BH | *Beech Hill Advisors*

June 2016

Dear Clients,

The S&P 500 rose approximately 2.4% for the 2nd quarter of 2016 bringing the year to date return to 3.7%. Other than the Brexit induced hiccup, US equity markets showed resilience and steady tempered gains. Our portfolios finished much in line with the index for both the quarter and the year as income-oriented positions continued to outpace growth. Sector wise, REITS, healthcare, and telecommunications services provided the bulk of the return as investors continue to pay a premium for stable earnings and attractive yields. Slightly offsetting performance were declines in the consumer discretionary segment as companies adjusted their outlook from a subdued first quarter result.

In the bond market, yields continue to decline both globally and in the US. In fact, benchmark 10 year government notes in Japan, Germany and Switzerland provide negative yields, meaning investors pay to own these bonds for the privilege of safety and the return of principal; something out of the twilight zone. Notes in France, Sweden and the Netherlands yield just above zero, slightly better. Comparatively, the US 10 year note was yielding approximately 1.5% at the conclusion of the quarter, down from 1.8% at the end of March, and 2.25% at the beginning of the year. It is not difficult to comprehend which direction capital will flow faced with those options and explains much of the rise in the US bond market and higher yielding equity segments.

We remain consistent in our strategic approach and prefer larger cap domestic companies with strong balance sheets, increasing dividend streams, and free cash flow generation as the core components of our portfolios. We surmise the US will continue to attract capital as a haven from geopolitical turmoil as mentioned in our recent Brexit commentary. We still believe that we are in a slow growth economic expansion with low single digit GDP growth expectations.

Thematically, we look to benefit from scarcity. As is true for all assets, scarcity will increase demand and increased demand will inflate the price. We have employed a barbell approach in our investment selection process searching for better than average revenue growth and better than average yield; both elusive in the current market at prices that would provide an adequate return. As we remain mired in a slow growth economic expansion, better than average revenue growth commands a premium. We continue to position portfolios in such companies when opportunities arise either due to market volatility or an individual company stumble which we conjecture will be transitory in nature. Additionally, with historically low interest rates, higher than average yields will also command a premium. We continue to seek higher yielding securities that provide an increasing dividend stream to assure a growing cash flow and, ideally, matching appreciation. We think these criteria will be steadily rewarded in the current market environment.

As always, please do not hesitate to call if you have any questions on anything discussed. We remain patient, disciplined and opportunistic. Enjoy the summer!

Best regards,

Beech Hill Advisors