Financial Services Advisory
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When the Seas Get Angry

Year End Market Review From Your Portfolio Management Team—January 11, 2016

We may be greeting each other with Happy New Year, but many are talking about the unusual weather patterns across the country and a not-so-happy stock market. As we talk about how quickly the weather changes, we also are talking about how quickly the stock market shifts direction. As we look back on 2015, it has crossed our minds that the reason stock and bond markets have been unable to increase in value since late 2014 (yes, 2014) is due to the ending of the Federal Reserve Quantitative Easing (QE) stimulation program. Since summer, stocks have moved in violent spurts back and forth —and ultimately ended the year close to where they began. Any wonder why the mood is shifting from uncertainty to some real anxiety?

Investors are being reminded that investments are risky and we can't expect to make money every year. It's never fun to finish the year with little to show for it, much less with small losses. We have seen these times before like in 1994, 2007, and 2011. And 2015 was another example. (If you want a closer look at the various stock index returns, scroll down to the addendum)

> *"The sea was angry that day my friends."*
>
> -George Costanza
> Seinfeld

At FSA our focus is still on risk management. We have often referred to investing like being at the beach. We move your investments from the beach into the water when times are good and seas are calm. But when the seas become rough, we begin to move closer to shore (balanced funds or bonds) or onto the shore (money market) as our exit prices (The FSA Safety Nets®) are hit. For FSA, volatility is a sign for us to start moving towards the shore. Even the casual observer knows the seas have gotten pretty rough with high waves the last several months.

Clearly, we are in a period of market transition, and experience has taught us how to respond. We must wait patiently to determine if the uptrend of the past 7 years can continue, or if it will reverse. After FSA sold many stock funds this summer to preserve principal, the markets tried, but couldn't sustain an upward trend. According to CNBC, this was the most frustrating year since 1937 to generate returns (http://www.cnbc.com/id/103271663). Market researcher Ned Davis said it this way, "2015 was an historically challenging year to find winners without taking company-specific risk."

While others may be wondering what to do at this point, you should enjoy peace of mind: at year-end your accounts are roughly 30-40% on the shore (money market funds). The balance is weighted in conservative type funds so they have been relatively insulated from much of the recent stock market turmoil. In addition, an experienced team is managing the day-to-day investment decisions on your behalf. We continue to follow our sell discipline and will increase money market allocations should markets continue to weaken and wait for trends to signal that market risk is again justified.

Over the past 30 years, we've successfully navigated through several full market cycles and even more worrisome periods of transition. We are up to the task and appreciate your patience and confidence.

Portfolio Review

Below we review the five broad strategies that FSA manages. Keep in mind that your specific portfolio may differ to some degree from the averages, as our portfolios are individually managed.

Income (Strategy #1)

Bonds provided little opportunity for returns in 2015. The standard bond benchmark rose only 0.6% for the year, while many bond fund stalwarts, such as Dodge & Cox Income and PIMCO Total Return were actually down slightly. High yield bonds were also down a bit for the year. Municipal bond funds were the one bright spot in the bond world, so we increased our allocation to that area, even in tax-qualified accounts. We also added some foreign bond funds to the portfolios.

Income & Growth (Strategy #2)

As the market rallied in October, we added some conservative growth & income type funds to the portfolios. As the stock market began to stall out at the end of the year, we maintained this conservative posture, with 25% - 30% in stock funds, 30% in bond funds and 40% - 45% in money market funds. As long as stocks and bonds continue to be choppy, we will maintain a conservative posture in these accounts.

Conservative Growth (Strategy #3)

As stocks rebounded in October, we increased the equity allocation to 30%, and then added a managed futures fund at the end of the year. These funds are designed to take long or short positions in a wide variety of assets, so they often exhibit a negative correlation to the overall stock market. They could provide a good hedge if stocks continue to struggle. As of year-end, these portfolios hold around 30% in money market funds.

Core Equity (Strategy #4)

The strong stock market rebound in October brought our stock allocation back up to roughly 55% - 60% by year-end. Holdings included diversified U.S stock funds as well as Technology and Consumer Staples sector funds. We continued to maintain a relatively high money market position due to the concerns mentioned earlier in this newsletter.

In fact, we have continued to raise the money market allocation in this strategy during the first week of January as stocks have fallen sharply. The money market position currently stands at 55%.

Tactical Growth (Strategy #5)
The choppy market continues to push the trading in this strategy. As stocks rebounded, these portfolios were reinvested in various broad market stock funds, as well as several sector funds, including Consumer Staples, Internet, and Home Construction. Some portfolios also held a position in natural gas, which was sold before year end.

With the continued weakness in stocks carrying over into January, we have increased the money market allocation even further in this strategy and it now stands at 65%.

Please remember to let us know about any changes taking place in your lives that could have an impact on your investment objective, and if you wish to talk before our next review. We do our best work when we work together.

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Addendum to Year End Newsletter

It was a very difficult year for investors to make money as there were no significant winners among the various asset classes. The below table shows the performance of several major market indexes for 2015.

Index	2015
S&P 500 TR	1.4%
DJIA-TR	0.2%
MSCI EAFE	- 0.8%
Russell 2000	- 4.4%
Value Line Index	- 6.9%
Gold	-10.5%
Emerging Mkts	-14.9%
Barclays Bond	0.6%
T-Bills	0.1%
HY Bonds	- 4.5%

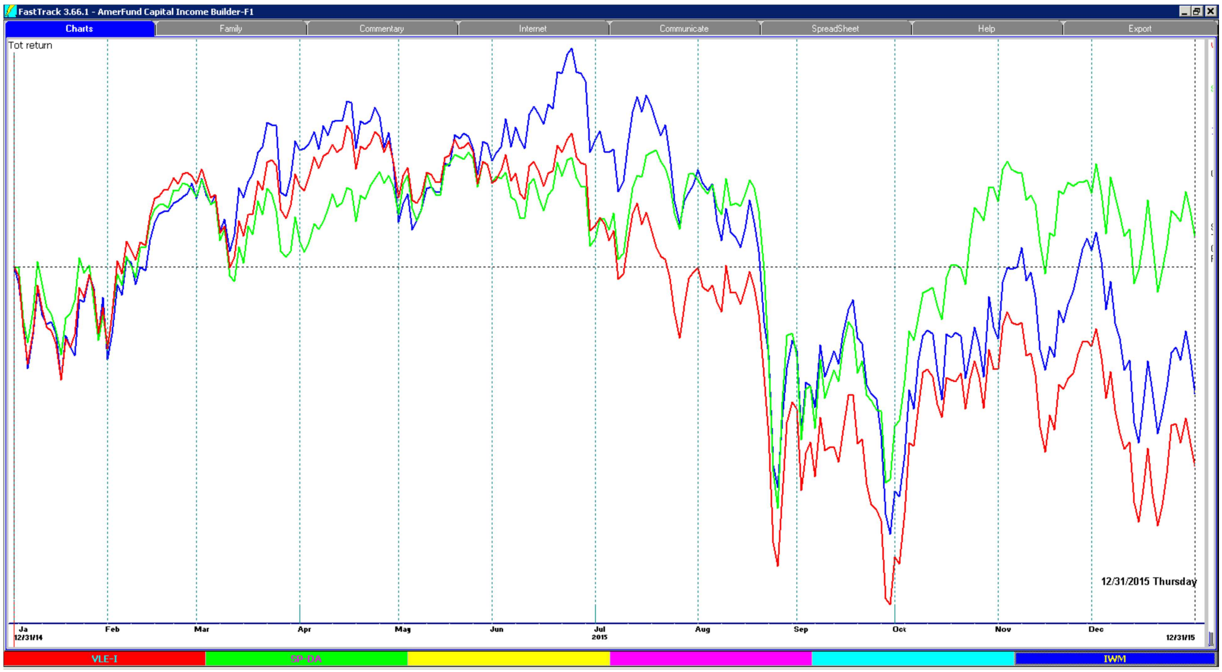
Source: Eaton Vance Monthly Market Monitor

The following chart shows the 1-year return of three of the indexes from the above table (above the horizontal dotted line is positive performance, below the line is negative). It highlights the choppy nature of the various stock markets last year.

- The **red line** is the Value Line index composed of nearly 1700 companies. This index offers a more realistic reflection of what the typical stock did in 2015 because:
  - It is a larger universe of stocks and
  - Each stock has an equal importance in the calculation of the index.
- The **green line** is the S&P 500 index which finished the year up 1%. This index is more heavily influenced by the return of the largest companies which can mask what is going on in the broader universe of stocks. For example, without the 10

largest companies in the S&P 500 index, the 2015 return (of the other 490 stocks) would have been a loss of 2%.

- The **blue line** is the Russell 2000 index which is composed of 2000 smaller companies.



Source: Fasttrack