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4th Quarterly Economic Update 2015

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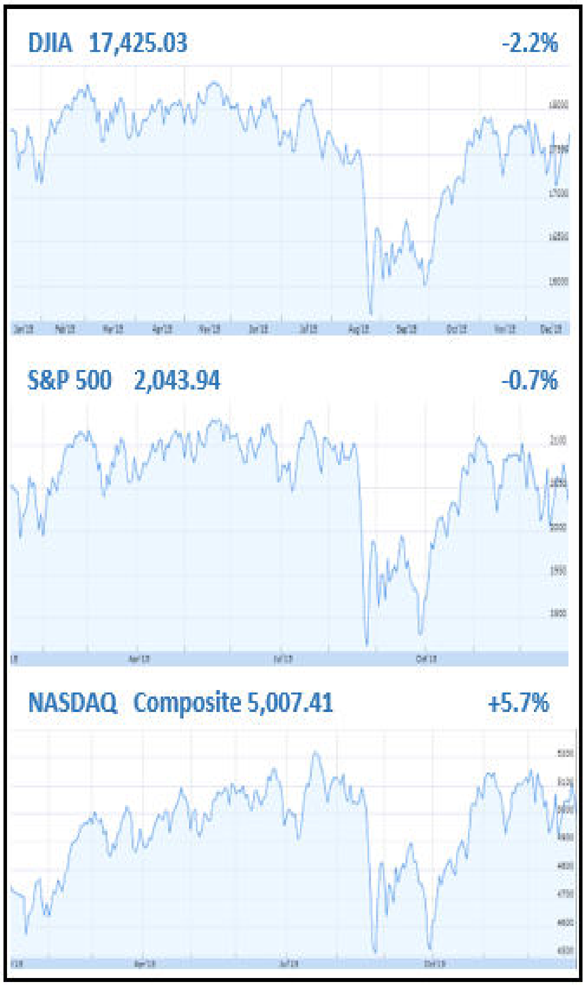
When the final day of trading closed on New Year's Eve, the U.S. stock market finished a disappointing year for investors. Despite all the optimism that 2015 began with, there was limited, if any, joy by year end. The Dow Jones Industrial Average lost 2.2% for the year and the Standard and Poor's 500 index was down 0.7%. This annual drop was the first since 2008. The NASDAQ was one of the only bright spots, gaining nearly 6% for 2015 despite the small-cap Russell 2000 index falling 5.7% and down 12.3% from its peak. ***(Source: Barron's 1/4/16, USA Today 12/31/15)***

Starting the year 2015, market strategists were looking for a 10% or higher rise in stocks. The final results of 2015 concluded a roller coaster year, to which many investors will likely say, "good riddance." The U.S. dollar aside, most asset classes didn't fare well.



Four factors that contributed to the weakness of stocks this year were: a further and unexpected decline in commodity prices, particularly oil; continued strength in the dollar; soft economic growth and a currency devaluation in China; and a Federal Reserve that only in December felt confident enough about the U.S. economy to begin raising interest rates. A year ago, many analysts expected that to happen as early as the first quarter of 2015.

"These cumulative head winds became too much....there was a deeply rooted fear that China's growth might hit a wall," says Thomas Lee, head of research at Fundstrat Global Advisors. "The market had a hard time standing up to all that."

"Most people thought it would be a better year," says Kate Warne, investment strategist at Edward Jones. After all, the S&P 500 index hit an all-time high of

Investor Update: **Shortly after this economic report was written, equity markets experienced an unusually turbulent start to 2016. Experts feel that this recent market volatility is in reaction to a slowdown of growth and further currency devaluation in China combined with continued oil price weakness. As advisors, we are trained to make non-emotional decisions and the advice we offer clients is based on their personal situations. Our goal is to continue to carefully monitor the markets for our clients and keep a regular line of communication. If you need to talk with us prior to our next scheduled meeting, please call our offices.**

2,131 in May. However, since August investors have been subject to heavy volatility.
(Source: Barron's 12/19/15)

Moving into 2016, caution still remains the top priority for most investors. Many analysts are still staying positive about the prospects for U.S. stocks in 2016, however, most reports conclude they are still bullish, but cautious. In their annual survey of prominent market strategists at big banks and investment firms, *Barron's* found that this group expected moderate gains for the year ahead. ***(Source: Barron's 12/14/2015)***

Equities are not intended as an investment vehicle for investors with time horizons of one year, so any one-year projection can easily be wrong. The analysts *Barron's* surveyed in 2015 were incorrect, so before we look at 2016, it might be helpful to review some key highlights from 2015.

8 Key Points

1. 2015 was a difficult year for investors.
2. Legendary investor Warren Buffet through his holding company Berkshire Hathaway, greatly underperformed the S&P 500 in 2015.
3. Strategists are predicting a bumpy ride for investors in 2016.
4. The Fed has increased interest rates for the first time in seven years.
5. The Chinese economy and their stock markets are areas for investors to monitor in 2016.
6. Fluctuating oil prices need to be watched.
7. Price-to-earning (P/E) ratios are still a key factor in the valuation of equities for many analysts.
8. **Volatility has returned to the equity markets and investors need to proceed with caution.**

A Review of 2015

The year 2015 was a difficult one for investors. A brief review of some interesting events are spotlighted on the chart of the Dow Jones Industrial Average's (DJIA) course during the year. As the recapping chart shows, the year began on a good note following a strong performance for investors in 2014. Interest rates were a major story all year and on February 2nd the 10-year Treasury yield made a low for the year at 1.67% (**data point 1 on the chart**).

Most investors enjoyed the bullish momentum during the 1st quarter and on March 13th, the U.S. dollar surged to a new high (**data point 2 on the chart**), which was later eclipsed.
(Source: Barron's 12/14/2015)

In May, the Dow Jones Industrial average reached an all-time peak of 18,321 (**data point 3 on the chart**) and investors were still enjoying market gains. As the chart shows, the first half of 2015 was a mild one and many investors entered the summer in an encouraging mode.

China stunned the world's financial markets on August 11th and 12th by devaluing its currency for two consecutive days, triggering fears its economy was in worse shape than investors believed (**data point 4 on the chart**). The Chinese authorities acted after a string of poor economic figures showed that previous efforts to boost exports and growth against the headwind of an overvalued currency had failed. As a result, the Yuan hit a 4-year low. A cheaper Yuan was sought to help Chinese exports by making them less expensive on overseas markets.

Many experts asked, why did the Chinese government do this? The most common answer was that despite the Chinese economy being the second largest in the world, after the U.S., it had been underperforming for the past year or so, according to Loren Brandt, a professor at the University of Toronto's department of economics. So they clearly felt they had to do something to get exports moving again. "This is kind of a normal course of action that is seen in most weak economies," Brandt says. "Their exchange rate adjusts and it provides a margin with which to try to help the economy recover."

In 2014, China's economic growth fell to 7.4%, a noted drop off from years of double-digit growth. China's slowed economy made this type of action unsurprising to Brandt, who says it was a question of when, not if, the government would intervene. This measure was taken as a way to stimulate the Chinese economy which was still growing, but not at the pace that was previously anticipated.
(Source: The Guardian 8/12/2015)

August 2015 was a challenging month for investors. For the first time in over 6 years, equity investors experienced a correction. On August 25th (**data point 5 on the chart**), U.S. stocks bottomed out for the year after a 12% correction. Fears of slowing global growth fueled the downturn and volatility had returned to the markets in a considerable way.
(Source: Barron's 12/14/2015)

Although the markets stayed volatile for the next three months, they clawed back some lost ground and on December 11th (**data point 6 on the chart**) WTI crude oil hit a six-year low of $35.62 a barrel. This meant a 33% price plunge for 2015. The drop in oil prices rewarded consumers at the pump, but punished energy stocks and investors as oil and energy related company share prices were hit hard.

For the entire year investors asked, "will they or won't they" raise interest rates each time the Fed's policy committee met. This was the most watched event throughout 2015 for investors. On December 16th, (**data point 7 on the chart**) Janet Yellen ended all of the debates that dominated investor discussions since December of 2008 when the central bank set its Federal funds target rate at 0% to 0.25% by raising that range by 25 basis points to 0.25% to 0.50%. This long awaited and much predicted rate

increase was the first increase in interest rates and marked the end of an era of near 0% rates.
(Source: Barron's 12/21/2015)

Finally, by the year end (**data point 8 on the chart**), the Dow Jones Industrial Average finished the year down 2.2%, disappointing most analysts and investors.

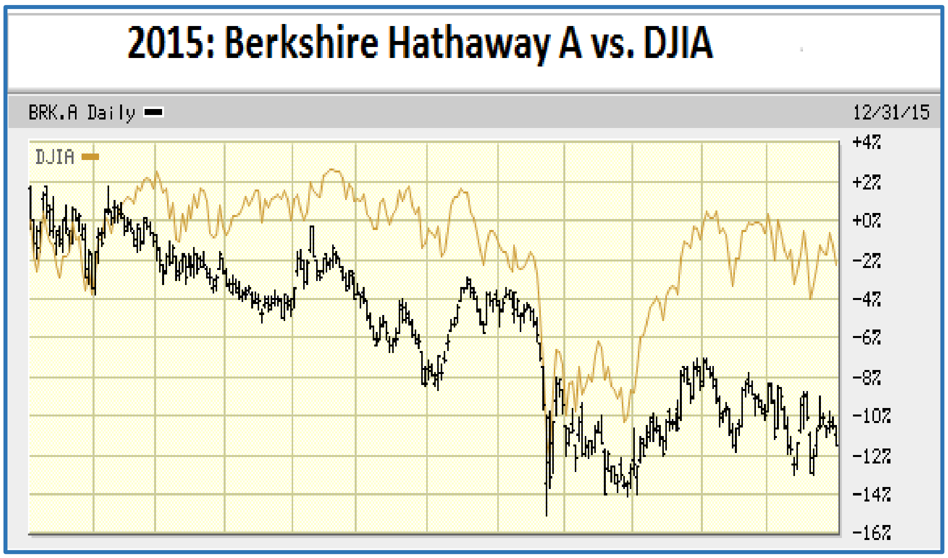
How did legendary investor Warren Buffet perform in 2015?

Many investors suffered losses and had a rough year in 2015. Legendary investor Warren Buffet, through his holding company Berkshire Hathaway, has mightily underperformed the S&P 500 in 2015. His flagship BRK.A shares were down 11.47% compared with a 2.2% decrease in the DJIA. The media noticed as the *Financial Times* trumpeted "Buffett's Worst Year Since 2009" in a headline Wednesday, December 30th.
(Source: Forbes 12/31/2015)

Indeed, 2015 was a rough year for conservative and value oriented investors like Mr. Buffet. As Investorplace.com reported, Berkshire Hathaway may have struggled in 2015, but that doesn't mean the Oracle of Omaha has lost his touch. They reminded investors that although it shouldn't need repeating, Warren Buffett is a long-term investor. They accurately report that the review of his one-year performance is more noise than signal because the data sample is far too short. They challenge investors to review his 5 year or longer term results.
(Source: Investorplace.com)

His performance is so extraordinary it puts Warren Buffett in a super-elite pool, one that holds less than 1% of the population of investors, according to an analysis by Salil Mehta, a statistician and econometrician.

Still listed as one of the wealthiest men in the world, this was not Buffet's first rough year; 2008 was also a bad year for Buffet and his holding company, Berkshire Hathaway. Buffett seeks out businesses that exhibit favorable long-term prospects. His timeframe is longer than one year, so like most good investors no one year dictates his success or lack thereof. Buffett says, "if you don't feel comfortable owning a stock for 10 years, you shouldn't own it for 10 minutes." Buffet feels that the stock market will swing up and down, but in good times and bad, he stays focused on his goals. This is a great lesson for all investors.
(Source: Investopia.com)



2016 Outlook

A big question on the mind of all investors: where is the currently erratic U.S. stock market headed in 2016?

Obviously no one will know till year end, but currently, not a single Wall Street stock strategist is calling for a complete bear market, or 20% drop. If they are right, the bull market will turn seven in March and stocks — which have tripled in value since March 2009 — will keep chugging higher. However, they say there's a chance investors will see a replay of 2015 and the market could again trade sideways and deliver almost flat returns. That's the takeaway from year-end 2016 S&P 500 price targets from 17 Wall Street strategists. The predictions range from a high of 2360 — or 15.5% above the year-end close — to a low of 2100, which equates to a gain of just 2.7%. Brian Belski, Chief Investment Strategist at BMO Capital Markets, feels that the U.S. stock market is in year seven of a 20-year secular, or long-term, bull run. What he is saying is that the S&P 500 will likely see a "cycle high" and suffer a "corrective phase" in 2016 that will leave the S&P 500 up just slightly at year end. "2016 could likely be bumpy," Belski warned in his 2016 Outlook. As a reminder, the S&P 500 finished 2015 with a 0.7% loss for the year.
(Source: USA Today 12/31/2015)

Here are some specific areas investors should watch in 2016:

Interest Rates

Now that the Fed has increased rates for the first time in seven years, almost every financial analyst and publication has a prediction for interest rate movements in 2016. For now, investors can expect more "will they or won't they?" drama from the Federal Reserve.

The staff of *Fortune* magazine recently assembled its predictions for 2016. They forecast that the federal funds rate at the end of 2016 will be 0.5%, up from 0.25%. They expect the Federal Reserve to raise its interest rate targets once in 2016—but only once, as U.S. economic growth stays steady but slow, while inflation and wage growth also remain modest. *Fortune* sites that fears of seeming "political" during a presidential election year, sluggish growth in the Eurozone and a slowdown of the Chinese economic juggernaut will keep Janet Yellen and the rest of the Federal Open Markets Committee from pulling the trigger more often. They predict the Fed's vacillation will be one of the year's longest-running (and least loved) dramas. ***(Source: Fortune, 12/14/2015)***

It is anyone's guess when the Fed will raise interest rates and by how much. In December, Federal Reserve Chairperson Janet Yellen stated that "The committee expects economic conditions will evolve in a manner that will warrant only gradual increases in the federal-funds rate."

As for rates paid on bank deposits, they are not getting off the floor just yet. *Barron's* writes that "investors should not look for money market yields to rise enough to be discernable without a magnifying glass". For 2016, interest rates are an issue that investors need to keep a watchful eye on.
(Source: Barron's 12/21/2015)

China

China is still one of the world's largest and strongest economies. Both the Chinese economy and their stock markets are areas for investors to monitor in 2016. "In many countries the stock market can be seen as a leading indicator of the economy. But that is not true in China," wrote Jeffrey Kleintop, Chief Global Investment Strategist at Charles Schwab. "You really can't get any less related than the Chinese stock market and its economy." Investors are encouraged to focus less on gyrations in China's stock markets, and to pay more attention to the country's economy. There, a gradual, expected slowdown is taking place.

Experts have known for a long time that China's growth would slow as Beijing made reforms designed to shift the country away from building roads, railways and housing to generate growth to an economy powered by consumer spending. That's happening now and economists expect final growth of 6.8% in 2015, and around 6.5% this year. China is a far cry from the potent days when it posted GDP growth of 10% on a regular basis. But it should also be strong enough to maintain employment levels as difficult reforms are implemented. Slowdowns in China can have impacts on investors worldwide and investors need to pay attention. ***(Source: CNN Money 1/5/2016)***

Oil

Oil prices were at highs of $100 per barrel in June 2014. Since then they have retreated to a new multi-year low of about $35 per barrel in December. While this rewarded consumers at the pump, there have been more than 200,000 oil related layoffs in 2015 and there are more projected for 2016. The energy industry has idled more than 1,000 rigs and slashed more than $100 billion in spending this year to cope with the bust, according to *Bloomberg.* More than 250,000 energy workers from around the world have lost their jobs since the start of the downturn. ***(Source: Houston Press 12/30/2015)***

Energy and oil related stocks suffered big losses in 2015 and analysts are mixed on whether they will rise or continue to drop in 2016. The fluctuation of oil prices is another subject that investors need to monitor this year.

Corporate Earnings

Price-to-earnings (P/E) ratios are still a key factor in the valuation of equities for many analysts. According to Jurrien Timmer, Director of Global Macro at Fidelity Investments, the outlook for 2016 really seems to be more of an earnings question. The U.S. earnings cycle peaked in early 2015, profit margins are near record levels, and more than half of corporate earnings are coming from share buybacks. He feels that it remains to be seen what we can expect from earnings growth in 2016, especially if the sectors that are most tied to the global economy (industrials, energy, and materials) remain depressed. Mid-single-digit earnings growth might be a reasonable expectation. That’s where it was in 2013 and 2014, and where it would have been in 2015 if energy had been stripped out.

Fortunately, valuations seem reasonable, with the forward price-to-earnings ratio at 16 times earnings for the S&P 500 Index. Timmer believes valuations should remain reasonable even if yields do rise—provided such an increase is accompanied by an acceleration in earnings growth. Although valuations can be considered high by some measures, Timmer does not think they represent heavy danger.
(Source: Fidelity 12/18/2015)

CONCLUSION

Volatility should continue in the equity markets and investors need to proceed with caution. For many analysts there is a growing uncertainty about the sustainability of the path the global economy and markets have been on for the last seven years. At a minimum, this confluence of factors signals a considerable level of volatility in 2016.

Analysts are focused on the Fed, China, oil prices and stock valuations. So where does that leave us?

Investors need to prepare for 2016 with a sense of caution. Individual investors still have to look at their own situations first. It is important to be cautious, but it is just as important to determine your own personal risk. That's where we can help.

Now is a good time to ask yourself:

1. ***Has my risk tolerance changed?***

2. ***What are my investment cash flow needs for the next few years?***

3. ***What is a realistic return expectation for my portfolio?***

Your answers to these questions will govern how we recommend investment vehicles for you to consider. We can help you determine which investments to avoid and how long to hold each of your investment categories before making major adjustments. For example, if your cash flow needs have changed for the next few years, you might consider different investments than someone who has limited to no cash flow needs.

Investment needs are not one size fits all, so we continually review economic, tax and investment issues and draw on that knowledge to offer specific direction and strategies to our clients.

We pride ourselves in offering:

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

A good financial advisor can help make your journey more comfortable. 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.

New Year's Resolutions

According to research from the Journal of Clinical Psychology, only 8% of Americans who make resolutions are successful in keeping them. More than one-third give up in the first month.

Help us grow in 2016!

This year, one of our goals is to offer our services to several other people just like you!

Many of our best relationships have come from introductions from our clients.
Do you know someone who could benefit from our services?

We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Bring a guest to a workshop,
- ✓ Have someone come in for a complimentary financial checkup.

Please call us at **Maiorano & Associates**, 718-331-3700 and we would be happy to assist you!

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In general, the bond market is volatile, bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Sources: Barron's, Forbes.com, Investorplace.com, Investopedia.com, USA Today, Fortune, CNN Money, Houston Press, The Guardian, Fidelity