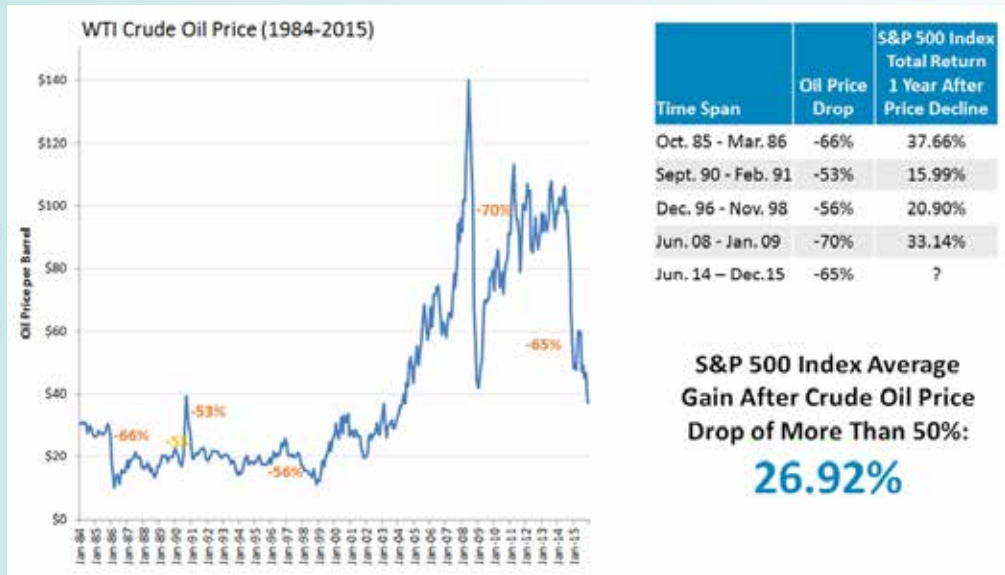




Oil: How low can it go?

2016 has not gotten off to an auspicious start. In fact we'd say it's downright ugly. In these times, it's important to look at facts and not act on emotion. Long run equity returns are positive and the overall economic prognosis is not indicative of the current market appearance.

One thing that seems to be on the minds of the media is "oil is low, woe is us". Well, from our standpoint, low oil is good if you are buying it and bad if you are pumping it. As we've commented before, oil producers are giving oil users huge dividends (the Saudis alone lost \$100 billion last year). With a little help from Hartford, we found this chart on previous oil declines:



Source: hartfordfunds.com

The chart shows that after every prior major price decline (over 50%), the S&P has had positive total return. Now, history is no predictor of the future, but it does seem to make eminent sense that if consumers and businesses aren't spending money on petroleum, they are spending it or saving it elsewhere, which should foster growth. In other words, this decline shifts growth from Russia, Iran and Saudi Arabia to the US, India and China.

Low oil? Might be here for a while, but global demand is increasing. It may continue to decline. If it hits zero, we're all going to fill our tanks.

In the meantime, we think market volatility is opportunity.

Leon

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