July 2016
Market Comments

We are faced with difficult choices for the both the next president and for our portfolio investments

We hardly can remember a presidential election where there was less enthusiasm for the choices. According to Real Clear Politics, Secretary Clinton has a 55% unfavorable rating while her rival Donald Trump is sporting a 61% unfavorable rating (1). The choices that we have for investments in our portfolio seem equally difficult. Interest rates have been driven so low that the safe-haven of fixed income provides little or no return. The US Stock market is up slightly for the year (DJIA up 4.1% at 7/11/16) (2),... a nice rebound from February's lows but hard to get enthusiastic about. The UK vote to exit the EU adds concerns about world economies and markets.

Though the choices are difficult, we will elect a new president in November and we must make choices for our portfolios. As with any tough decision, we will weigh all the relevant information and make the best decision possible. Lucas Capital cannot help you with your choice of president but we will work diligently with you to make the right investment choices.

Our office, clients and friends cover a broad spectrum of political views. Though party affiliations differ, our recent conversations have had a similar theme: "I'm concerned about the future of the US economy and fear a collapse of stock prices when the new president is elected". We are not personally thrilled about either of the presumptive nominees, but don't believe that the election will cause an economic or stock market crisis. Certain policies proposed on the campaign trail would likely damage our economy while others could give us an economic boost. The good news for our country is that our new president, whoever is elected in November, will need to work with Congress to pass any laws. We thank the founding fathers for their thoughtfulness in dividing law making power between the executive and legislative branches of government! We also take comfort that many of the outrageous promises said during hard-fought campaign battles are never enacted into law.

The current slate of investment choices we see are also challenging. Continuing central bank stimulus has pushed interest rates to unprecedented lows. Citibank recently reported that $7 trillion of global government debt, one third of the total, is at negative yields (3). As hard as this is to imagine, instead of ***earning*** interest an investor has to ***pay for the right*** to own a government bond. Monetary Stimulus may be a good idea taken too far. The reason central banks keep lowering interest rates is to spark economic activity. When borrowing money is cheap, businesses and consumers are economically incented to make purchases using borrowed money. From a borrower's standpoint low rates are a blessing. To investors, low rates diminish the ability to earn reasonable and safe returns on money. Even though rates are near historic lows, the reason to hold bonds remains the same: stability, safety and diversification from stocks.

The US 10 Year Treasury yield has been steadily declining from a peak of 15% in 1981, to 4%-5% range during 2001-2009 and 2.9% in January 2014 (4). Today's rate is now 1.4%. The corporate bonds and bond funds that we often hold in our portfolios usually yield 1%-2% more than treasuries but are following the same declining trend. Bonds that we were able to buy last year at 3.5%-4.5% yield now yielding 2.5%-3.5%. Though the rates seem painfully low, we still recommend that bonds constitute part of a balanced portfolio.

Equity markets have been up and down during 2016 and recently troubled by the Brexit vote in the UK at the end of June. From the analysis that we have read, there appears to be no economic upside for the UK exiting the European Union. The stock market reaction to the Brexit vote was fast and steep. After the final vote was announced in London, world stock markets plummeted. US stocks dropped 5% over 2 days (5) but then recovered in the next few days as UK politicians backpedaled on the speed and certainty of UK's exit. We believe ultimately there will be a negotiated settlement among the UK and other EU countries resulting in a continued affiliation of the UK with the EU. Hopefully this exercise will be instructive to EU leadership and cause improvements to policies and regulation that may be unpopular among European citizens. As we write this letter, the S&P 500 opened at a new all-time high on Monday 7/11/16 as markets are forgetting their fears of Brexit (6).

With the unprecedented low interest rates, political turmoil in the EU and a difficult choice in the upcoming presidential election, we are less sanguine than we have been in the past year. On the positive side, the US economy is still moving forward nicely with good job growth and slow consistent GDP growth (7). With this good economic backdrop we don't believe the stock market is set up for a collapse but we are sure to see enhanced volatility as the European political situation takes its twists and turns. Our investment choices, though challenging, need to be made with full realization of risks and potential returns. As your advisors, we stand ready to assist in making the best choices.

As usual, please call if you have questions or would like to discuss any financial issues you may be facing.

We hope you enjoy the summer,

Russ, Ralf, Rob, Bruce and Brett

Sources:

1. *http://www.realclearpolitics.com/epolls/other/trump_favorableunfavorable-5493.html*
2. *Thomson Reuters, July 11, 2016*
3. *http://qz.com/725005/a-third-of-all-government-bonds-are-guaranteed-money-losers/*
4. *https://fred.stlouisfed.org/series/DGS10*
5. *Thomson Reuters, S&P 500 Index,, June 23, 2016 open vs June 27, 2016 close*
6. *Thomson Reuters, July 11, 2016*

7. http://www.bls.gov/news.release/empsit.nr0.htm, http://www.tradingeconomics.com/united-states/gdp-growth

NOTE: This report has been prepared for the discretionary account clients of Lucas Capital Management LLC (LCM) only and is not intended for the general public. The intention of this material is to provide the basis for investment decisions made by LCM on your behalf. The opinions expressed in this report are those of Lucas Capital Management. Information contained herein is based on sources we believe to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions are subject to change without notice. This report is for informational purposes only and is not intended as an offer to sell or a solicitation to buy securities. This report may not be reproduced or distributed without our permission and is a service provided exclusively for our clients. **Lucas Capital Management and its affiliated companies and/or associated persons may, from time to time, have positions in, or options on the securities discussed herein and may make purchases/sales while this report is in circulation.** More information is available upon request.

The Galleria • 2 Bridge Avenue, Suite 633B. • Red Bank, NJ 07701
P (800) 878-3310 • (732) 758-1004 • F (732) 741-3270 • www.lucascapital.com
Registered Investment Advisor