Like us on Facebook for even more up to date info.

http://www.facebook.com/CelestialWealthMgmt

Summary

- If Towson, MD (my residence) was a country, it would now be in a tie with South Africa for 38th place for most gold medals won by a country all-time (Summer and Winter games combined). Thank you Michael Phelps! In fact, according to NPR, if measured against the 205 countries now competing in Rio, Phelps has more gold medals than all but 32 of them!
- New All-Time U.S. stock market highs have emerged. Both the S&P and the DJIA seem to be slowly breaking higher. The fears earlier this year of recession, $10 oil, BREXIT, etc. have been swept under the rug.
- Complacency seems to be the theme. Volatility measures such as the VIX are sitting at historically low levels. Who knows how long that can last.
- U.S. economic data continues to come in at sluggish levels….yet the U.S. stock markets are at all-time highs. More on that below.
  - For 2Q 2016, as of August 12, with 91% of S&P 500 companies reporting, the blended earnings have declined -3.5%.
  - This is now five consecutive quarters of year-over-year declines in earnings according to Factset.
  - ISM Manufacturing now reading 49.4 which is contracting again
  - U.S. GDP averaged 1% annualized in the first half of 2016 according to the Bureau of Economic Analysis and grew 1.2% over the past twelve months.
  - All recesssions since 1948 have started with a growth rate higher than that.
  - Only 18% of observations since 1948 are below the current growth level.
  - 94% of those occurred during or within a quarter of a recession according to Michael Lebowitz.
- The U.S. Dollar has slowed its ascent from earlier this year and seems to be consolidating recent gains.
- Gold and Silver have continued higher after a modest August correction.
- Emerging market stocks and bonds have continued their 2016 rally.

Who is in Control?

The world's Central Bankers have been acting together since the 2011 European Crisis in an attempt to "manage" global markets and the global economy. In what is the first global monetary easing experiment in recorded history (in the past it has been a few countries at most), there seems to be no end to their ability to come up with new actions designed to stimulate the economy. Heck, if everyone prints as much money as they need and devalues their currency against each other, then everyone wins because each currency devalues together. But, that is impossible, they must devalue against something. If only we knew what that is…..

The problem is the unintended consequences of the policies that are now beginning to percolate.

In July, the Bank of England cut its interest rates to a record low 0.25%. Additionally, they restarted their stimulus program. Shortly, the European Central Bank is expected to do more of the same. Our Federal Reserve has balked at raising rates so far in 2016, despite a record stock markets and low unemployment (if you believe the 5% rate). In Japan, newly re-elected Prime Minister Abe amped up his spending to $273 billion of stimulus. Former Fed Chairman Ben Bernanke made a visit to Japan to reportedly discuss his version of "helicopter money" which involves bypassing banks and directly giving money to citizens via tax cuts and other "handouts". The current stimulus in Europe and Japan has been so large that it has driven interest rates to negative levels. Here is a recent chart of the number of countries close to negative ten year rates. *Handing my savings over to the government and paying them to keep it seems irrational to me, but apparently that is the best alternative for many.* **I believe in 10 years time we will look back at the idiocy of this investment with disbelief that anyone could have thought that was a good idea.**

CHART 8

10-Year Sovereign Bond Yields as of Julv 27. 2016

Country	Yield	Spread vs. Treasurys
Switzerland	-0.57	-2.07
Japan	-0.29	-1.78
Germany	-0.08	-1.58
Netherlands	0.03	-1.47
Finland	0.07	-1.43
Denmark	0.07	-1.43
Austria	0.10	-1.39
France	0.14	-1.36
Belgium	0.16	-1.34
Ireland	0.46	-1.04
United Kingdom	0.74	-0.76
Norway	0.97	-0.53
Canada	1.07	-0.42
Spain	1.10	-0.40
Italy	1.21	-0.29
United States	1.50	--
Australia	1.95	0.46
Portugal	2.98	1.48
Greece	7.98	6.49

Source: *Financial Times*

Politicians, bankers, advisors, investors and your average citizen may finally be realizing there may be adverse consequences to these policies. I mean, if you could just print your way to prosperity, countries would have been doing it for hundreds if not thousands of years. The recent adoption of negative interest rates by a number of countries around the world seems like desperation. Since the 1980s the world has constructed an ever-growing pyramid of IOUs that central banks now are trying to keep stable… primarily by adding more IOUs.

Unintended Consequences

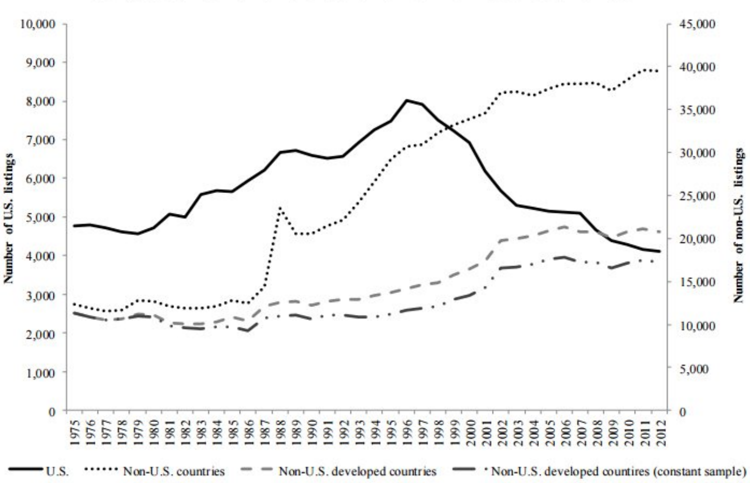
When instituting monetary or fiscal policy, it appears to me that the focus is on the short term and when weighed versus some uncertain point in the future, the short term is often all that is needed. But it also appears that when instituting such a large globally coordinated policy there may be unintended consequences. We have talked about some of these in past commentaries, such as the impact on retirees of reduced interest income when expenses including healthcare may be rising. Here are a few other unintended consequences that in my opinion are quite amazing.

For instance, as Europe and Japan have driven rates toward zero, and bonds that have negative rates are not that appealing, money has been funneled overseas in search of yield. In late July, Japan's Ministry of Finance reported that Japanese fund managers had purchased the most overseas bonds ever in a single week and that U.S. Treasuries were their largest purchase.

Because there has been so much foreign demand for U.S. bonds, many corporations have been able to issue an amount debt that normally could not. Microsoft recently floated a $20 billion bond offer only 9 months after a $13 billion offering that at the time was the largest bond deal in history. There are numerous examples of similar debt increases that seem to be at least partially enabled by the low interest rate policy of global central banks.

As I am sure you know by now, many of these companies have borrowed extensively to fund dividends, stock buybacks and acquisitions of other public and private companies. In fact, according to Business Insider, the number of publicly traded companies has been cut in half from the peak in 1998 to less than 4,000 today. That stat was just amazing. We also know that most of these acquisitions are done with the goal of increasing synergies. That is often synonymous with job cuts as there is no need for two accounting departments, two management teams, two sales forces, etc. The job cuts are often high paying jobs with excellent benefits. Employment reports over the past few years have shown that as these high paying jobs are cut, when the unemployed find new jobs they are often lower paying retail oriented jobs, thus aggregate spending capability of those people declines.

Listing counts for the U.S. for and non-U.S. countries.



Auto sales have been a beacon of light over the past four years thanks to extremely easy credit conditions. In fact, aggregate auto loan demand is substantially higher than the mid 2000s. However, there may be signs that trouble is ahead. In late July the automakers reported results that were much lower than expected. Ford CFO Bob Shanks, said *"We see next year's industry (sales) will be weaker than this year."* According to Ford CEO Mark Fields, industry sales have declined in three of the last four months. Used car prices are weakening as a large number of cars are coming of lease this year. 2016 is actually the largest annualized increase in cars coming off lease in 15 years. Auto dealers seem to be making up for these issues by increasing incentives. While incentives can help combat weakness for a period of time, they may end up making the problem even worse.

Emerging Markets

Let's push the rewind button back to the beginning of the year. I was laying out my theme about the Monsoon region and the long term investment potential of that region. At that point, the financial talking heads thought Brazil was a basket case, Russia would be crippled by low oil prices, China was going to implode due to all their "vacant" cities, and generally emerging markets were a horrible investment. Well that turned out to be horrendously wrong, at least to this point. With extremely low valuations versus the developed world, positive demographics and markets that had already corrected north of 20%, I thought that was the point to begin adding emerging markets for the first time since 2011. The following is a chart of the emerging markets stock index, which is now up over 33% from the bottom! It's possible that might have been a generational low. The key is whether this is the beginning of the next major move in the emerging markets OR this is just a bounce in an otherwise downward trending market. The direction of the U.S. Dollar may have a significant impact on this question. The index just crossed above the support/ resistance line that seems to be very important. If it can rise above the blue trend line at 950 (which isn't that much higher), it would make me much more confident that a longer term up trend has resumed.

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

Gold

I will now answer the question that I posed earlier in this letter. If most countries are attempting to devalue their currencies in order to increase exports and stabilize markets they can't all devalue against each other, something has to strengthen or hold its value. What currency has stood the test of time and has been able to maintain purchasing power through the Chinese, Japanese and Great Britain devaluations of the past year? The answer is gold.

For thousands of years, gold and to a lesser extent, silver have been a solid answer to maintaining purchasing power over the long term and can even create wealth under the right conditions. In fact, according to a research paper by FPI Research, since 1973 when President Nixon took the U.S. off the gold standard, gold has provided positive returns 98% of the time. Gold may not outperform stocks in "normal" economic times but has greatly outperformed equities in times of market stress or less than ideal economic conditions. Those times often have the greatest negative returns for stock investors, so gold can have a significant positive effect on dampening volatility in long-term diversified portfolios.

But, as many have pointed out, it is extremely difficult to value gold for investment purposes. It pays no interest or dividends. It doesn't produce anything. Essentially, gold's value rises and falls with the public's faith in central bank policy decisions. Going back to the Greenspan era, when monetary policy took on a much easier path, the path for gold has been much, much higher. For those who fear the Fed and global central bankers will flood the world with money, gold has more than handled the burden of maintaining purchasing power. $12 trillion in total central bank currency creation, interest rates in many countries near zero for over seven years and now negative interest rates are prime examples of easy monetary policy. Where does it end? When does it end? I have no idea, but so far, when trouble arises, the answer has been more of the same.

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

It seems that investors may finally be starting to question the efficacy of Fed policy. The rise in populism around the globe in my opinion is a direct reflection of social mood. Many feel they have been left behind. The fact that socialism is gaining ground in the United States and that Great Britain decided to leave the European Union are stark examples of how social mood may be questioning not only the political elites but also central bank policies. To me, it is not a surprise that gold has resumed its upward move after a three year hiatus.

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

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.

- 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.

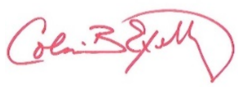
- The rise of E-Commerce has coincided with an increased desire for efficient warehouse distribution real estate. As e-commerce moves toward even faster delivery, positioning of distribution becomes even more important.

- 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.

SEPTEMBER 8, 2016

Regards,



Colin B. Exelby

President

Celestial Wealth Management

29 W. Susquehanna Ave.

Suite 710

Towson, MD 21204

www.celestialwealthmanagement.com

Important Disclosures

- The information herein was obtained from various sources and we do not guarantee their accuracy.
- Neither the information nor any opinion constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instruments.
- All opinions, projections and estimates constitute the judgment of us as of the date on the report and are subject to change without notice.
- This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person.
- Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized.
- Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report. This report should not be regarded by recipients as a substitute for the exercise of their own judgment and readers are encouraged to seek independent, third-party research on any companies covered in or impacted by this report.
- Securities and other financial instruments discussed in this report are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution.
- Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counter-party default risk and liquidity risk.
- No security, financial instrument or derivative is suitable for all investors.
- In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain.
- Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment.
- Past performance is not necessarily a guide to future performance.
- Levels and basis for taxation may change. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.
- This report may contain links to third-party websites. Celestial Wealth Management is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Celestial Wealth Mgmt.
- The fast price swings in commodities and currencies may result in significant volatility in an investor's holdings.
- There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
- Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
- The prices of small and mid-cap stocks are generally more volatile than large cap stocks.
- 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.