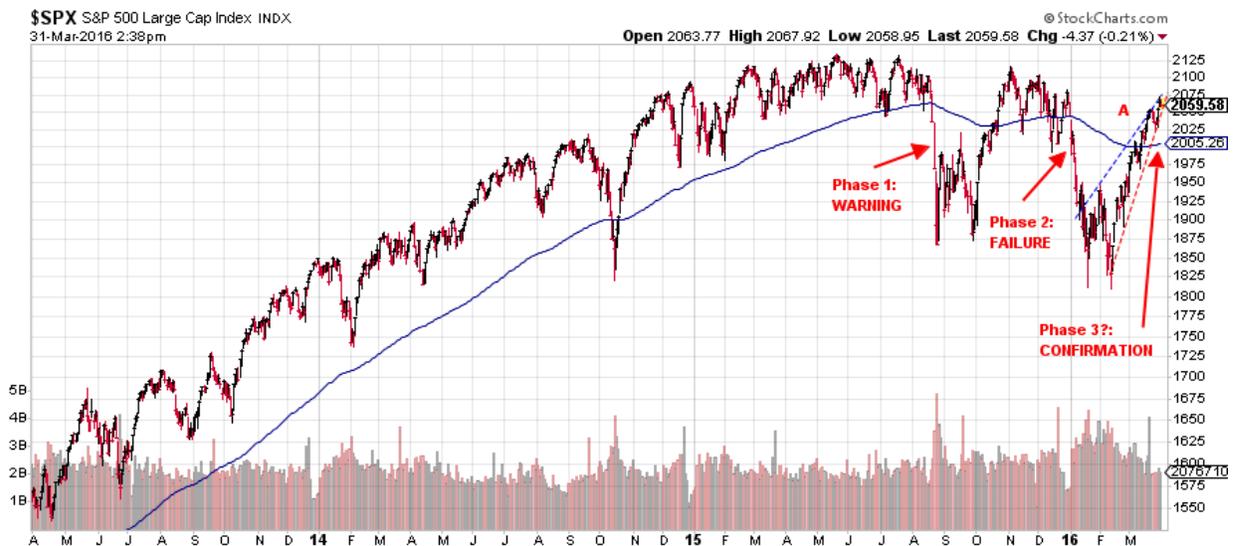




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Our view of the United States Stock Market¹ at Blue Line Investing² for the month ending March 2016



Commentary:

Down, Up, Down, Up – the market has been experiencing a lot of volatility in recent months, but so far it hasn't been able to make much forward progress. The chart above has been updated from last month with two changes. First, we have expanded the time span to 3 years to broaden the current market perspective. Notice how a “healthy” market typically remains above the blue line while rising. Once the market begins “churning” above and below the blue line, a change in primary trend becomes possible.

Second, the current rally appears to be a “counter-trend” rally. This means, if the primary trend is in fact turning negative, we should expect this rally to fail and prices to eventually continue a downward path. On the chart above we have annotated a technical formation with an “A” called an “Ascending Wedge” (see the blue and red

dashed lines above). This formation could result in prices breaking down out of the formation – at least for the short-term.

While it is still too early to determine whether a Phase 3: CONFIRMATION⁵ event is occurring, the fact that price ran above the blue line does call it into question. Historically, that does not usually occur. But this small detail does not negate the warnings and potential risk currently being suggested by the message of the market. Price behavior over the coming weeks will hopefully shed more light on where the primary trend of the market may go over the coming months.

¹ The S&P 500 Index is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. It is comprised of 500 large companies having common stock listed on the NYSE or NASDAQ.

² Blue Line Investing (BLI) is a disciplined investment process, based on technical analysis research. The process applies trend-following, along with observations of the moving averages of the market. Key to the process is the “blue line”, which is derived from comparing an investment’s price against its moving average. BLI monitors those activities over time in order to determine allocations within client accounts.

³ According to Blue Line Investing, once the price of any publicly-traded investment falls below the blue line, the trend is considered “neutral” and could become “negative.” As such, a Phase 1: WARNING, means, by dropping below the blue line, the market is providing a “warning” of distribution.

⁴ According to Blue Line Investing, once the price of any publicly-traded investment fails to rally and remain above the blue line, it is a signal from the market that selling pressure is greater than buying pressure. This results in a Phase 2: FAILURE, representing the markets “failure” to re-establish a trend above the blue line. The probability of a change in trend is higher.

⁵ According to Blue Line Investing, once the price of any publicly-traded investment fails to rally and remain above the blue line on any second rally attempt, this results in a Phase 3: CONFIRMATION – it is “confirmation” from the market that the trend has changed to negative and investors should expect losses for an indeterminate period of time.

Disclaimers:

Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volumes. Technical analysis attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that markets may not always follow patterns. There are certain limitations to technical analysis research, such as the calculation results being impacted by changes in security price during periods of market volatility. Technical analysis is one of many indicators that may be used to analyze market data for investing purposes and should not be considered a guaranteed prediction of market activity.

Past performance is not indicative of future results, nor should the investment process be considered a guaranteed prediction of market activity, but only one of many indicators that may be used to analyze market data for investing purposes. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. This information is intended for educational purposes only.

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