Robshaw & Julian Associates, Inc.

Trusted Investment Advice Since 1979

Investment Matters

For the quarter ended December 31, 2015

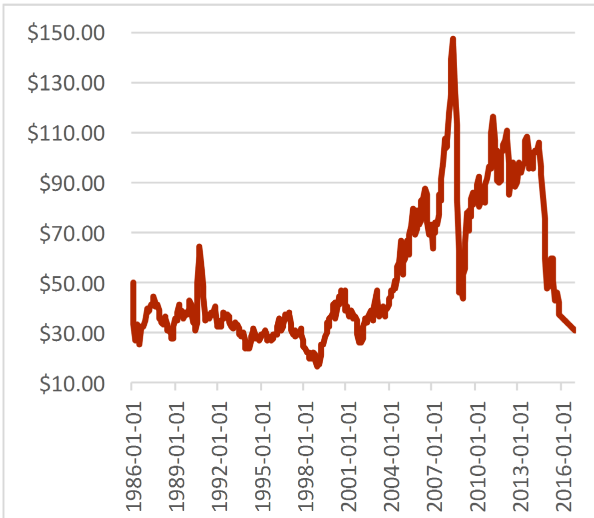
Oil Is Cheap Once Again

The chart on this page shows the monthly price of West Texas Intermediate Crude oil from January 1986 to the present in inflation adjusted dollars. It is noteworthy that today's price of $30.58 is lower than the average price for the entire decade of the 1990's, a weak period for oil prices.

Despite the concerted efforts of oil cartels like OPEC and the ravings of conspiracy theorists, the worldwide price of oil is largely controlled by the interaction of supply and demand. When there is more oil being produced than people need, the price declines; when production falls behind demand, the price rises. This works very reliably but it does take time to play out.

On a worldwide basis, demand for oil has been growing at a fairly steady 1-2% rate due to increased population and improving standards of living. During periods of strong economic growth the rate has exceeded 2%. Such was the case a few years ago when China and other emerging economies were growing at double digit rates. World oil consumption in 2010, a peak year, went up by 3%.

Oil producers had been scrambling to meet the growing demand for a number of years by drilling more wells. They were aided



THE PRICE OF A BARREL OF OIL IS BACK TO WHAT IT WAS IN THE 1990'S.

by the newly developed technique called fracking. This new technology enabled small producers, especially in North America,

The worldwide price of oil is largely controlled by the interaction of supply and demand

to rapidly increase their production. While they were catching up to the fast growing demand from China the price of oil rose to a peak of $145 per barrel in 2008. In 2010 China's economic growth rate peaked at 11%, from which it has subsequently been cut in half.

Suddenly it seemed there was too much oil, too much coming out of the ground, too much in ships and trucks and storage tanks, too much everywhere. In mid-2014 the price started to drop. From $107 per barrel in June, 2014 it fell to $54 by the end of the year and to less than $30 on January 13, 2016.

This precipitous decline is a disaster for many oil producers. For wells which use fracking, the cost to produce a barrel of oil is around $40. Profits have disappeared. Bonds have defaulted, bankruptcies are coming. Even low cost producers are struggling.

The result will soon be a precipitous decline in production. At the same time the low price of oil and gasoline is stimulating demand from consumers. When a new equilibrium is reached the price of oil will stop falling.

Although there is no way to know when oil will bottom and at what price, it is clear that the price of oil is cheap right now.

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From 1999 until 2013 average hours worked per household in the U.S. declined more than 10%.

Except for 2011, hedge funds returns have not beaten the broader stock market's returns in any year since the financial crisis of 2008.

At some time during their lives, 54% of all Americans make it into the top 10% income category.

Living on Your Retirement Nest Egg: Asset Allocation

In the last installment on this topic we focused on the 4% Rule and a method to avoid setting your initial withdrawal rate too high. This time we will look at asset allocation during retirement.

Asset allocation during retirement is subject to the same considerations as before retirement: your investment horizon and your risk tolerance. The fact that you will be taking regular distributions from your investments doesn't change either of these factors. While it makes sense to decrease your portfolio risk as you age, you do not need to make a wholesale move from stocks to bonds when you retire. Bonds are not primarily for income; their most important purpose in a portfolio is to reduce overall risk. Income production is largely incidental. Your retirement distributions under the 4% Rule are based on the expected total returns of your portfolio, not on the amount of interest and dividends it generates in a given year. In many years you may have to sell assets to meet your withdrawal requirements. As long as you stick with the long term plan, this is perfectly acceptable.

Investment horizon is a simple concept. It is the number of years until an investment will be turned into cash and spent. If you are 65 years of age and want your portfolio to provide for you until age 95, thirty years hence, you have 30 investment horizons, one for each year you take income from your portfolio. For year one you cannot afford to take any risk; cash or money market funds are your only sensible choice. For money needed thirty years hence you can afford to take long term risk; stocks provide the best long term risk/reward ratio. For years in between, some combination of stocks, bonds and cash will be most appropriate.

In practice you have only one portfolio, not thirty. For the first ten years a mix of 5% cash, 35% intermediate bonds and 60% stocks makes good sense. With 20 years to go you may want to reduce that to 50% stocks. When you reach age 85, a further reduction would be in order. At age 90 stocks may no longer be appropriate.

Your asset allocation is also dependent on your risk tolerance. Your tolerance for risk needs to be high enough so that you do not abandon your long term plan in difficult times. With 60% stock and 40% bonds, a 30% drop in the value of your portfolio is certainly possible. If this is more than you could ever bear, even knowing that such declines are typically reversed in a few years, you may want to plan for less risk and possibly a reduced annual withdrawal.

The extent of your other sources of income also affects your risk tolerance. It is one thing if you need your investments to provide only a small portion of your income and quite another if they are the primary source. Fortunately, most people have Social Security income and maybe a pension to cover their basic income needs in retirement. For them, the risk of investment loss is less consequential.

Hopefully this series has convinced you that successfully managing your investments during your retirement years will require you to do some serious thinking and planning. You are also likely to benefit from seeking the help of a qualified investment professional.

For a complementary review of your investment portfolio please call our office at (716) 633-6555 to schedule an appointment at your convenience.

The Bottom Line: 12/31/2015

Market Indicator	Current Value	One Year Change
Large company stocks *(S&P 500 Index)*	2044	1.4%
Small company stocks *(S&P Small Cap Index)*	671.7	-2.4%
Short term interest rates *(3 Month T-Bill Yield)*	0.2%	From 0.4%
Long term interest rates *(10 Year T-Bond Yield)*	2.3%	From 2.2%
Inflation *(Consumer Price Index)*	238.1	0.4%
Energy *(West Texas Intermediate Crude Oil)*	$37.07/bbl.	-31.0%
The economy *(Inflation adjusted GDP)*	$18.1 trillion	2.1%

QUOTABLE

"Economic growth is the engine of the escape from poverty and material deprivation."
Angus Deaton, 2015 Nobel laureate in economics

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