"The Year When Nothing Worked"

Market Wrap - Fourth Quarter 2015

The "Santa Claus" rally that usually perks up December stock prices and puts a smile on investors' faces failed to make an appearance in 2015, causing U.S. stocks to turn in their worst annual performance since 2008.

Last year has been dubbed "The Year When Nothing Worked." The Dow Jones Industrial Average, a basket of 30 leading stocks, lost 2.2% in price terms in 2015, while the broader S&P 500 index fell 0.7% excluding dividends. High quality bonds earned less than one percent over the year. And sad to say, these were the best performers of the lot.

Foreign stocks were hurt by China's slowing and the soaring dollar, small and mid-cap stocks lost ground, and strategic and high yield bonds took a beating at year-end. Further undermining 2015 results was the dramatic and profound slump in oil and other commodities, plunging over 30%. Oil's tumble devastated natural resources funds and energy-related investments like big oil producers Exxon and Shell, drillers and pipeline operators (MLPs), which were among our worst portfolio performers.

Even elite hedge funds, which aim to make money by taking outsized risks in rocky markets, found no place to hide and headed for their worst annual performance since 2011, losing almost 4% on average. Gold also took a bruising. Far from being a safe haven, hedge funds and many alternatives have trailed stock and bond indexes since 2008.

2016: What's Ahead

And now for a little perspective.

American investors have enjoyed several good years in the market, and truly have little to complain about. We all know the saying that "into each life some rain must fall." We diversify client portfolios to protect and prepare clients for years like this, so they don't get derailed. We continue to manage and sustain monthly income flows for clients in retirement, and keep our younger pre-retirement clients on track for the future.

Will there be a recession?

While it's always possible, most economists just don't see signs of a recession on the horizon. The U.S. economy is getting stronger, not weaker. Central bankers outside the U.S. (in Europe and China) are lowering interest rates to make economic conditions easier. That makes a recession less likely.

Will the stocks market be flat again?

Investors are starting the year with low expectations, and that makes it more likely any surprises will be on the upside. We expect

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Results
as of December 31, 2015
(includes reinvested dividends)

6-Month CD	+ 0.27%
Bonds	+ 0.55
S&P 500	+ 1.38
Dow Jones	+ 0.21
Int'l Dev Stocks	- (0.81)
Emerg Markets	- (14.92)
Asset Allocation	- (2.00)
DJ Commodity	- (25.32)

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good results from out-of-favor assets like high yield bonds (which pay relatively high interest rates) and foreign stocks. If you are still in your pre-retirement years, you can protect yourself from lower average returns in the future by saving 10-15% of income each year. And if you are already in retirement, monitor your spending carefully (we help clients do this) so you don't run through assets too quickly.

What about interest rates?

We expect interest rates to be "longer for lower." In December, the Fed finally kicked off the first interest rate hike, a small 0.25% increase. We expect very slow and gradual interest rate increases; today's almost deflationary environment and global uncertainty doesn't permit for more aggressive hikes. Bonds might not offer exciting returns, but they still have lower risk than stocks and will provide retirees with steady income.

How can I avoid the market volatility?

Unfortunately, markets go up and down. That's just what they do. The same is true for your home. Some years the value goes up more, some years it goes up less. And some years the value may even go down. If you're living in your home for the long-term, these price fluctuation should be of no consequence. Investment markets are no different. The price may only affect you when you're in the market to sell. That's why we diversify your portfolio and follow strategies to withdraw the monthly income you need with the least amount of disruption due to current market conditions. The end result is to help make your money last as long as possible.

Why do I need stocks and growth investments? Can't I stick with "safe" options?

Let's face it; with interest rates at historic lows, there's nothing safe about earning less than one percent on your investments for thirty years or more in retirement. In 2006, you would have earned $5,240 per year in interest on your $100,000 CD. In 2014, that income would have dropped to $130 per year. Sorry, but that won't even pay for groceries. Despite this year's disappointing results, the diversified portfolios we construct for investors do keep you safer, and protect you from bubbles like the 1999 tech crash or 2008 market meltdown. To paraphrase hockey great Wayne Gretzky, we want to skate to where the puck is going to be, not where it has been. Your portfolio needs to adapt to today's market conditions, as well as prepare you for tomorrow's. ❖

World's Richest Get Poorer

After several good years, U.S. investors truly have nothing to complain about. But 2015's flat market made a serious dent in the wallets of some of the world's 400 wealthiest individuals.

According to Bloomberg Billionaires Index, the richest of the rich shed **$19 billion dollars in 2015**. It was the first annual decline for the world's wealthy since 2012.

U.S. investor Warren Buffett, the world's third-richest person, **lost $11.3 billion** as Berkshire Hathaway Inc. had its first negative annual return (down 12%) since 2011. The five members of the Walton family, heirs to the Wal-Mart fortune (down 26%), lost a combined $35 billion in 2015. ❖

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