Fourth Quarter Commentary, January 2016

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A Stable Year

2015 was neither a great nor terrible year for investors who have been invested throughout this current economic cycle. Put simply, it was a fair year and a decent year to contribute, rebalance and align your portfolio.

However, with the Fed finally starting to raise rates, deteriorating commodity prices, and a strengthening U.S. Dollar all impacted the major indices which made the year at some points feel like a roller coaster. One of the unique trends that will continue into 2016 is the strengthening correlation our markets have to the price of oil, whereby equities rally as oil prices increase, and concede these higher levels as oil falls. Historically, oil has been a sufficient hedge to the equity markets because of the low correlation, yet at these low levels it is starting to have a ripple effect on the companies that service this sector such as banks, railroads, and industrials. However, low fuel prices bolster the consumer's wallet, and benefit the broader industries that increase their margins from reduced fuel costs such as the airline industry. It is in this dichotomy that we find balance in the markets, and why it is important to fully assess the opportunities in the market rather than listen to the headlines. Headlines create fear, apprehension and have a tendency to impact investment discipline. Mark Twain said, "Whenever you find yourself on the side of the majority, it is time to pause and reflect," and with that we should all pause and reflect when headlines and conversations sway our discipline and entice irrational thought.

Domestic Stock Market

Without the rebound of the fourth quarter most of the U.S. indices would have finished in negative territory. Specifically, the S&P 500 rallied 7.04% through the 4th quarter and finished the year flat at 1.38%. Large cap growth names led domestic equities as the Nasdaq Composite Index returned 8.38% for the quarter and 5.73% for 2015. Small and mid-cap companies were not able to recover their losses during the third quarter and the Russell 2000 Index ended the year down -4.41%.

The salient theme throughout the quarter was the increasing correlation of the U.S. Stock market to oil prices, which has only been amplified by strengthening US dollar. Put simply, we only need look at oil futures to determine if the market will rise or fall in a given trading session. This atypical correlation has caused confusion in the market, and should be a boon for the consumer and earnings. However, this has not translated to the immediate strength to the consumer as otherwise anticipated. The other highlight of the 4th quarter was the Federal Reserve raised the Fed funds rate by 25 basis points, and this was the first hike since June 2006 when the rate went from 5 to 5.25 percent. Yet, it remains to be seen if the Federal Reserve continues to plow ahead with rate hikes in 2016 if 4th quarter earnings and global economic data show evidence of deterioration.

International Market

A strong October rally aided most international equities as evidenced by the MSCI EAFE index. What has served as a headwind in the U.S. Stock market has continued to be a very strong headwind for global equities: strong U.S. Dollar, weakening commodities, and the ripple effect of a weakening China renminbi. Put simply, the strengthening dollar has significantly impacted in dollar terms to stock losses in developed and emerging market indices.

In the 4th quarter the MSCI EAFE index posted gains of 4.75%, but finished slightly negative for the year at .39%. The MSCI EM (emerging markets) index posted slight gains after the October rally for the quarter .73%, but performed the worst for 2015 finishing -14.60%. The best performing international index was Japan that finished the quarter/year 9.38%/9.90% respectively. Moving ahead we will continue to keep modest exposure to the international markets in 2016 because of their relative value to U.S. equities and accommodating monetary policies, but we expect continued volatility until currency and commodity prices stabilize.

Fixed Income

As mentioned in the aforementioned lines the Federal Reserve made its first interest rate hike (25 basis points) since a Bernanke driven fed in 2006. However, despite a rise of rates it remains to be seen how this will impact the performance of fixed income investments. Specifically, with weakness of commodity prices and a strong U.S. Dollar the demand for U.S. Treasuries will likely keep rates stable. Several years ago many were fearful that rates would rise sharply and all investors would sell, but as indicated with volatile international equity markets U.S. Treasuries remain the global safe haven for risk free returns.

Returns across the board in the fixed-income markets were flat to negative. Specifically, the Barclays U.S. Aggregate Bond Index finished the quarter -.57% and the year .55%. With the deterioration of the energy sector and the growing default risk of these smaller energy companies, the high yield market remained the worst performer finishing the quarter -2.58% and -4.93% for the year. The global bond market performed poorly as well for the same reasons cited above for their equity markets, finishing -1.26%/-6.02% for the quarter and year respectively. Yet, despite flat returns in fixed income investments we remain undeterred in our allocation to this asset class. Put simply, well balanced portfolios require a diversified and balanced discipline with equities as well as fixed income investments.

Summary

We summarized 2015 as a year to review your allocation, rebalance and continue to contribute funds. The markets don't always move up in a linear fashion as they sell-off, climb higher, and sometimes end where they start the year. That said, it is important though that despite this volatility you stay the course and remain focused on the long-run. Investing remains an act of optimism in that we believe in progress and that over the long-term we will have benefited from investing. In sharing this optimism we have to believe in the financial markets, and that over the long-run they will aid in helping us achieve our goals.

As always, we appreciate the opportunity to work with you. All the best in 2016!

Index	Fourth Quarter 2015	2015
Barclays Capital U.S. Aggregate Bond Index	-.57%	.55%
Credit Suisse High Yield Index	-2.58%	-4.93%
Barclays Capital Municipal Bond Index	1.50%	3.30%
Barclays Capital Global Aggregate Ex-U.S. Dollar Government Bond Index	-1.26%	-6.02%
J.P. Morgan Emerging Markets Bond Index	1.25%	1.18%

Index	Fourth Quarter 2015	2015
DJIA	7.70%	.21%
S&P 500	7.04%	1.38%
Nasdaq Composite	8.38%	5.73%
S&P MidCap 400	2.60%	-2.18%
Russell 2000	3.59	-4.41%

MSCI Index	Fourth Quarter 2015	2015
EAFE (Europe, Australasia, Far East)	4.75%	-.39%
All Country World ex-U.S.	3.30	-5.25%
Europe	2.53%	-2.34%
Japan	9.38%	9.90%
All Country Asia Ex-Japan	3.87%	-8.90%
EM (Emerging Markets)	.73%	-14.60%

Disclosure