



DIVERGENCE CREATES OPPORTUNITIES

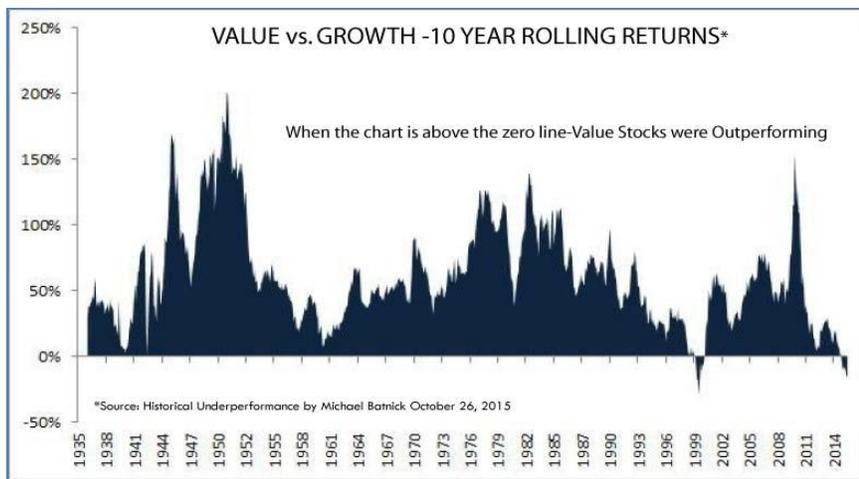
The biggest stock market story for 2015 is divergence of returns. The year 2015 is looking a lot like 1999 where performance was driven by a narrow group of stocks while most stocks did poorly. In 1999, technology stocks seemed to suck money from every other part of the stock market in what in hindsight was clearly a bubble. The aftermath was brutal. The 15 technology companies with the largest market capitalization (cap) in 2000 lost 60% of their combined market value, or about \$1.3 trillion. Only Microsoft has a market cap higher today than in 2000.

What most people forget however is the bursting of the tech bubble coincided with the bottoming of value and small-cap stocks. Berkshire Hathaway, PepsiCo, Anheuser Busch, Southern Co., Wells Fargo, Diageo, and small-caps all started multi-year advances in March 2000.

In the past couple of months you may have heard the term FANG stocks. FANG refers to the stocks Facebook, Amazon, Netflix and Google. These four stocks along with a few others are mostly responsible for the S&P 500 remaining in positive territory in 2015. The year-to-date returns for these stocks are: Facebook, 34%, Amazon, 112%, Netflix, 143%, and Google, 43%. **Because the S&P 500 is a market cap index these massive companies have an outsized influence on the index's returns.** As we have highlighted this year the world economy is limping along and U.S. earnings seem to have peaked. As a result investors have flocked to these growth companies and ignored most everything else. Of the four stocks we own Google whose valuation we still consider reasonable, albeit full. **The other three stocks have stratospheric valuations, and while great companies, will probably disappoint investors over time.**

The divergence is best seen in the performance of the S&P 500 Value, down -3.5%, versus the S&P 500 Growth, up +5.4%. This performance spread of 8.9% is huge and is reminiscent of what occurred in 1999. Moreover, this performance trend has been going on for several years to the point where the outperformance of growth stocks is at an extreme.

OVER THE LONG RUN - BETTER VALUES HAVE OUTPERFORMED*



The above chart shows the Performance of Value stocks relative to Growth over ten - year rolling periods. When the chart is above the zero line, Value stocks were outperforming.

As we would expect value consistently outperforms most of the time. However, today we are at an extreme level of underperformance for value relative to growth, a situation similar to 1999. **The silver lining is that despite a challenging macro environment for stocks many companies have already seen large declines and are attractive.** We are more active in our stock research currently than we've been in a long time and expect to gradually add high-quality value stocks to the portfolios.

Please contact us if you have any questions. Best wishes.

James G Tillar, CFA

Steve Wenstrup

OUTSIDE COMMENTARY

Kiplinger Magazine

February 2016 Edition

MORE STATES GIVE HEIRS A TAX BREAK

Legislatures are raising the amount that is exempt from estate taxes. Tennessee repealed its death tax entirely.

Federal estate taxes are no longer a problem, at least for all but the uber-wealthy. In 2016, up to \$5.45 million is exempt from federal estate taxes—double that for married couples. But 14 states and the District of Columbia impose their own estate tax, levied on the estate before IF YOU'RE CONCERNED THAT state taxes will erode your children's inheritance, you may have one less thing to worry about this year. In an effort to dissuade wealthy retirees from decamping, six states have increased the amount of assets that are exempt from estate taxes, reducing or eliminating the amount that heirs will have it's distributed; four states have only an inheritance tax, paid by the beneficiaries. Maryland and New Jersey collect both taxes. In New Jersey, estates valued at more than \$675,000 are subject to state estate taxes; Oregon and Massachusetts tax estates valued at more than \$1 million.

Those states are becoming the exception, though. Maine lawmakers voted last year to follow the example of Delaware and Hawaii and peg the state's exemption to the federal level. The law took effect January 1. New York's estate-tax exemption will rise to \$4,187,500 from \$3,125,000 on April 1 and gradually increase until 2019, when it will match the federal threshold. Maryland, which increased its estate tax exemption to \$2 million from \$1.5 million on January 1, will also match the federal threshold by 2019.

In New Jersey, lawmakers are debating whether to pair an increase in the state's gas tax—the second-lowest in the nation—with some kind of estate-tax relief. It's not an easy call. The Garden State's death taxes are unpopular, but they're a big source of revenue, expected to raise an estimated \$755 million in fiscal 2016.

SANDRA BLOCK, Kiplinger Magazine

TW Advisors does not necessarily agree with the opinions of the outside commentary.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities listed herein will remain in an account's portfolio at the time you receive this report. It should not be assumed that any of the securities holdings listed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable. In addition we do not necessarily agree with or endorse any outside commentary within this newsletter. If you have received this electronic transmission in error, please notify us by telephone (937) 428-9700 or by electronic mail info@twadvisors.com. . Outside Commentary source: www.Kiplinger.com