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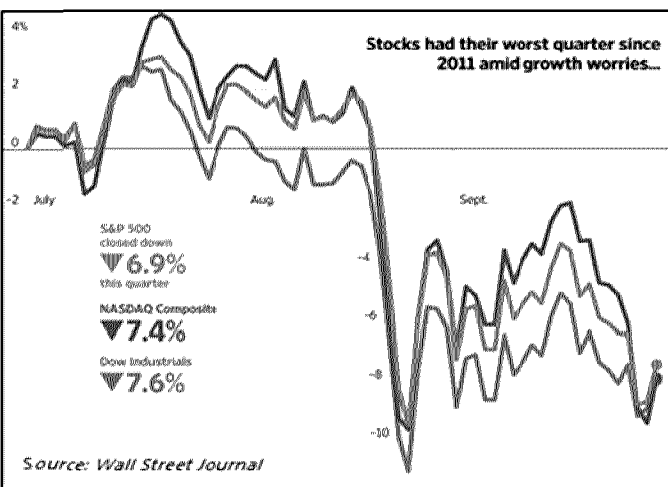
Comprehensive Wealth Management & Retirement Planning

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Quarterly Economic Update: Third Quarter 2015

This past quarter was a difficult one for even the smartest of investors. Many money managers were hoping for a chance to purchase equities at cheaper prices, however they forgot the old adage, “Be careful what you wish for.” Those money managers learned that lesson this quarter. For nearly four years, stocks had been heading in one direction—up—and some money managers were all but begging for a selloff so they could purchase great companies at bargain-basement prices. They got their chance in August, when the Standard & Poor’s 500 index officially entered a correction—defined as a decline of 10% or more—with some of the market’s most revered companies declining in price for little or no reason.

After several healthy years the equity markets have taken a break from their continuous upward movements. For the quarter, the Standard and Poor’s 500 index fell 6.9%, leaving most investors with losses. This was the index’s worst quarter since 2011. After a few years of what now is being referred to by many as slow, calm and steady movements, the stock market has returned to some of the most gut-wrenching price swings since the 2007-2009 financial crisis. (Source: Wall



Street Journal, 9/30/2015)

Although most long term investors understand that over long periods of time the equity markets can provide reasonable returns, the market swings of this past quarter have been confusing and even some of the

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During these times, Vanguard Investments reminds investors that, “It’s natural to have lots of questions when the market swings up and down. Volatility is common, and often the wisest thing to do is stick with your investment plan.” They go on to reason that in highly volatile market environments investors need to remember what they refer to as market volatility Rule #1: Recognize that volatility and periodic corrections are common in equity markets. Vanguard suggests that the key to getting through unexpected turbulence is to understand that swings in the financial market are normal—and relatively insignificant over the long haul. (Source: Vanguard.com, 9/2015)

Market pull backs are not a new concept but now that it’s Fall, investors are bracing for additional large price swings across stocks and bonds heading into a month that is usually associated with market tumult. Although the markets are down, many analysts said other signals of a U.S. recession haven’t materialized. They still expect the U.S. economy to expand at a modest but healthy 2.5% annual rate this year and point out that unemployment is at its lowest levels since early 2008. Consumer spending, another major growth driver, is strengthening. (Source: Wall Street Journal, 9/30/2015)

The S&P 500 is down more than 5% since the end of July. This means that the S&P 500 trades at 16.7 times the past 12 months of earnings, compared with its 10-year average of 15.7, according to FactSet. In early

August, before the S&P 500 fell into correction territory, it traded at 18.2 times the past year of earnings.

Analysts are cautious for now, but among 21 strategists followed by Birinyi Associates, the average S&P 500 price target for 2015 is currently 2177. If it ends the year at that level, that would mark a gain of 5.8%, lower than the 8.4% increase forecast in the middle of this year, but still up.

(Source: Wall Street Journal, 9/30/2015)

Interest Rates

Will the Fed raise rates or won't they? That still remains the main question when it comes to interest rates. All throughout the quarter Janet Yellen and her colleagues took a wait—and—see approach which analysts feel contributed to the market's volatility. When it was all said and done the Federal Open Market Committee left the Federal Funds rate (the rate banks charge each other for overnight loans of funds maintained at the Fed) unchanged at 0%—0.25%. They also left no clear direction as to exactly when they would raise rates. While they spoke of raising them before year-end, they also said they would have to carefully watch several factors like the job market and the risks created by overseas turmoil. Without decisive action from the Fed, or greater clarity about its intentions, analysts are predicting the markets will continue to be volatile. *(Source: Barron's, 9/21/2015)*

Global Concerns & China

This quarter, global markets and investors also experienced difficulties. Global stock markets saw their weakest quarterly performance in four years with trouble predicted in the world's two largest economies. After a sustained collapse in commodity prices, China's equity markets dropped and then Chinese officials announced a shocking currency devaluation. Continued fears of a Greek default made the past three months a summer to remember (or forget) for investors.

"Global equities are closing in on their worst quarter since 2011, with a number of factors fueling fears in an already jittery market, including weak global growth, driven by deceleration in emerging markets, particularly China," Barclays analysts said in a late September report. China's benchmark Shanghai Composite appeared to be one of the world's worst performers of the quarter with a 25% loss, its weakest performance since 2008. In Europe,

Germany's Dax experienced a 15% decline, -11% for the French CAC, -8% for Italy and -13% for Spain's IBEX.

Moving forward, many analysts are expecting a cloud of pessimism to loom over global equity markets for a while.

(Source: CNBC, 9/30/2015)

Q3 Key Points
1. Equity indexes entered correction levels.
2. Interest rates left unchanged at 0-0.25%
3. Global markets and China experienced heavy declines.
4. Brent and US crude oil prices down 24%.
5. Investors need a plan to avoid emotional decisions.

Oil Prices

Oil prices have fallen a long way over the last year. For the quarter, both Brent and U.S. crude oil were down 24% for their sharpest decline since the end of 2014. Heading into the fourth quarter, analysts are predicting that energy markets should stabilize as production in the U.S. subsides. Analysts also feel that it now appears the majority of the damage has been done and oil prices may be stabilizing. Oil prices contributed to the market's decline and are another concern that need to be monitored by investors. *(Source: Seeking Alpha 10/4/2015)*

Conclusion: What Can an Investor Do?

The more often you update yourself on the market's fluctuations, the more volatile and risky it will appear to you — even though short, sharp declines of 5% to 25% are common. The U.S. stock market has, in the past few years, been extraordinarily placid by historical standards. Even the sudden drops of the past month are well within the long-term norm. Fixating on fluctuations in the short term will make it harder for you to remain focused on your long-term investing goals. *(Source: Wall Street Journal, 9/30/2015)*

Have a plan. Even the savviest of investors needs a plan. When equity markets are gyrating on a daily basis

it is easy to make emotional decisions that could prove to be wrong.

Focus on your own personal objectives. During confusing times it is always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly. Understanding your personal commitments and categorizing your investments into near-term, short-term and longer-term can be helpful.

Don't try to predict the market. Investment decisions driven by emotion can cause problems for investors. Discipline and perspective can help investors remain committed to their long-term investment programs through periods of market uncertainty. The best investors try not to constantly look back and second guess their decisions. They make decisions based on facts and data points.

A portfolio strategy can assist in helping you weather ups and downs of the market. Corrections are a normal part of investing. With a strong plan in place, many investors need not worry or adjust their approach at all. If you are going to make changes, you should try not to panic and sell equities. We try to sit with clients in an attempt to check that all of their necessities are covered. Even for those who are retired, it's helpful to consider an income strategy that includes enough regular flow of money—including Social Security, pensions, or other income sources—to cover housing, food, and other essential expenses. A good idea is to only use your investment accounts for funding entertainment, travel, gifts, and other discretionary expenses—giving you the flexibility to pare back the spending from your investment accounts during down markets.

Make sure you have adequate liquidity. When the market is down, cash can be a valuable shock absorber. You may want to consider using the cash portion of your portfolio to delay the need to sell equities while the market is down. Selling equities in a downturn leaves you with less invested when a recovery comes, turning what may be a temporary market decline into a permanent dent in your portfolio. Having cash on hand may help give you the opportunity to participate in a recovery.

Get used to volatility. As the chart of market declines shows, volatility and market declines are a part of investment history. Legendary investor Warren Buffett maintains that, just because markets were

volatile doesn't mean that for a long-term investor — which is the prism through which Buffett sees markets

A History of Big Market Declines (January 1928 – July 2015)	
Intensity	Average Frequency
<= -10%	About once every 7 months
<= -15%	About once every 1 year and 3 months
<= -20%	About once every 2 years and 3 months
<= -25%	About once every 2 years and 11 months
<= -30%	About once every 4 years and 11 months

Source: S&P Total Return Index (gross dividend)

— the stock market was necessarily riskier. He advises investors not to confuse volatility with risk.

As always, discuss any concerns with us.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

A good financial advisor can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs. We continually monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the emotions out of investing for our clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

P.S. Janet Yellen is plotting the monetary future using complex data points that consider inflation, employment, and productivity. But one brokerage is resorting to more tangible evidence: bacon cheeseburgers.

Nicholas Colas, chief market strategist at Convergenx, a global brokerage based in New York, tracks “off the grid” economic indicators. He found that measuring the prices of ingredients in a bacon cheeseburger can determine the impact of inflation.

Colas tracked prices for ground beef, cheese, and bacon since 1980—he left off the bun “in deference to history and those on a low-carb diet.” It turns out the bacon-cheeseburger index reveals deflation over the past few months. On a year-over-year basis, the ingredients fell 2.9% in June, 1.2% in July, and 2.7% in August. Historically, bacon-cheeseburger deflation has signaled a slowing economy, he notes.

“Go back through the price history, and negative 3% to 4% price declines for bacon cheeseburgers are often a sign that the Fed needs to cut interest rates and push liquidity into the domestic economy. I know that sounds weird, but the last time our bacon cheeseburger showed negative price trends of this magnitude was in 2009. Before that, it was 1998 [Asia crisis] and 1991-92 [Gulf War I].”

Will Yellen heed the warning and delay rate hikes? Colas urges her to sink her teeth into this issue, “Even if bacon cheeseburgers aren’t on the cafeteria menu at Fed HQ, Chair Yellen would do well to heed the sizzle of deflationary pressures.”

(Source: Barron’s, 10/2/2015)

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- Bring a guest to one of our workshops
- Share the news of our complimentary consultations

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Sources: *www.irs.gov; Kiplinger Tax Letter; Barron’s; Bankrate.com; Fact Checked by Keebler & Associates; © The Academy of Preferred Financial Advisors, Inc. 2015*

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