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FEBRUARY 2016

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	Price	YTD	1 Month	3 Months
Dow Jones [1]	16,016	-8.09%	-6.50%	-7.05%
S&P 500 [2]	1,881	-7.96%	-6.19%	-7.49%
NASDAQ [1]	4,476	-10.59%	-9.06%	-8.74%
Russell 2000 [3]	2,472	-12.41%	-11.25%	-14.55%
Wilshire 5000 [4]	19,199	-8.49%	-6.77%	-8.62%

Data as of 1/19/16

[1] Source: Google Finance

[2] Source: www.standardandpoors.com

[3] Source: www.russell.com

[4] Source: www.wilshire.com

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Please be sure to inform our office of any change in your personal information, including name, address, phone number(s) or email address. We strive to provide you with the best service possible, and keeping your records up-to-date is a top priority.

As we somewhat unsteadily march through January, the year 2015 already seems like an eon ago. The S&P 500 returned a paltry 1.4% last year, yet maybe it didn't feel so paltry given that the average stock was down by a mid-single digit percentage for the year. No doubt you've been overrun with ex-FANG (Facebook, Amazon, Netflix, Google) stock analysis and repeatedly reminded that "value investing" might be dead. Although it is hard to fathom that "growth" outdistanced "value" by ten percentage points in a year of such heightened global uncertainty and acute anxiety, emotions that typically favor defensive and income generating. Good riddance 2015!

Be careful what you wish for? The paltry 1.4% now seems stratospheric, with stocks off to an abysmal start in 2016, otherwise known as the "worst 10-day start ever" to a calendar year with the S&P 500 and Dow both off about 8.0%. On a year-over-year basis, the S&P is also down about 8%, the worst performance since the financial crisis, and has declined 12% from its May high, signaling an official correction. If that weren't enough, it somehow feels even worse as the average stock is off more than 25% from its 52-week high, and small-cap stocks (Russell 2000) are in bear market territory. The rout extends well beyond U.S. borders including China where local indices are down more than 20% from December highs and government officials work unsuccessfully to steady volatile trading. The 10-year Treasury yield responded in kind falling back to 2.0% and reflecting risk aversion anew. You'll likely not be surprised that the futures market suggests the Fed will put on hold its plans to further raise benchmark interest rates. Are we nearing an equity market bottom? We can't profess to know, but AAII's investor sentiment index sits below levels last seen during the financial crisis, historically a contrarian and arguably bullish signal.

Still, investors are understandably skittish and the upcoming earnings season is unlikely to sooth many nerves. Earnings estimates for U.S. corporations continue to drop and are now expected to decline about 5% in Q4, which would mark the third straight quarterly earnings decline for the aggregate S&P 500 constituents. It is true that much of the decline can be attributed to the strong dollar and the energy sector's collapse, yet most sectors have lagged expectations. That said, the U.S. economy is holding up much better than its global counterparts and seems poised for buoyancy. U.S. labor markets have reported strong job growth and improving wages, which should pad confidence as the year unfolds. Similarly, the persistent decline in energy prices should further bolster consumer spending, which represents 70% of U.S. GDP. We can't predict market movements, but even if volatility is the new normal, market dislocations tend to create opportunity.

Source: Sterling Capital Management—1.19.16

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THE KEYS TO UNDERSTANDING RISK

Many individuals avoid investing – or make inappropriate investment decisions – because they fail to understand risk. The fact is, the more you understand risk and its impact on investments, the better investor you can become.

Types of Risk

Market risk: The possibility the price of a security will fall below its purchase price due to overall market declines. All investments – stocks, bonds, mutual funds, etc. – have market risk.

Inflation Risk: The impact inflation has on your purchasing power. If you earn 3% on your money (after taxes) but inflation is 4%, your money isn't growing as fast as inflation (i.e., the cost of living.) Hence, you're losing purchasing power.

Liquidity Risk: The possibility the number of people selling a security will exceed the number of buyers. Generally, when there are more sellers than buyers, prices fall. When buyers outnumber sellers, prices rise to reflect the growing demand. Also, securities may lose value to the point that there are no buyers. This makes the security illiquid and possibly worthless.

Interest-rate risk: The fact that a bond may decline in price when interest rates rise because its coupon rate may be less than rates available on new bonds. The market pushes down the price of existing bonds, so their current yields are similar to yields on new bonds, making them more attractive to prospective buyers.

Credit Risk: The possibility that underlying issuer of a bond will not be able to meet its obligation to pay interest or return principal. U.S. government securities are not subject to this risk because they're backed by the full faith and credit of the U.S. government.

Rating services, such as Standard & Poor's and Moody's Investor Service, rate bonds and periodically review the creditworthiness of the issuing company. These ratings are intended to help investors identify companies that might default before repaying principal on their outstanding debt. As circumstances dictate, these ratings services upgrade or downgrade as needed.

Please contact our office today for more information.

THE JOURNEY TOWARD BIG-PICTURE INVESTING

Having a solid financial plan in place is essential for the savvy investor. However, it is just as important to partner with a trusted financial advisor to help ensure your plan is on course with your financial goals.

Meet Joe, an investor who has a long-standing relationship with his financial advisor. After years of experience, Joe has learned to concentrate on the big picture and worries less about short-term market shifts. However, this wasn't always the case. Like most investors, Joe had to evolve to this point of view. Here are a few of the lessons he learned along the journey.

Plan development is essential – At first, Joe was primarily concerned about the quality, risk and past performance of his selected investments. He was surprised when, during their initial meeting, his financial advisor concentrated less on investments and more on discussing Joe's long-term goals. By knowing what Joe wanted to achieve, his advisor helped him develop a sound plan in keeping with his timeframe and comfortable level of risk.

Declines can be building opportunities – According to the media, there is always reason to worry about the next economic catastrophe. While this captures our attention, it does little to put most investors at ease. Joe found himself continually checking his investment transactions in response to the news of the day. His financial advisor helped him recognize market volatility is normal – and may present opportunities as well as risk. Joe has learned to tune out the noise and maintain his focus on prudent investment through up and down markets.

Stick to your plan – Joe has weathered several market fluctuations and continues to be on track to meet his goals. Instead of short-term market concerns, he concentrates on his overall goals. He sees he will be able to put his children through college, and feels confident about his ability to retire comfortably. He continues to regularly consult with his financial advisor to monitor his investment plan, which gives him the peace in knowing his financial future is secure.