

Forest Capital – Market Commentary

August 12th, 2016

46-acre Enlightenment

I hope this note finds you doing well and enjoying the waning days of Summer 2016.

Finding quiet time is incredibly difficult in the digital age. We all need time to develop our thoughts, process past-future behaviors/reactions, and have the peace of mind to be creative and dream a little. I cherish quiet time alone.

Enlightenment, for me, can be found on a diesel tractor. The constant drone of a diesel engine and rhythm of a bush hog mower provide the ambient noise cancelling of the chronic cell phone leash. Free and peaceful thoughts can flow in this setting.

The broad realities of our current Macroeconomic situation:

1. Bond/Income security returns have been spectacular this year, 12%+ for blended accounts.
2. Interest Rates (lower and lower) are telling us something: Growth is lacking worldwide (borderline recessionary) and inflation is moot. WSJ: <http://goo.gl/Ejv1U9>
3. The Bond market is effectively broken: Government buying exceeds 45% of the government bond market = worldwide chase for yield, in everything! Zero Hedge: <http://goo.gl/Mhaiui>
4. Asset prices have fully de-linked from financial gravity: 3rd highest stock valuations in World History: <http://goo.gl/jLsXhE>
5. The lack of financial discipline (super low interest rates) can create massive misallocations of capital; also crushes the ability of banks to profit/insurance companies to fund long-term liabilities = the creation of a new instability, on a lag.
6. Price volatility is, and will continue to be, massively distorted = very little will change, unless some outside force acts.

As a firm that cherishes transparency, rational thought, and real numbers (credit focused, math nerds we are) this environment is difficult to fully understand, but we love the returns YTD.

The disruption of financial gravity (interest rates) as a governor of capital allocation makes prudent investing difficult; and we struggle with it. We must ACCEPT these realities.

We have generally sought to harvest the profits of 2016 and allocate to assets that benefit from the general trends of the present macroeconomic realities - albeit ones with less volatility in the event of a market disruption.

Time is the great arbitrator of all our grand struggles. Being patient in the interim is always the challenge.

Thank you for investing with Forest Capital!

*For additional information on portfolio positioning, please contact Forest Capital directly at
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Market Commentary (cont.) (August 12th, 2016)



When compared to the historical trend, yield spreads between Treasuries of different maturities may indicate how investors are viewing economic conditions. Widening spreads typically lead to a positive yield curve, indicating stable economic conditions in the future. **Conversely, when falling spreads contract, worsening economic conditions may be coming, resulting in a flattening of the yield curve.**

Read more: [Yield Spread Definition | Investopedia](http://www.investopedia.com/terms/y/yieldspread.asp#ixzz4H842NTtQ) <http://www.investopedia.com/terms/y/yieldspread.asp#ixzz4H842NTtQ>
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