Our 2016 forecast ... revisited

We are only one month into 2016, but there is already enough price movement to revisit our New Year's forecast from our December 31 article, "Outlook so so for stocks, good for preferreds."

It turns out "so so" may seem too optimistic as stocks began the year with their worst start ever. We were right with preferreds, however, as they have held steady and paid dividends.

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Here's how our selections have performed. Saul Centers Preferred 'C' was \$26.10 then, it's \$26 as I write and it paid a \$0.43 dividend.

Renaissance Re Preferred 'C' was \$25.50 then, it's \$25.33 now, and goes ex-dividend in late February. Partner Re Preferred 'D' was \$27.55 then, it is \$27.62 now and will go ex-dividend in March.

From a risk-reward standpoint, preferreds like these are very attractive and play an important role in most of my clients' portfolios.

Although stocks are off to a bad start, my yearly forecast (flat) means they should end the year higher than today's prices.

Apparently Goldman Sachs agrees. They say fair value for the S&P 500 by year-end is 2100, so there is 10 percent upside from here, plus the dividends.

No one knows for sure whether this selling will be just another wave like we've seen many times during the seven-year bull market, and not all stocks are falling in lockstep with the Dow and S&P. Some have fallen more, some less, some hardly at all.

Watching which are doing best and which worst is often a tip-off to what lies ahead for the market and especially for the economy.

What is doing well? Telecommunication companies like AT&T and Verizon, which yield about 5 percent, and utilities. These are bastions of safety and income that are increasingly important when the economy is soft and yields on alternative investments stay low.

So their relative strength could be a sign that interest rates won't rise much if at all, or that other attractive investment opportunities for income will be few and far between. Or as I believe, both.

Today's low bond yields and rock bottom short-term rates make better-yielding stocks more attractive than the alternatives or just about everything else.

I said that on December 31; I still believe it. We're seeing that play out now.

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