KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

Q1 2016 ENDS ON A POSITIVE NOTE

The beginning of the New Year was a rocky one for investors: from the start of 2016 to February 11th the S&P 500 dropped in value by an eyebrow-raising 10.5%. It was a similar scenario in China, Europe and around the world as well. To that end, investors were relieved with the robust returns seen in March to end the first quarter of the year, as we suggested in previous analysis which we sent out in February and March.

Large-cap, small-cap and international equities all produced excellent returns in March and we were pleased to see our QVP strategy outperforming the S&P 500 for the second consecutive month this year.

During the Federal Reserve's second meeting of the year in March, the 0.25%-0.5% target range for short-term interest rates was maintained as is, and they also stepped back from previous projections for further increases this year after raising rates a quarter point in December 2015.

New projections from FOMC members provide us with the best idea as to how many rate hikes we may see by the end of the year. They put rates at 0.875% by the end of 2016, suggesting two further quarter-point hikes before the end of the year. This is down from 1.375%, signaling four hikes, in the December forecast.

Stocks reacted favorably to the news, and this was coupled with news of a strengthening labor market and inflation also showing signs of stabilization.

Volume 8, Issue 1

In this issue:

April 5th, 2016

Did you know?

* The S&P/Case Shiller 20-City index of home prices increased 5.8% in the year to January, continuing its recent positive trend.
* March's US employment report highlighted a 215,000 increase in non-farm payrolls and a 0.3% rise in average hourly earnings, bringing the annual growth rate to 2.3%.
* Looking at Europe, the current probability of the UK leaving the EU is 35%.

Data from JP Morgan Asset Management

SOCIAL SECURITY CLAIM DEADLINE

April 29th 2016.

That is the current deadline for individuals to make Social Security claims under pre-existing rules before certain often-used strategies become redundant.

Requests to file and suspend submitted after the deadline will be subject to a new set of rules. The new rules, which came about after the budget resolution Congress passed last year, also specifically eliminates the lump sum payout option which can be particularly valuable for single people who have no spouse to collect a survivor benefit after their death.

The SSA has said it will honor requests to file-and-suspend benefits that are received before April 30th, even if the agency is unable to process applications until after the deadline.

https://www.ssa.gov/

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DOL FIDUCIARY RULE

The Department of Labor's finalized fiduciary rule was released this week. It requires all advisors overseeing retirement plans to act under a fiduciary standard, putting client interests ahead of all other considerations when making investment recommendations on accounts covered under the Employee Retirement Income Security Act (IRA and 401(k) accounts).

The rule was proposed last April, giving members of the finance industry time to examine it closely and submit comments. In January of this year, the rule was sent to the Office of Management and Budget for final review.

As Kruse Asset Management is a Registered Independent Advisor (RIA) the rule will not affect us, as we already have a fiduciary obligation to you, our client, to act in your best interests. We do not believe that it is right to treat our clients in any other way.

Hard to believe as it may be for some, prior to the implementation of this new rule, it was not a legal requirement for broker-dealers or certain advisors to act in the best interests of their clients.

Instead, those without a fiduciary obligation were only obliged to comply with the far less stringent suitability standard that simply requires that they have a "reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through reasonable diligence." This still led to wide-ranged conflicts of interests.

This no doubt seemed egregious to enough people that the DOL is now set to implement the fiduciary rule. What though will be the consequences?

The groups primarily affected will be broker-dealers and commission-based advisors. Instead of being incentivized to move clients into specific funds and assets, for which they receive commission, they will be instead have to purchase the most suitable products available to their clients.

Accordingly, we will see brokers move away from commission-based models to fee-based models for clients. The new rule also requires transparent disclosure of all costs.

We do not accept commission ourselves at KAM, considering that we strive to remove all biases from the investing process. For example, rather than accepting significant commission fees which we have been offered for assets purchased, we have instead negotiated to provide our clients with lower price points for those products.

Legislators envision costs going down over time for investors while they place more trust in advisers due to the transparency in fee and compensation disclosure, as well as knowing that the adviser is held to a recognized legal standard to uphold the investor's interest over their own.

On the other hand, certain industry groups in favor of maintaining the status quo argue that the proposal could limit the public's access to quality financial advice, making it too expensive to serve smaller clients.

While broker-dealers will have to adapt or get out, the quality of financial advice across the board for investors will hopefully improve.