



Quarterly Newsletter
Walnut Hill Advisors, LLC
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2015 Trends Intact

It is virtually impossible on most days to determine why the markets did what they did, but we now see decent-sized moves that come out of nowhere with no news attached far more often than in the past, which is most likely a function of all the quants and algorithmic trading, etc. One can only imagine once the news turns bad enough and the market becomes weak enough what a unanimous opinion on the downside might look like. How anyone thinks we are going to avoid a crash is beyond my comprehension, but then again I find myself saying that about a lot of things these days.

~Bill Fleckenstein, hedge fund manager - 4/8/2015

1. **"WPA"/New Deal Thesis starting to play out in China**
2. **Diversified, long and short**
3. **Notes**

1. WPA Thesis Starting to Play Out

In my last newsletter, I highlighted some trends for 2015. Here they are along with my updated comments below in blue print:

1. Global growth is not strong - therefore more countries across the globe will turn to printing money and borrowing to fund **"New Deal"/WPA type infrastructure projects** in order to put blue collar people to work and to try to stimulate economic activity. We are seeing this in China and I bet we will see it throughout Asia and in Europe. South America could use some of this too but they don't have the fiscal reputation to get away with borrowing funds and deficit spending.

Chinese stocks along with the rest of Asia have been on a tear. Many European indices are breaking out of sideways chart patterns to new highs. China has recently announced more internal stimulus. China has 200-300MM middle class people who will grow very angry if the economy weakens further. Like in the US, the wealthy in China have benefited from low interest rates but the Middle class is under serious stress. Chinese officials know this so I expect more bridges, train routes, pollution control, water quality enhancements and resource optimization in China. Active management accounts are exposed to Asia and global construction with increasing positions this year.

2. Internet security continues to be an enormous topic of concern. As more and more people move away from simply browsing and put more and more of their personal stuff on social websites, and banking sites, security issues will continue to pop up globally.

Security stocks have been very strong in 2015. Active growth clients traded this sector successfully and we hope to get back in under the right set up. We like the thesis and just want the right chart set up.

3. Software will continue to "eat up the world." We can do everything virtually now. In fact, I can run Walnut Hill Advisors from anywhere in the world due to our secure internet based phone system, CRM system, and document storage system. Furthermore, we can run virtual meetings via Skype and FaceTime and hold presentations with *Joinme* or *Gotomeeting*. Everything from retail stores to medical consults are on the web ready to do business with you (I personally favor the web + personal combination but that's my bias:).

I plan on running more virtual client meetings myself, especially for my busy clients. Virtual meetings tend to be more focused and it saves a drive! Trend is showing no slow down in the economy.

4. Food security and purity - more and more mainstream consumers desire organic and non GMO foods (not just "all natural" foods, whatever that means). Companies that offer and verify natural foods will grow. Traditional grocers are offering a large selection of organics now opening up more space for organic food micro-entrepreneurs as many stores now seek out local producers (I wrote about food entrepreneurship in California 2 years ago on my ChrisGrande.com blog).

The enormous increase in organic foods in traditional grocery stores says it all.

5. Healthcare breakthroughs - biotech contract research organizations have made it easier for development biotech companies of all sizes to run tests on compounds and ideas. The rate at which new drugs and therapies are being brought to human trials and to final market approval has been very large. And it's been exciting.

We started a trading position in the biotech sector in the fall and it has done nothing but run up. At some point, this whole complex gets overheated. But the breakthroughs keep coming!

6. Personal security - I expect small scale one on one terrorist attacks and other security breaches to increase. It's impossible in my opinion to completely stop this and those who think that law enforcement can are delusional. The idea of self independence and security will be a growing theme - home independent on energy, food, and resources is a small but rapidly growing sector.

Just scan the news - the latest attack in Kenya on civilian targets exposes this awful trend.

I think the themes we discussed are developing as we thought. Though in fairness, nothing here is too "Faith Popcorn - it" to get me any Nostradamus-type accolades.

2. Diversified, long and short

In terms of portfolio updates, for our actively managed clients we have added long positions in Asian equities and a global engineering firm and we will add more as the charts set up. We also took short positions ("hedging" via options) in US old line tech stocks. We also have a position betting on increased volatility. Growth clients own some social media exposure while most clients have global stock exposure via Vanguard index funds. I expect European and Asian stocks to outperform US stocks this year but my opinions don't matter as much as facts. We also have exposure to a fund that specializes in following trends in all markets - stocks, bonds, currencies, commodities - and it's quantitative nature makes it a good diversifier from typical strategies.

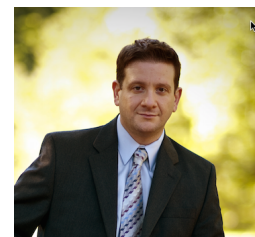
We have a diversified portfolio strategy that helps reduce risk and expose us to opportunity.

3. Notes

As many of you saw in my latest email newsletter, I am switching to more video use for newsletters and plan to put out more of them! So make sure you are your friends are on my email list (if not email me or call and I'll add you. I'll have market updates, more restaurant reviews, planning ideas, announcements, and features. Importantly, market updates with graphs will be part these video updates in the near future.

Warmly,

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