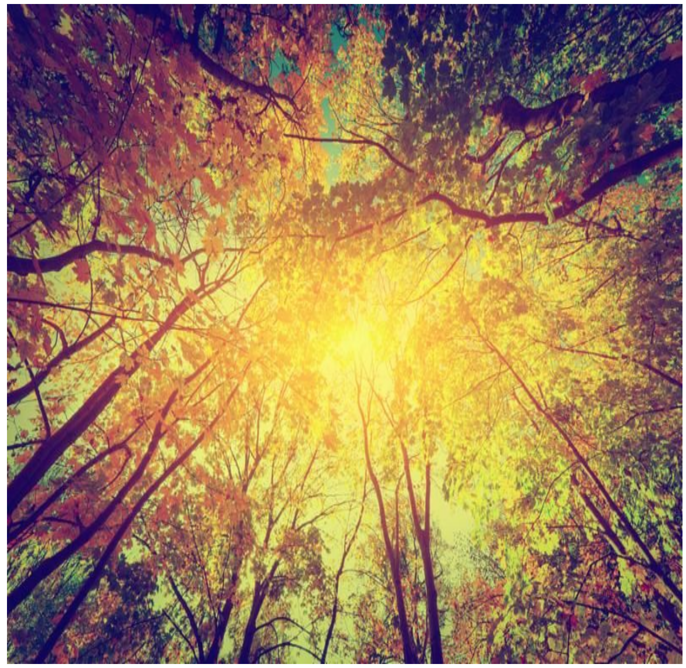
October-Season of Change

Dear Valued Clients & Friends:



"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February." - Mark Twain

It has been told that Mark Twain was a terrible investor and the reason being that he ended up gaining knowledge through his own poor decisions and experiences. The above quote could be attributed to another hard lesson learned in that to speculate in the short-term is a fool's errand. As you know, we do not believe it is profitable in the long-term to speculate on the short-term. With that said, we were not shocked or overtaken with emotion when the stock market recently became much more volatile the last few months. When we look at investment portfolios, we will make short-term changes but base these changes on the long-term plan we had previously established with each individual client.

The Economy and the Federal Reserve

The latest forecast from the Federal Reserve Bank of Atlanta has the real third quarter GDP (gross domestic product) growth at 0.9 percent. This quarterly growth comes on the heels of the second quarter annual rate of 3.9 percent. Consumer spending, which represents two-thirds of economic growth, continues to show resilience and be beneficiary of low gas prices and a strengthening job market. In addition, the service sector of the economy as measured by the Institute of Supply Management (ISM) continues to remain at a level that signals a healthier economy. Thus, the economy continues to grow but at a rate slower than economists, business owners, and investors would like.

To combat this continued slow growth, the Federal Reserve continues to recommend accommodative economic policy and lower interest rates. The Federal Open Market Committee minutes were released earlier this month and they revealed that the committee collectively believes that although the labor market is improving, inflation continues to run below the longer-run objective.   Because the Federal Reserve is tasked with a dual mandate of low unemployment and stable prices (2 percent target inflation), they felt it was still too early at this point to raise interest rates. This zero percent interest rate environment is now nearly seven years in length.

Financial Markets

The major stock indexes decreased during the third quarter. The large-cap S&P 500 returned -6.4%, the MSCI All Country World Index dropped -9.45%, and the smaller-cap Russell 2000 fell -11.92%. The Barclays US Aggregate Bond Index (one measure of broad fixed income market) rose slightly during the quarter, +1.23%, due to interest rates decreasing during the quarter. The 10-year Treasury yield dropped 30 basis points from 2.3% to 2% during the third quarter.

Index-Through 9/30/15	YTD	1 YR	3 YR	5YR
S&P 500	-5.29	-0.61	12.40	13.34
Russell 2000	-7.73	1.25	11.02	11.73
MSCI EAFE NR USD	-5.28	-8.66	5.63	3.98
MSCI All Country World Index	-7.04	-6.66	6.95	6.82
Barclays US Aggregate Bond Index	1.13	2.94	1.71	3.10

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: The S&P data is provided by Standard & Poor's Index Services Group.

More Proof for Diversification (if we needed more!)

Charles Schwab recently published a third quarter review highlighting the "investment periodic table" that we used in client discussions over the years. The difference in this chart was the returns were calculated by month instead of the typical year format. We see this as further support for not only how we think in terms of long-term horizons, but also managing short-term volatility. The following table displays no discernible pattern for how the first three quarters of the year have gone. Diversification will provide moderate returns at much lower volatility than one single asset class could provide.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	YTD*
REITs 6.8%	Commodities 6.5%	REITs 1.7%	Commodities 11.1%	US SmCap 2.3%	US SmCap 0.7%	REITs 5.0%	Int'l Dev Bonds 0.4%	REITs 3.0%	Core US Bonds 1.1%
Core US Bonds 2.1%	Int'l Dev 6.0%	US SmCap 1.7%	EM 7.7%	US Lg Cap 1.3%	Int'l Dev Bonds 0.1%	US Lg Cap 2.1%	Commodities 0.3%	Core US Bonds 0.7%	EM Bonds 0.3%
High Yld Bonds 0.1%	US SmCap 5.9%	EM Bonds 0.6%	Int'l Dev 4.1%	High Yld Bonds 0.3%	Commodities -0.1%	Int'l Dev 2.1%	Core US Bonds -0.1%	Int'l Dev Bonds -0.4%	High Yld Bonds -2.5%
EM 0.6%	EM 3.1%	Core US Bonds 0.5%	Int'l Dev Bonds 2.2%	EM Bonds 0.1%	Core US Bonds -1.1%	Core US Bonds 0.7%	EM Bonds -1.3%	EM Bonds -1.3%	REITs -4.3%
EM Bonds 0.5%	High Yld Bonds 2.4%	High Yld Bonds -0.5%	EM Bonds 1.8%	Core US Bonds -0.2%	EM Bonds -1.4%	EM Bonds 0.1%	High Yld Bonds -1.7%	US Lg Cap -2.5%	Int'l Dev Bonds -4.8%
Int'l Dev 0.5%	EM Bonds 1.2%	EM -1.4%	High Yld Bonds 1.2%	REITs -0.3%	High Yld Bonds -1.5%	Int'l Dev Bonds -0.1%	US Lg Cap -6.0%	High Yld Bonds -2.6%	Int'l Dev -5.3%
Int'l Dev Bonds -1.8%	Int'l Dev Bonds -0.8%	Int'l Dev -1.5%	US Lg Cap 1.0%	Int'l Dev -0.5%	US Lg Cap -1.9%	High Yld Bonds -0.6%	REITs -6.2%	EM -3.0%	US Lg Cap -5.3%
US Lg Cap -3.0%	Core US Bonds -0.9%	US Lg Cap -1.6%	Core US Bonds -0.4%	Commodities -2.0%	EM -2.6%	US SmCap -1.2%	US SmCap -6.3%	US SmCap -4.9%	US SmCap -7.7%
US SmCap -3.2%	REITs -3.6%	Int'l Dev Bonds -2.1%	US SmCap -2.6%	Int'l Dev Bonds -3.0%	Int'l Dev -2.8%	EM -6.9%	Int'l Dev -7.4%	Int'l Dev -5.1%	EM -15.5%
Commodities -7.5%	US Lg Cap -5.8%	Commodities -6.8%	REITs -5.9%	EM -4.0%	REITs -4.6%	Commodities -14.1%	EM -9.0%	Commodities -6.3%	Commodities -19.5%

Source: Schwab Center for Financial Research with data provided by Morningstar, Inc., *as of September 30, 2015. Asset class performance represented by annual total returns for the following indexes: S&P 500® Index (US Lg Cap), Russell 2000® Index (US Sm Cap), MSCI EAFE® Net of Taxes (Int'l Dev), MSCI Emerging Markets IndexSM (EM), MSCI US REIT Index (REITs), S&P GSCI® (Commodities), Barclays U.S. Aggregate Bond Index (Core US Bonds), Barclays U.S. High Yield Bond Index (High Yld Bonds), Barclays Global Aggregate Ex-USD TR Index (Int'l Dev Bonds), Barclays Emerging Markets USD Bond TR Index (EM Bonds). Past results are not an indication or guarantee of future performance. Returns assume reinvestment of dividends, interest, and capital gains. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly.

Takeaways

The equity markets can be very volatile in the short-term and, as Mark Twain discovered many years ago, speculating the short-term direction is not a recipe for success. As counterintuitive as it sounds, the equity markets become more predictable the longer the time horizon (i.e. the weather forecaster knows it is going to be hot in July, but getting them to tell you whether it's going to rain a week from tomorrow is speculation at best!). As individual investors, we must continue to act with the long-term in mind, be aware of our own behavioral finance biases, and use sound investment principles of asset allocation, diversification, and cost awareness.

We thank you again for your continued trust and please let us know if there is anything we can do to be of further service to you and your respective families.

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