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Listed below are the monthly letters sent to investors in 2016. It should be noted that: **T*he market commentary may not necessarily be correlated with returns from Goldman Management, Inc. as trading decisions are based on an array of proprietary indicators and models.***
Thank you for your interest.

February 2016, S&P 1940 As stated last month, the weight of evidence in the indicators shifted and defensive measures were implemented, similar to the changes that occurred last August. GMI consequently entered the month with a reduction in equity exposure of 45% from the recent peak, proportionately insulating against the steep monthly declines that followed. Equity allocation was reduced further near month's end and stand nearly 60% from the recent peak.

There were numerous trading anomalies observed. In the beginning of the month macro factors likely led to the many lower gaps that ushered in the New Year. In three of the first four trading sessions of the year the S&P gapped lower on average by a whopping **1.9**%. Measuring the cumulative gaps over all four sessions amounted to 110% of the S&P's -5.5% cumulative decline. These macro factors (overseas equity markets combined with the volatile movements in oil prices) produced an average opening gap in the S&P in the first 14 trading sessions of the year at just over 1%; another rare event.

By the third week of the month further anomalies occurred. For instance, for 14 consecutive sessions ending 1/20 the S&P declined by a minimum of -0.4% intra-day. This has occurred only three other times since 1982, a span of 33 years. Additionally, for 16 trading sessions the S&P failed to rebound to a three day closing high until finally breaking the string on 1/22. Only three other similar occurrences of that duration have happened since the year 2000. The S&P on 1/22 gained 2%, to a three- day high, the catalyst for the gains likely attributable to a 9% jump in crude oil.

Continuing the discussion from December's letter regarding the correlation between oil prices and the S&P. "In the previous three months (Oct to Nov) there have been 17 trading sessions when oil declined by more than 1.5% and the S&P on average lost -0.60% (a -10.2% cumulative decline). A rise in oil greater than 1.5% generated 15 signals where on average the S&P gained 0.72%, for a cumulative gain of 10.8%". This correlation became more striking last month as oil prices declined by **28%** (from $37 to $26.5) in the first 12 trading sessions of the year and only once did prices move to the plus column. The S&P during this time span declined by whopping **-9%.** Later in the month crude oils' correlation to the

S&P over a rolling 20 days approached nearly 100%. Despite the gyrations from macro factors both the S&P and oil prices finished the month back at the levels from the fourth trading day of the year.

The overall economic assumption relating to the stock market suggests a "non-economic" market decline. In general, the most severe "non-economic" market declines since the 1980's have experienced a median decline lasting less than six months. Unlike the market declines in 1987, 1998 and 2011 the present market decline at this juncture is not as severe but this selloff has regressed closer to the S&P's long- term regression line than the three other periods cited. One measure to reflect this regression is monitoring the S&P's rate of change over 500 trading sessions. At the market's recent lows this measure touched 2%, or 0% when using intra-day prices. At the market bottom in 2011 after a 19% decline the 500- day rate of change stood at 3%. At 1998's market bottom following a roughly 19% decline, the rate of change stood at 38% (that is a correct number) and after the 34% market decline in 1987 the S&P's rate of change stood at 8%. Reviewing the 1960's to 1970's, three other non- economic corrections occurred. A possible difference for these two decades was that interest rates fluctuated to a greater extent than present relating to elevated inflation levels and interest rates were a main driver for equity prices. In these periods the 500- day rate of change in the 60's and 70's declined further than the average from the 1980's to the present. Nevertheless, once the reading touched 0, a market bottom occurred within a couple of months afterwards. These observations regarding non-economic market declines offer another perspective but should be noted as only a reference point. Late note: https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1 link to the Federal Reserve Bank of Atlanta growth rate forecast for GDP after today's employment report. **Past Performance Is Not Necessarily Indicative of Future Results**.

March 2016, S&P 1932 Roughly 95% of companies in the S&P 500 have reported earnings for the fourth quarter and earnings have declined by –3.7%. Excluding Energy companies earnings grew at 2.5%. The impact from a stronger U.S. dollar coupled with relative lower global growth compared to the US is noticeable when breaking down these two subsets. Those companies that generate more than 50% of sales within the U.S. had earnings growth of 6.9% Vs 3.9% for companies that generate the majority of sales outside the U.S. The readings suggest that the earnings recession this time around may not correlate with a U.S. recession which is also similar to the period of 1985 to 1986 when Oil prices declined by 70%.

An Index based on an all-encompassing listing of financial stocks domiciled on the NY Stock Exchange declined by 25% from its peak by last month's market lows, the peak having occurred only a little more than 6 months earlier. Since 1970, a decline of this proportion has occurred only a few times outside of an impending recession. The price Index reached its lowest level since the end of 2012. During this time span or from year end 2012 the S&P advanced by 28%. The "stress levels" from this year's 18% declines in financial stocks manifested at the lows on February 11th and spilled over to a rare 6% five-day selloff in the largest Preferred Stock ETF; symbol PFF (the Index holds 52% of its portfolio in bank stocks). Nevertheless, the losses from PFF were recouped just as quickly, over the next five trading sessions. Additionally, the 10-year Treasury note yielded 1.71% on February 10th and the following day yields collapsed intra-day to 1.55% or by 16 basis points, finally finishing the session 10 basis points off the lows to yield 1.65%. The reversal in yields occurred despite the S&P in the session declining by over 1%.

The concurrent impacts of the reversal in yields on February 11th accompanied by steep losses in the PFF and financial stocks can be interpreted as a sign of capitulation. February 11th also witnessed the closing lows in both the S&P and crude oil prices.

The recent declines in financial stocks can partially be related to the lower profit margins that are associated with the declines in interest rates. The yields on the Treasury's Ten- year note declined in the month by 30 basis points as of February 11th, following a 30- basis point decline in January. The 60- basis point decline over a six- week period previously occurred during the European Crisis in late August 2011 after a steep global market decline, and in the Greece Crisis of May 2010 also after a steep global market decline. The recent large descent in interest rates was global and further witnessed by the German Bund during this time span declining by roughly 50 basis points to 0.11%

The overall economic assumption based on numerous indicators monitored as detailed last month continues to suggest a "non-economic" market decline. One measure discussed last month is observing the "regression to the mean" based on the S&P's rate of change over 500 trading sessions. At the market's closing lows this year this gauge declined to -1%. As stated last month, in previous non-economic market declines this gauge held above a level greater than 0 from 1980 to 2011 despite market declines of 20% or greater. While in the market declines from the 1960's to 1970's that were associated with non-economic sell offs the index bottomed shortly after the reading declined below 0.

Stock prices continued to be tethered to oil prices. In the first nine trading days of the month crude oil declined 8 out of 9 days and oil prices during this time span moved from $32.60 to $26.20. The S&P in this period declined in 7 of these sessions, falling by over -5%. S&P and Crude oil both bottomed on February 11th. Late note: Crude oil on Friday March 4th finished at the highest price since January 6th and the S&P on Friday stood ½% above the levels from January 6th. The graph below depicts Crude oil (green) Vs the S&P (blue). The S&P as depicted below is nearly identical to the movement in Crude oil. A closer observation will also note that on certain day's crude oil finishing at the day's highs or lows in the session corresponded with a similar movement in the S&P.

April 2016, S&P 2060 The Commodity Research Bureau Industrial Index ("CRBI") is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions. As such, it serves as one early warning indicator of

impending changes in business activity. The commodities used are in most cases either raw materials or products close to the initial production stage and are particularly sensitive to factors affecting current and future economic forces and conditions. The CRBI price index had been in a definitive downtrend since August 2014, trading below its 26- week moving average and declining 25% during this time span. Worth noting is this Index started to flat line in the middle of December and by early February for the first time in a year and a half moved above its 26- week moving average. The price has subsequently advanced by more than 10% from the lows. The recent upturn in CRBI price levels was a positive divergence and not consistent with the "stock market induced" recessionary concerns which surfaced in late January. Additionally, many of the strongest performing stock groups and sectors off the market bottom in February were loosely tethered to this index and to global economic growth prospects.

In the first 2½ months of this year the S&P failed to close higher on the year ("YTD") until March 18th. Since 1950 there have been only six other times where the S&P failed to achieve a YTD gain in the first 2½ months of a year. Expanding the criteria to less than a ½% gain YTD in the first 2 1/2 months reveals just ten occurrences since 1950. Reviewing this later criteria, the average maximum decline in the S&P in the first 2½ months averaged -9.5%, slightly better than the -10.5% decline this year at the market's closing lows. In four of these occurrences the S&P failed to move to the plus column during the full year. Reviewing the remaining six periods, the majority revealed rallies to YTD gains between second half of March to June. Once YTD gains were recorded after mid- March the market's advance continued in the short term, although in half of these breakouts market gains were reversed later in the year. The years in which eventual YTD gains were later reversed were in the years: 1957, 1969 and in 2000. In the years 1968, 1978 and in 1987 the stock market gains continued to advance. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

From a global perspective at month's end out of roughly two dozen major equity markets that are monitored only six have confirmed the S&P close above its 200 -day moving average. Additionally, the S&P has recouped more than 2/3 of its losses and is roughly just under 4% away from new highs. The most resilient global market has been the Mexico Bolsa which stands just 2% away from recent highs. The median decline from the highs in this group is just under 20%, with such notable markets such as the German Dax and the Nikkei 19% below the highs from last year and lower YTD by -7.25% and -19.3% respectively.

As detailed in the past few months, once the S&P's 500- day rate of change declines to zero, historically there has been a favorable risk /reward level for equity prices in non-recessionary periods. At the closing S&P lows in February this indicator touched -1%. The reversal that followed was impressive given the fact the last time such a reversal occurred was in the fourth quarter of 1933, where the S&P lost more than 10% during the quarter and erased all of the losses by quarter's end. For the record, the S&P advance continued in the following quarter based on the first quarter of 1934.

Equity exposure increased during the month, following improvement in the weight of positive evidence in GMI's proprietary indicators. Weighing somewhat on these bullish readings were the lingering concerns amplified by the clear lack of resilience in global equity markets. This led to increasing equity

exposure, but in a measured gradual increase. The lack of resilience globally still remains a potential headwind. Regarding an overview of performance, the monthly peak in equity line (VAMI) to cumulative monthly trough declined by -7.15%, the fourth worse decline in VMAI since 2002 based on GMI's prop account. Presently VAMI (inclusive of fees) stands 3.3% away from a new equity peak.

May 2016, S&P 2065 This S&P rebound has roughly followed a script and economic backdrop reminiscent of other stock market declines that were not associated with a recession. The previous non-economic severe market decline occurred in summer of 2011 when the Dow Jones Average (DJIA) declined by nearly 17%, while in the most recent period the DJIA declined by 14.5%. The rate of gain following the retest of the lows was similar as well (see fourth paragraph). Interest rates in both periods declined sharply, while in the most recent period interest rates declines were not associated with quantitative easing or QE, unlike 2011. At the market bottom in the summer of 2011 the Ten-Year Treasury bond yield stood at 1.75% Vs 1.65% in the most recent period, although in 2011 bond yields declined by 50% from 3.5% to 1.75%, while in this most recent period the decline in yields was 33%. In both periods bond yields declined significantly below the S&P 500 dividend yield, a spread inversion that has not been seen in over 50 years prior to these two recent periods. In the six non- economic severe market declines in the S&P since WWII the S&P in all cases retested the highs within a year, excluding 1987 where the 36% market decline took a year and a half to retest the highs. The S&P this time around has already revisited the highs, moving to within 1.5% of closing peaks roughly two months after the completion of the market bottom. The 2016 decline was the shallowest in comparison to the six others and retest was one of the swiftest.

Since the market bottom in February the S&P traded above its previous week's lows for 10 consecutive weeks. There are just 15 similar occurrences since the 1950's, averaging an occurrence every 4.3 years. The previous occurrence was in April 2010. Over half the declines (8) faltered by the eleventh week and this recent streak also faltered as well (by month's end). Only 33% lasted into the 12th week and only 15% to the 13th week. All of the 15% which lasted to 13th week occurred at least 44 years ago and none extended into the 15th week. On average, reviewing the previous 15 signals did not lead further momentum projections over the next few months.

The S&P's 50- day rate of change towards month end rose above 14%. Omitting bear market rallies by adding filters such as trading above the 200 moving average and down less than 7% from highs, reveals a history where this occurred roughly a dozen times since 1950. The nearest prior occurrence was in February 2012 which was also the last severe stock market down turn that was not accompanied by a recession. Overall, using this aforementioned criteria has been generally favorable based on the median gain one year later Vs the median decline, although valuations level presently may limit the comparisons going forward. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

As referenced last month The Commodity Research Bureau Industrial Index ("CRBI") had sharply diverged at the stock market top and had recently positively diverged at the market bottom. This most recent divergence was not consistent with the "stock market induced" recessionary concerns that

surfaced in late January. The CRBI gained nearly 3% last month, 13% YTD, while the US Dollar Index YTD has gained 5.75%. Three out of the five S&P sectors that outperformed the S&P last month are somewhat tethered to the CRBI, such as Energy, Materials and Industrials. A continuation of this trend in CRBI and the US Dollar will likely have a favorable impact on S&P earnings toward year-end.

June 2016, **S&P 2097** As detailed last month the S&P from the market lows has followed a script similar to other steep market declines not associated with an economic recession. In previous non-recession periods the S&P after a successful retest of the lows have retested the previous highs within one year 83% of the time (5 out of 6 occurrences), while the 36% market decline in 1987 took year and a half to realize a new high as a rally of roughly 50% was required. Reviewing these retests, four out of six made new highs without any meaningful correction at the retest levels, while the retests in 1966 and in 1978 incurred meaningful corrections either after marginal new highs were achieved or within 1% of a new high. Overall, the study based on non- recessionary severe market declines is now less significant going forward.

The S&P last month failed to reach a new twelve month high. Since 1950 there have been just a dozen similar occurrences. The S&P during the past twelve months declined by 14.1% and based on the twelve other occurrences this most recent decline was the 5th shallowest. Though not a large sample, the four other shallowest declines did move higher one year later while 3 out of 4 of these periods notched double digit gains. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

The S&P trading range in the past 500 days or nearly two years was less than 17%. That's one of just three similarly tight trading ranges since 1950. The previous occurrence was October 1994. Using another permutation to extract tight trading ranges, the S&P in the past 500 days last month advanced by under 7% and unless a 5% advance commences in the next month or so this hurdle rate will sequentially narrow. Furthermore, the S&P entered the month less than 3% away from a new high. This combination last occurred in January 1995 which for the record did lead to a significant advance in the S&P albeit with the footnote that the S&P PE ratio was lower, in sharp contrast to today's ratio, and the Federal Reserve in 1995 was concluding a series of interest rate hikes which had been underway for 11 months.

As referenced in the past two months The Commodity Research Bureau Industrial Index ("CRBI") had sharply diverged at the last stock market top and positively diverged at the February market bottom and logically has been a bellwether in the outperformance in the cyclical sectors. The six-month rate of change rose to 13%, the highest level in five years or since 2011. This index moved marginally lower last month.

The UK will be holding a referendum on June 23rd to decide if it will stay or leave the European Union. The changes in the polls have been a factor in the S&P, partly contributing to lower gap openings in the first week of in May, while the shift in the poll on May 24th to a higher probability of remaining in the EU led to a higher gap at open and higher prices over the next couple of sessions. The British Pound Vs

the Dollar has been strongly correlated to polling results and to the S&P. The correlation will likely increase as the month progresses.

July 2016, **S&P 2099** Previous letters have detailed the market's historical tendency for severe market declines not associated with a recession to be brief. Although GDP growth has continued during each of the quarters during the market's recent turbulence, quarterly earnings based on year-over-year comparisons have contracted for four consecutive quarters ending in March. During this period the S&P's maximum decline was -14.2%. Earnings estimate for the June quarter suggest a fifth consecutive earnings decline may be in the offing. Since 1950 there have been 11 earnings recessions as defined by 2 or more quarters of year over year declines. Nine have been associated with an economic recession, while two, in 1968 and in 1985 were not associated with an economic contraction. In 1968 the length of the earnings contraction lasted three quarters, while cumulative rolling four quarters of earnings flat lined for roughly two years. Stock performance during 1968 saw a maximum drawdown of nearly 7%, and stock prices flat lined for roughly 15 months before resuming the uptrend. In 1985 the earnings contraction lasted four quarters and yearly earnings flat lined for roughly two years. In 1985 the earning shortfall was similar to the present as it was led by sharp declines in oil prices. Stock performance in 1985 saw a maximum drawdown of -9.4% and prices flat lined for roughly 9 months before resuming the uptrend. In sum, stock prices presently are following a similar pattern, although with slightly less resiliency.

The Brexit vote was a surprise to most market participants. The S&P futures in overnight trading just minutes before the voting had ended were fractionally away from a new high, while the British Pound, ("BP") the most vulnerable currency to Brexit, was higher on the month by roughly 3%. As the votes were being tallied S&P futures in that night session declined by -5%, and over the next two sessions the BP declined by nearly 12%. The FTSE 250 index is most representative of domestic economy in England and had been higher by roughly 1% on the month prior to the outcome and then lost -13.6% over the next two sessions, while the Stoxx 600 Europe Index lost 10.7%. The two- day loss by the S&P amounted to 5.3%. To put matters into perspective regarding previous market shocks, using one day first reactions; Lehman Bankruptcy saw a -4.7% market decline, the Terrorist Attack on 9/11/01 a -4.9% decline, Kennedy assassination -2.8%, Pearl Harbor -4.4%. In general, stock prices will tend to ultimately decline in the vicinity of -20% during the midst of a recession. The market's declines of roughly -14% in England seemed in line with expectations given the heightened possibly of a recession. In the US, GDP may only be modestly impacted. GMI's equity exposure based on the indicators suggested modest gains for stock prices in the month or so prior to the vote on the referendum. The Brexit did not invoke a "game changing event" and equity exposure remained intact especially after the instantaneous 5% reaction in the S&P futures.

The Commodity Research Bureau Industrial Index ("CRBI") which sharply diverged at the stock market top last year and positively diverged at the February market bottom logically has been a bellwether in the outperformance by the cyclical sectors. The reading last month held steady while the six-month rate of change remained at a robust 12.5%.

As previously detailed regarding the market bottom in February, the S&P 500 500-day rate of change declined to zero, a favorable level in a non-recessionary periods. As stated last month, the reading stood at just under 7% and "without a significant rally in June this rate of change will likely decrease". The reading for the record declined to 1% at the market lows last month. Also mentioned was that the S&P was less than 3% away from new highs and this combination last occurred in January 1995, which for the record led to a substantial advance in the S&P, albeit with the footnote that the S&P's PE ratio was lower, in sharp contrast to today's ratio.

August 2016, S&P 2174 GMI's equity curve reached a new high during the month. Of equal importance is that the yearly worst cumulative monthly draw down ('WDD") during the past 4 1/2 years has averaged –3.9% compared to the past 14 1/2 years which averaged -6%. Last year WDD was roughly at -5.8% to -5.9% and this year roughly at -3.9%. Additionally, the Sharpe ratio (a measure of average returns divided by volatility) over the past 4.5 years and in the past 14½ years has remained above 1. **Past Performance Is Not Necessarily Indicative of Future Returns**

The S&P 500 around mid-month reached a new all- time high, exceeding the previous high recorded nearly 14 months earlier. Since 1950 there have been twelve similar periods where the S&P moved to a new weekly high after more than 400 calendar days. Historically, in these periods stock prices on average have gained approximately double the percentage gains achieved in a simple buy and hold strategy looking out one, three, six and twelve months later. The variations are large ranging from one year's performance at 2.5% (1978) to 41% higher in 1954. Current valuation levels presently are likely to limit the gains when compared to historical achievements. **Past Performance Is Not Necessarily Indicative of Future Returns**

A similar permutation was noted in previous market letters, albeit using a lengthier time period of 500 days based on the rate of change and stock prices near a 400- day high. This combination was favorable entering last month and has historically also had led to favorable returns in stock prices as compared to buy and hold.

Brexit is no longer headline news, while the Presidential election will be increasingly in the forefront of investor's concerns. The adage that "investor's vote with their wallets" implies that incumbent parties tend to win in good economies and challengers prevail in bad ones. The three month stock market's performance is one measure leading up to the election that has determined the outcome in 12 out of the 14 elections since 1960 and 18 out of 22 since 1929. An incumbent party remained when the S&P was higher in the 3 months leading up to the election, while losing when stock prices declined in the previous three months. The four exceptions where in: 1932, 1956, 1968 and in 1980. It should also be noted that in 1980 the other factor of concern was long term interest rates rising by over 200 basis points in the three months leading up to the election and a double dip recession looming on the horizon. While in 1932 the stock price rebound occurred in the midst of a Depression.

The previous letter detailed the market's historical performance during profit recessions in a non-recessionary periods. In the two periods that were cited stock prices generally followed a similar pattern "but with slightly less resiliency". The sharp market gains have further aligned these periods.

September 2017, S&P 2171 On August 11th the S&P celebrated its sixth month anniversary since the market bottom, capturing a 19.5% price advance and finishing the session at an all-time high. Reviewing the non-economic steep market declines not associated with a U.S. recession since 1950 demonstrates that on average they gained 25% by the sixth month anniversary. The starting point used in the study was either at the market low (if a "V" bottom occurred) or at the retest of the market lows. Although in the most recent period the market's gains were below the average, the historical declines were much steeper, so in contrast the 2016 rebound is still impressive from this perspective.

Since the initial record on the S&P was reached in early July mutual fund outflows have accelerated. The data series from The Investment Company Institute on domestic mutual fund flows using an eight-week horizon after the initial market highs totaled $54 billion outflow or an average of $6.75 billion a week. Mutual Fund outflows rarely accelerate during robust uptrends in stock prices, especially when accompanied by a continuation of new highs. Reviewing the past ten years eight-week outflows of similar proportions reveals that all previously occurred during severe market selloffs. In 2016 the 14% market decline ending in February saw outflows reaching $46 billion based on an eight- week tally. In August 2015 the 11% market drubbing triggered a $52 billion outflow, while the nearly 20% market decline in late summer of 2011 (during the European Crisis) witnessed a $71 billion outflow. Lastly, after the Lehman Bankruptcy in September 2008 outflows totaled $78 billion. Market commentators have coined a phrase describing a lack of public participation and or a lack of bullishness as a "stealth bull market" and given the most recent data points we can readily give further credence to this description.

Just after Brexit in late June, the S&P 500 dividend yield divided by the 10- year Treasury note rose to roughly 1.6, the highest ratio since 1958. Since the last market peak in 2007 the ratio neared 1.6 towards the end of 2008, again in 2012 after a 10% market correction and in February 2016 after a 14% decline. In all these previous periods stock prices rebounded on an intermediate basis.

Stock prices spent most of August in marginally positive territory, attempting to rise for the sixth consecutive month, only to fail on the last trading day of the month. There have been just three other monthly winning streaks lasting five months in this bull market. The three times were July 2009, March 2013 and June 2014 and they were generally favorable periods for stock prices. Since 1950 this has occurred 21 other times, averaging one every three years. Overall, similar winning streaks are not considered worrisome despite what may be considered an overbought condition.

By some measures the S&P has been trading in its narrowest range in decades. The last 20 days of the month's trading range based on closing prices was limited to 1%, while the trading range in the month was 1.5%. Since 1950, according to our records a 1% 20-day trading range has occurred just two other times; in late August 1995 and November 1964. Both of these occurred just after the S&P had reached a new high and after advancing by a significant amount. Both periods did not lead to market tops. The S&P's recent 40-day trading range was 1.77%, which is the narrowest range on record or back to the inception of the S&P in 1926.

October 2016, S&P 2168 Economic data reported last month were universally disappointing. Disappointments include the reports from ISM or The Institute for Supply Management (both

manufacturing and services) as well as Industrial Production. The majority of economic reports in previous months had previously indicated robust levels of growth. Election concerns may partly explain the recent downturn in the economic reports. For instance, according to University of Michigan, Consumer Uncertainty spiked to the highest on record. In this report the percentage of U.S. consumers saying "it depends" is most likely due to the presidential election according to the survey's director. In another survey from the NFIB or the National Federation of Independent Business, the results from small business owners citing the political climate as a reason not to expand spiked to 38%, an all-time high. Confidence may return once certainty returns after the election.

The Economic Cycle Research Institute or ECRI, is an economic forecasting firm which dates back to the 1960's. It's co-founder Geoffrey Moore collaborated with the US government to begin the development of sophisticated tools for analyzing economic business cycles. This comprehensive framework can be broken into different time frames. One of the shorter-term time frames incorporates an oscillator that recently has reached one of the highest readings in this economic cycle. This oscillator may be implying a pickup in growth prospects over the next quarter or two. The reading is corroborated by other forecasts for the 3rd quarter GDP growth prospects. The ECRI weekly leading index rose to the highest level since the first quarter of 2013 and in 2013 quarter to quarter GDP growth rose to 2.8%. In April 2011 this index rose to similar levels and 2nd quarter GDP rose to 2.9%. S&P earnings have also been loosely tethered to this Index. Overall, qtr. to qtr. GDP growth expectations over the next two quarters is expected to rise by roughly 2.5%, although at this juncture the six-month forecast is too distant for a high probability forecast.

Following up on the public outflows from equity Mutual Funds in last month's letter, the demand from U.S. Corporations has more than offset these outflows. In the past twelve months ending June Corporations in the S&P 500 have brought back nearly $600 billion in stock which theoretically equals 3% to shareholders. Dividends have roughly equaled just under $400 billion or 2.15% which equates in aggregate to a 5.15% return. Capacity Utilization has continued to hover near historical lows (75.5%) this long into the business cycle, which may argue for profits to continue to be plowed into buybacks then into business expansion.

Last month we highlighted the fact that the S&P rose for five consecutive months then fractionally declined in August. Revising this study to include S&P 500 total returns shows a fractional gain in August, one of just 17 other such occurrences since 1950 whereby the S&P moved higher for six consecutive months. Based on this frequency, as stated last month is not worrisome despite what may be considered an overbought condition. Historically, stock prices have on average led to favorable outcomes six months later, although **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** For the record the S&P win streak continued for a seventh month as the total return rose by a few cents last month.

November 2016, S&P 2126 Equity positioning was trimmed in the second half of the month. Net exposure was lowered to roughly 70% given the shift in the indicators. FBI Director James Comey's announcement regarding renewed email concerns on October 28th led to a 2.66% decline in the S&P 500 over the six sessions that followed.

The National Futures Association has conducted another round of examinations for both Goldman Management Inc. and Goldman Fund Management. Typically, “Exams” occur every 3 to 5 years. The Examination entails 3-4 administrators in the office for a period of 5 days. The examination is well underway and will likely taper off in the coming weeks. No deficiencies were recorded.

The S&P’s narrow trading continued through the month of October, despite what has historically been one of the most volatile months of the year. The last 25 trading days prior to entering the month of November were limited to a 2% range, the narrowest span entering November since 1964. In the past 65 years or since 1951 the 25- day trading range exceeded 5% in nearly 60% of those years and nearly 20% exceeded a 10% trading range. Historically, the favorable seasonal period for stock prices over the next two months does not demonstrate comparatively enhanced market returns when contrasting performance for years when there was a narrow range entering the last two months of the year Vs much broader or more volatile trading ranges.

For nearly 90 straight trading sessions the S&P has been within 3% of its all-time high, as well as within 3% of its closing high for 50 trading sessions. Both are records. Additionally, using a slightly different perspective, in the past 75 trading sessions the trading range has been limited to 3%. According to our records, this only occurred one other time since 1950, in January 1994. In 1994 after a narrow trading range stock prices declined by nearly 10% afterwards. The catalyst for the decline was likely an unexpected hike in Federal Funds rate which may have been the last time the Federal Reserve policy implementation was so opaque (in my opinion) as the damage to the financial markets was too severe.

Stock price trajectory in the past year in a half has been overall flat, partly attributable to the declines in earnings, led by a huge contraction in the Energy sector’s profits. According to FactSet, earnings heading into the earnings season are expected to be lower -0.3%, while Ex-energy expectation is for a 3.35% rise. At this juncture 85% of earnings have been reported and aggregate growth in earnings is currently at 2.7%, but is over 5% Ex-Energy. Overall the beat rate is roughly comparable to the past five years. Assuming a stabilization in oil prices in the next twelve months, S&P earning expectations are for double digit growth, while the ex-Energy forecast assumes high single digit growth. Most investors are skeptical as previous assumptions over the past few years have led to disappointments. The one year time weighted earnings forecast on the S&P 500, S&P 600 and the S&P 400 earnings are all breaking out after flatlining for the past two years. According to Factset, analysts lowered earnings estimates in the S&P 500 for the fourth quarter by 1.2%. During the past five and ten years, the average decline in the bottom-up estimate in the first month of a quarter has been -2.4%.

Lastly, the market drivers behind the declines in stock prices ending in February such as weakness in Industrial Commodity prices have continued to improve after having registered a positive divergence at the market lows in February. The Industrial CRB has recently moved to the highest level of the year, becoming a possible contributor to the recent steadying in earning projections.

December 2016, S&P 2199 S&P 500 earnings for the third quarter rose by 3.2%, 6.5% Ex-energy. Entering the earnings season the expectations were for -0.3% decline and Ex-energy a 3.35% rise.

Revenues in the quarter expanded by 2.7%, Ex -energy 4.5%. Equally important is that earning expectations for the fourth quarter have held steady over the past few weeks.

In the third quarter the amount of buy backs in the S&P declined by 6.8% to $125 billion. The previous quarter was the highest in this business cycle. Prior to the election, market commentators had expressed concern regarding the possible curtailment in buybacks given the rise in interest rates. Reviewing the previous business cycle along with its interest rate cycle reveals that rates did not lead to a curtailment in buybacks, as the peak in buy back activity occurred in the midst of higher rates. The peak in buy back activity actually occurred in the summer of 2007, just a few months before the onset of a recession.

The surprisingly Republican sweep in the Elections led to a rebound in stock prices aided by the potential of a pro-growth, pro-business platform. The Russell 2,000, an index of the smallest capitalized issues with a median cap of around $500 million vastly outperformed most other indexes by a wide margin. This Index had declined from its highs by 8.4% a few days before the Election and has from the lows to month end gained 14.5% while trading higher for 15 consecutive days. The Russell 2,000 over a ten-day period gained 13.5%. In the past 30 years there exist only seven other examples with rates of change over ten days greater than 13%, four if excluding repeated occurrences within one year. Three of these occurred after severe market declines in 1991, 1998 and in 2008, while another occurred after a market peak in the midst in the NASDAQ bubble in May 2000. Additionally, the Russell moved higher for 15 consecutive days ending November 28th. Just four other such occurrences exist: February 1996, March 1988, May 1985 and August 1979. All these periods, though the sample size is small, did eventually lead to higher stock prices, mostly after a consolidation phase. In sum, gains of this nature have indicated strength begets further strength, with the S&P rising roughly 4% 20 days later when the Russell 2,000 had gained more than 13% over ten trading sessions, higher 85% of the time. Outcomes are less significant when the gains were accompanied by new highs.

The strength in the Industrial CRB continued last month after reaching its highest level of the year in October. In the month of November this index surged a whopping 5%, moving to its highest level since January 2015. The Index has now gained 20% from its lows. This may indirectly (anecdotally) limit the downside in S&P earning projections. The earnings projection/CRB link has been a recurring theme in earnings over the past few years. From the high in the second quarter of 2011 the CRB Index declined by 37%. This may have been a contributing factor in S&P earnings projections being revised lower in the past couple of years when the CRB Index declines accelerated. Conversely, the strength in the CRB may possibly be a factor for greater stability in earnings projections in the near term.

As detailed in the September letter a handful of leading indicators used to monitor economic forecasts had been suggesting economic growth in the vicinity of 3% in the 3rd quarter. Forecasts continue to indicate a robust reading in the 4th quarter. Earnings last quarter as mentioned on page 1 where better than expected **and** profit margins stood at 10%. While margins are below the peak from the 3rd quarter of 2014, the current earnings excluding energy would have reached a new peak. As detailed in this letter in past years, profit margins tend to top out ahead of an economic peak and ahead of bull market peaks.

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