








Q2 2016 Strategy Update

March 31, 2016

Miserable Start, No Recession, Rebound

Warren Macro-VIX Indicator (MVI)

The Warren Macro VIX Indicator is currently 0.

Warren Macro VIX Indicator (MVI)		
	0	All Clear – no need to adjust risk
	35	Yellow Flag – prepare to adjust risk
	65	Orange Flag – begin to reduce portfolio risk
	90	Red Flag – reduce portfolio risk
	100	Black Flag – critical stage...black swan event more likely to occur; last chance to reduce risk

Note, the VIX did not top 40 during the Jan/Feb down-turn, so although the Warren Div Hedge Fund investment in volatility options made some profits, we never banked our profits. Then the market rebounded and the hedge receded. In other words, the market never got so bad as to need the hedge, it was just a short duration, slight market correction.

Your kids love social media. So, get them to “follow”, “like” Warren Financial.



A January to forget!

What do we do for you?

Worry and Analyze. That’s right, we worry. During pull-backs in the market, we spend a lot of time analyzing economics and numbers in the economy, both here and across the globe. We spend time trying to determine if the current downturn is just a normal pull-back in the market, or something far worse.

If we determine that the economy is heading into recession and that earnings will likely be negatively affected, and that it has become more likely than not that the stock market will fall dramatically, then we take all your portfolios into “protection mode”. Protecting a portfolio means selling some of the most aggressive positions in the portfolio because those might fare the worst. It also means transferring investments into more conservative choices. It almost never means “going all into cash”. That is too extreme of a response.

If we determine that the economy is OK, and that the market decline is most likely a simple pull-back then we probably won’t change much in the portfolios. In this downturn, we did make just a few small adjustments away from biotech and healthcare because of the toxic political environment. But for the most part, the correct response to the market going down was to do nothing.

As expected, the economy did not go into recession, the stock market did not fall more than -10%, and the stock market recovered in short order during the month of March.



Do you have friends in Atlanta, New York, or Hilton Head?

Let them know that your advisor is now local and they should check us out. We always love to hear from friends of clients!! Have them start by looking at our website or following us on Facebook and Twitter.



Financial Secrets: Secret Dividends Amazing Income Shiny gold

At Warren Financial, we believe that most assets have their place, including dividend paying assets, interest paying assets, and commodities such as oil and gold.

But you can ignore headlines like this:

- 5 Dividend Secrets to Build Wealth After 50
- Top 6 stocks ready to soar
- The Great Market Crash of 2016
- Safe Stocks Yielding 13% or More

There are no secrets. No one can predict the future.

You generated your income and wealth through hard work. There was no short cut for you. And there is no short cut for investment assets. No special secrets that only a few people know.

The internet is an amazing thing. It provides tremendous information at the click of a button, but we have to be careful about which sources of information we choose to believe.

If the source of information isn't a trusted, tried and true source such as Forbes, Fortune, CNBC, or the Wall Street Journal (and maybe Fox – which I enjoy but also realize there is a lot of opinion in their “news”), then it's best to take the info with a grain of salt.

Gold, Commodities, the Fed...

Gold had its best quarter since the 1980's. So, is gold back? Not really. But there is a positive looking thesis for buying some these days. Since Japan and Europe are experiencing “negative” interest rates (that's right, you put your money in the bank and you pay them to hold it), perhaps it seems like gold is better for those folks than money in the bank. Therefore, more demand for gold means a higher price. Thus gold did pretty well during Q1 2016. But how far up can this new trend take the price of gold?

The many faces of Politics... (literally):



Gold may have already run out of steam, but who knows. If the economy softens gold will probably do well. Unfortunately, people who saw the price of gold going up in Q1 and bought, probably lost money since most of the growth happened fast and over a very short period of time.

- Commodities are probably not dead.
- Oil has bounced back.
- The Fed has turned even more dovish
- The US dollar has stopped getting stronger

The above four bullets add up to a rebounding stock market in March and potentially more gains in April.

Politics...

Politics will play a role in the markets during this summer as the election cycle heats up and the candidates throw barbs at each other. As the summer wears on, the market will begin to “bet” on the winner. If the expected “winner” is perceived to be pro-business and pro-economic expansion, then the market will continue to do well. If the expected winner is perceived to be beating up on the market then we would not expect the stock market to move upward during the late summer and early fall.

Candidates such as Trump and Clinton appear to be ready, willing, and able to beat up on biotech drug companies for over-charging. This will hurt biotech and healthcare stocks which were the leaders during 2013, 2014, and 2015, but now appear to be lagging. At least for the short term.

Warren Dividend

Why *Warren Dividend Hedge Strategy*?

1. In normal pull-backs such as the one experienced during January and early February, the downside protection may or may not help very much.



Warren Dividend Hedge Strategy.



2. In extreme pull-backs of more than -10% or worse, the downside protection will be of great help to the fund.
3. In 2014 and 2015, relatively small pull-backs of -10% helped to generate an additional gain from the hedges. But the recent Jan 2016 pull-back did not get bad enough to generate any gains from the hedges.
4. However, had the Jan/Feb 2016 pull-back gotten worse, the hedges were in place and would have benefitted our investors greatly.
5. The greatest benefits from the hedges happen when the markets go down dramatically. But don't forget what we just said above in point #3.

WFS Angels ... yet another "exit"!

Recently, we've had companies such as Locus and Novira Therapeutics create profits for our investors. In February, we had a small 2x exit from OneTwoSee. To date, 4 of 11 of our angel company investments have had profitable exits.

WFS ACTION Summary

- ▶ Can the Fed be any more dovish? Wow, it certainly appears, at least for the short term, that the Fed understands that the world can not handle higher rates, even if the US could handle higher rates, thus the Fed is holding off.
- ▶ Fed on hold means that oil stops going down, interest rates stop going up, the US dollar stops going up, and the stock market continues to go up.

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