

**Quarterly  
Investment Briefing  
February 4, 2016**

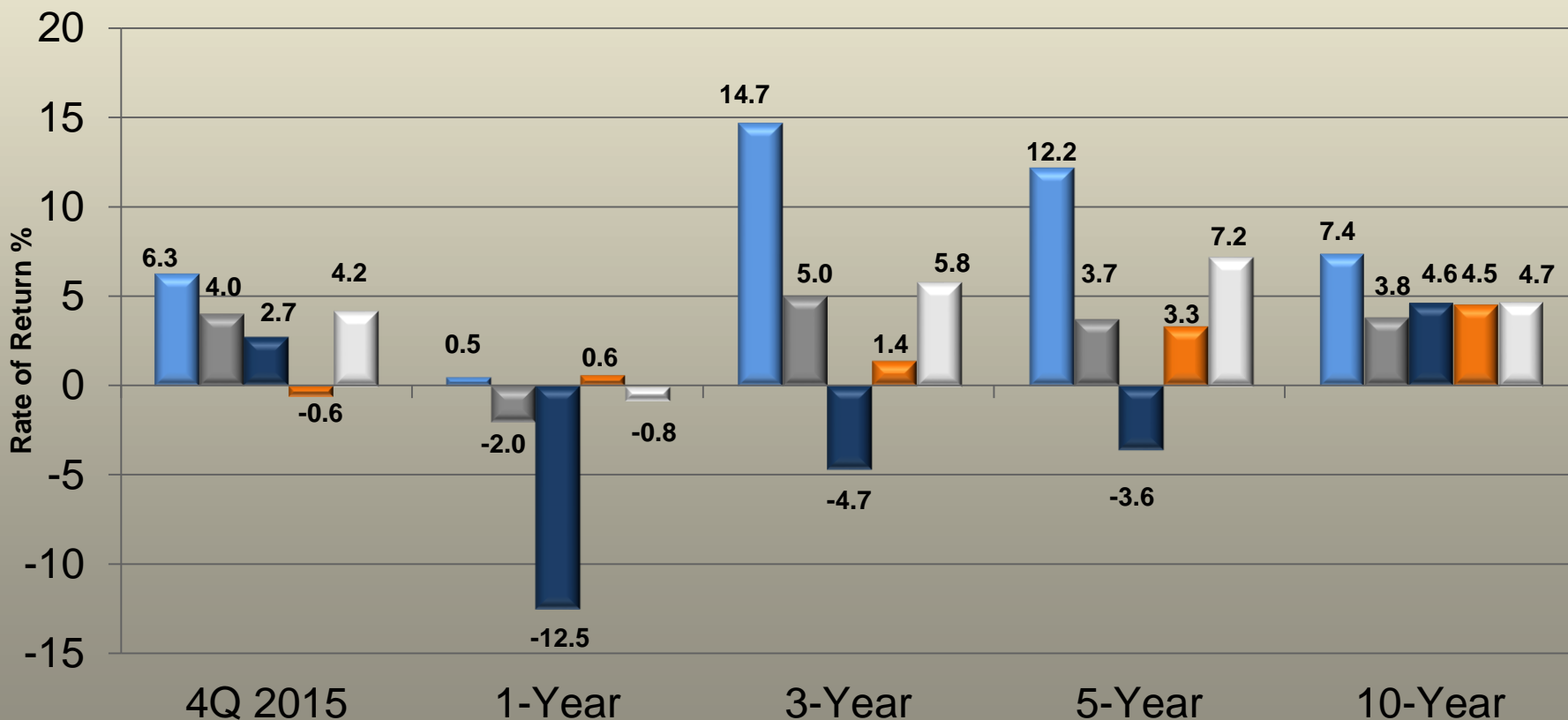


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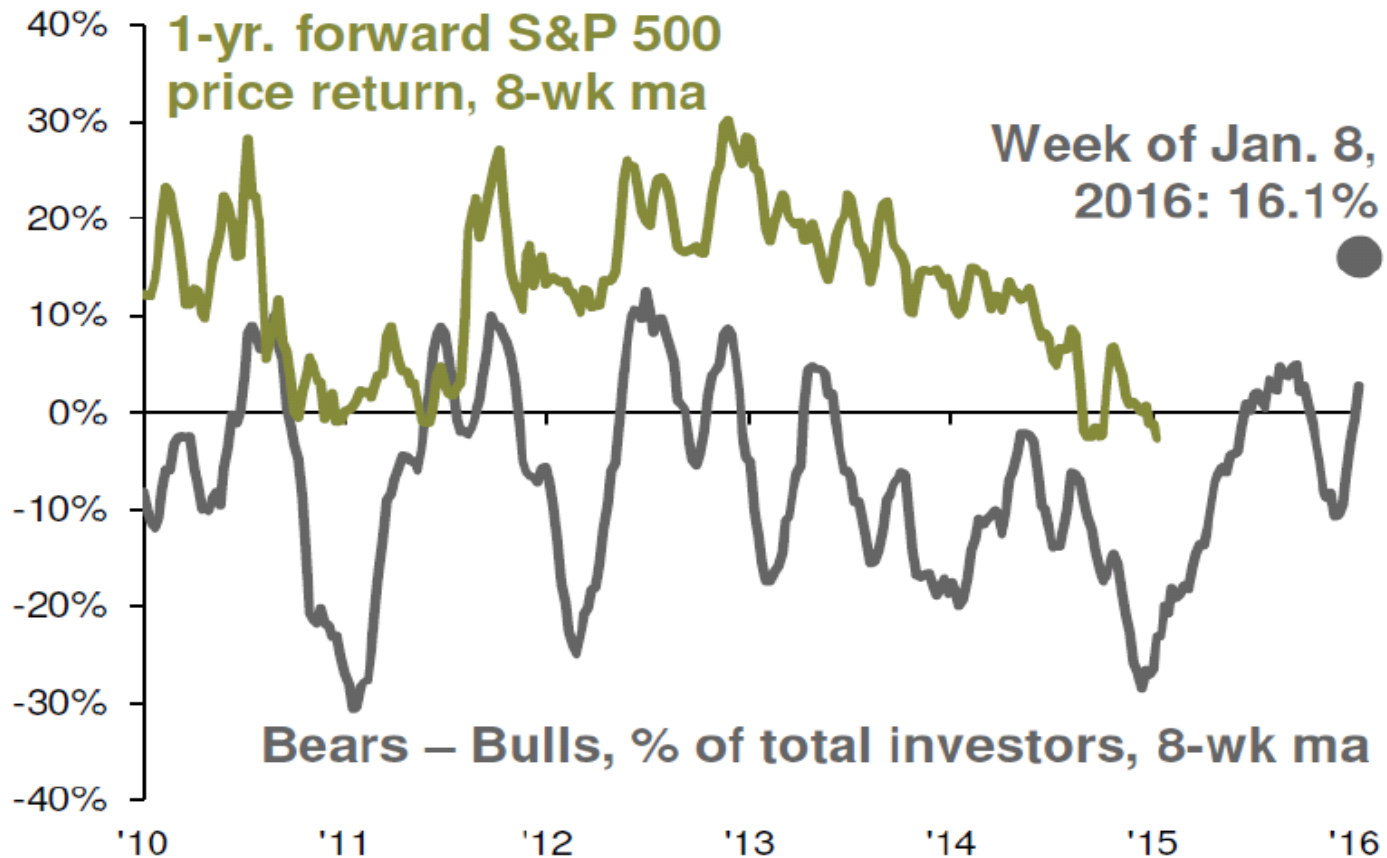
# Capital Market Returns Current & Annualized Period Ending December 31, 2015

- U.S. Equities
- Emerging Market Equities
- Real Estate
- Non-U.S. Equities
- Fixed Income



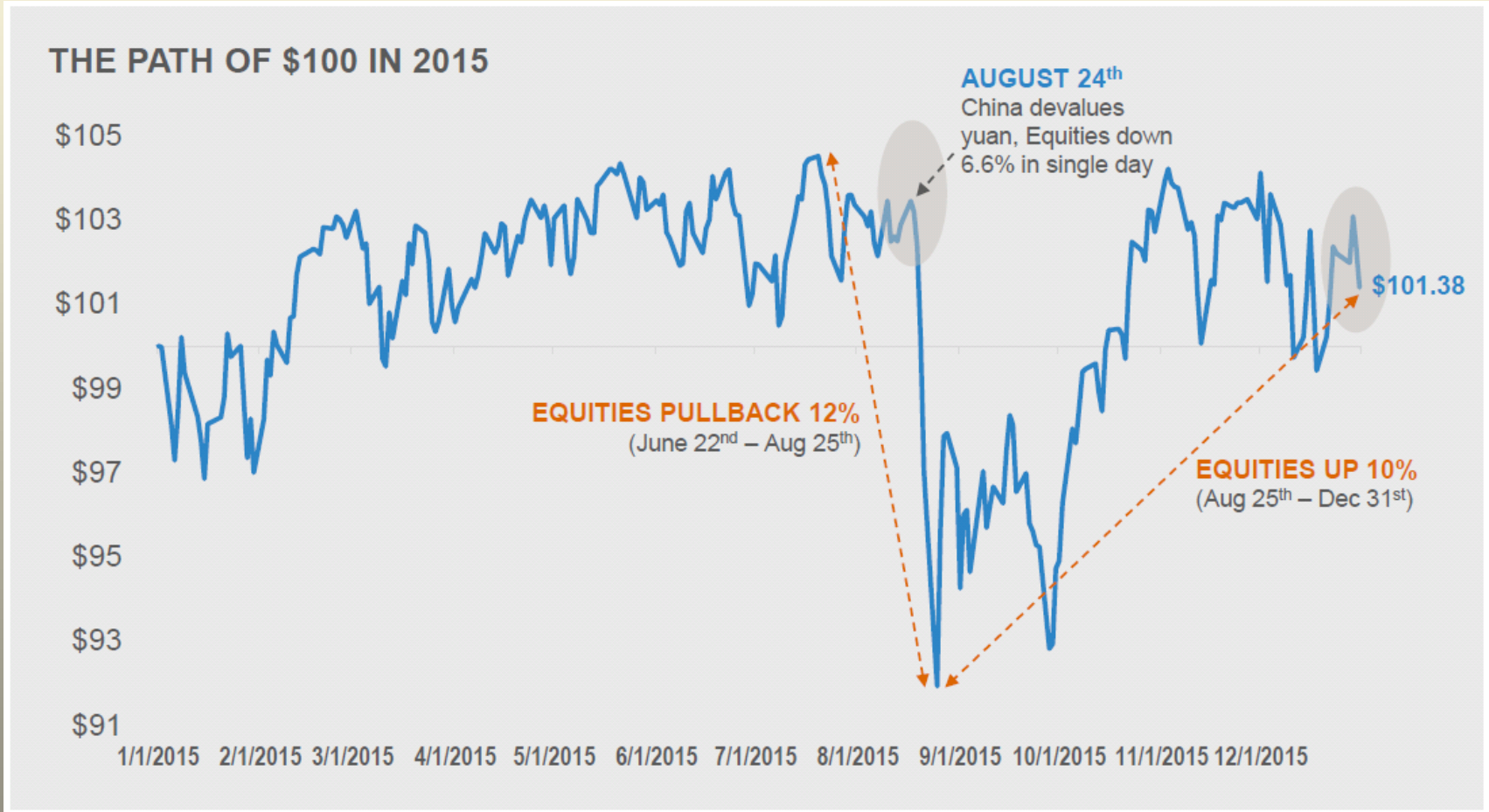
# Investor Sentiment Can Drive Short Term Returns

**Bearish sentiment has meant higher future returns**  
Investors bearish-bullish, subsequent 1-yr. equity return



# 4Q U.S. Equity Rebound Surprised Market Timers

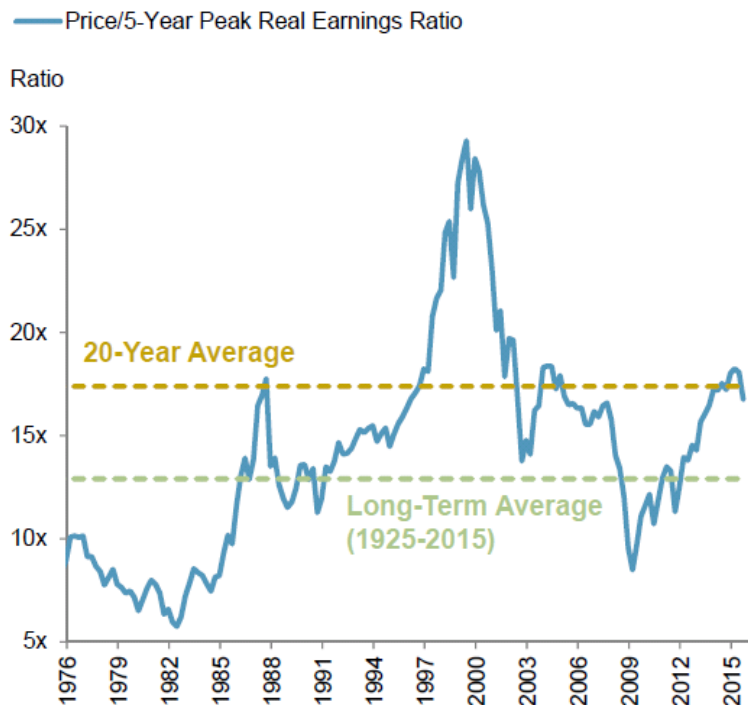
## Lots of Global Activity Equals Little Result



# U.S. Market's Growth Style Orientation Raises Valuation

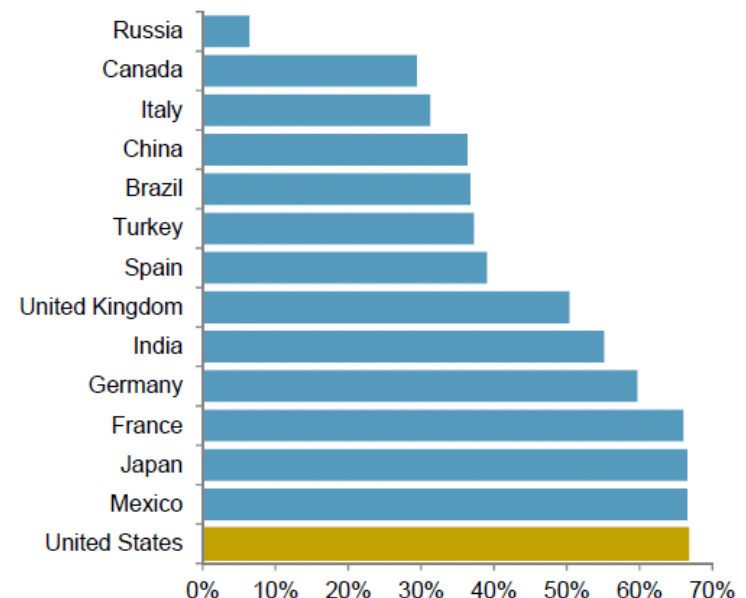
U.S. P/E ratios are slightly above their long term historical averages and above other countries. This is due in part to lower inflation relative to history, as well as the high exposure of the U.S. equity market to sectors that have consistently earned higher P/E multiples (growth sectors such as technology).

## S&P 500 Valuations



## Weight of High P/E Sectors in Equity Markets

High P/E Sector Share of Total Equity Market (%)



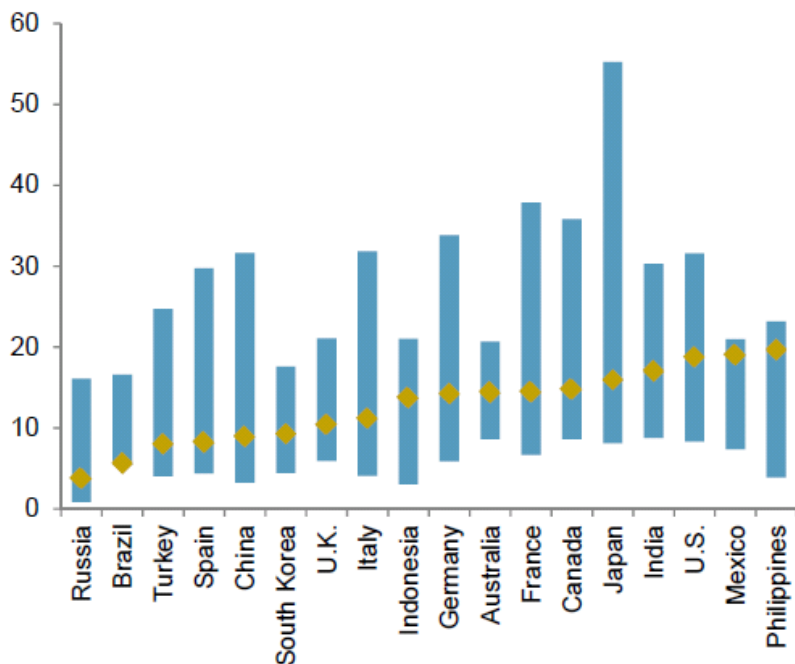
# Non-U.S. Equity Valuations Attractive Vs. U.S. and History

**Weak international equity performance has caused price-earnings multiples in most countries' equity markets to fall to the lower end of their 20-year range. Valuations of developed and emerging markets remain below both U.S. multiples and their long-term averages.**

## Cyclical P/Es

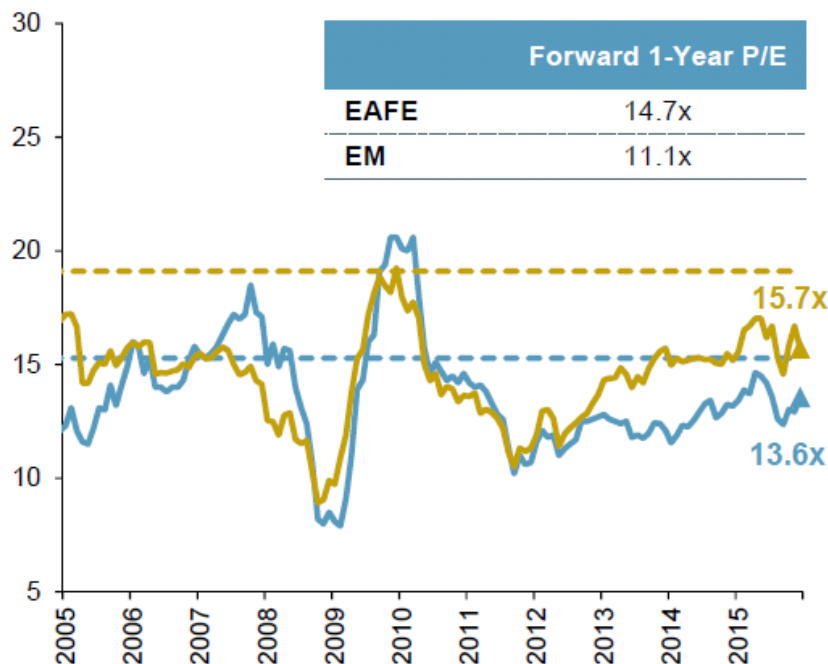
◆ Year-End 2015 ■ 20-Year Range

Price/5-Year Peak Real Earnings

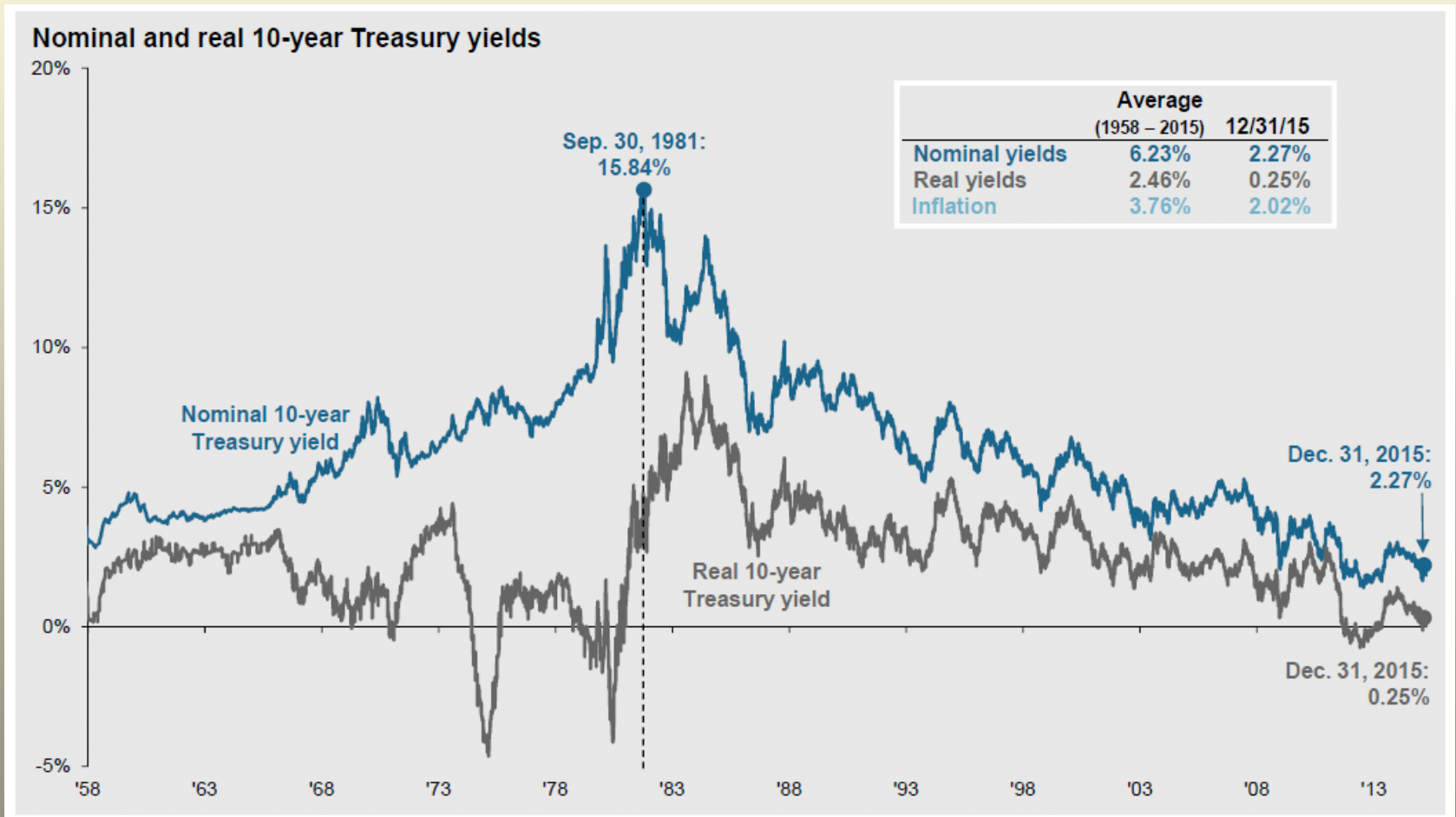


## Trailing 12-Month P/E Ratios

— EM — EM Long-Term Average  
 — EAFE — EAFE Long-Term Average



# Interest Rates Remain Low, Despite Fed Action



# 2016 Outlook

## What do we know already About 2016?

- Presidential election
- Slow economic growth may continue worldwide
- At most, U.S. profit growth might be modest
- Divergent central bank policies
- Plenty of geopolitical tension

## What does this mean for the markets?

- Increased volatility
- Returns most likely to be modest
- Plenty of winners & losers
- Rise in interest rates in the U.S. likely to be contained

## How do you approach this?

### Consider the following:

- Active Management
- Diversity (Internationally, Sectors, Investment Grade Bonds)
- Seek Income



# Headwinds Facing Economic Growth In The U.S. Have Faded

THEN	NOW
Peak Oil (Not enough, \$150/bbl)	Fracking Revolution (Oversupplied, \$50/bbl)
Offshoring to low cost labor countries	Reshoring to U.S.
Housing Glut	Housing Shortage
Excessive Bank Leverage	Banks are well capitalized and more regulated
Corporate balance sheets stretched thin	Corporate cash near record levels
Heavy household debt burden	High savings rates and low debt-to-income ratio
Budget deficit surging	Annual deficit back in line with historical average

# U.S. Labor Market Perspectives

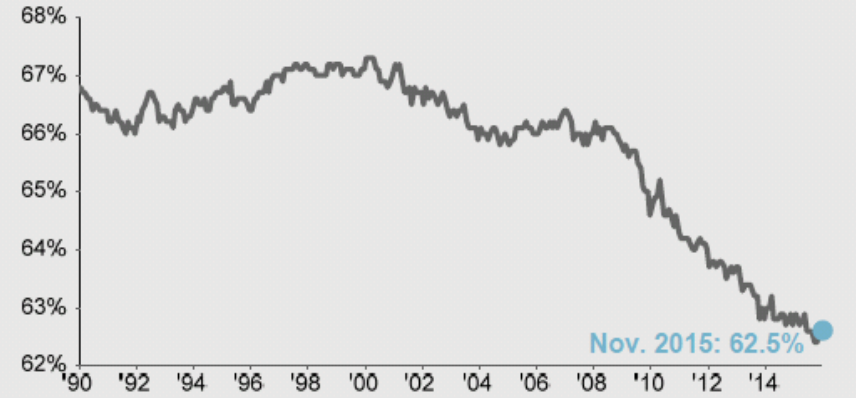
## Employment – Total private payroll

Total job gain/loss, thousands



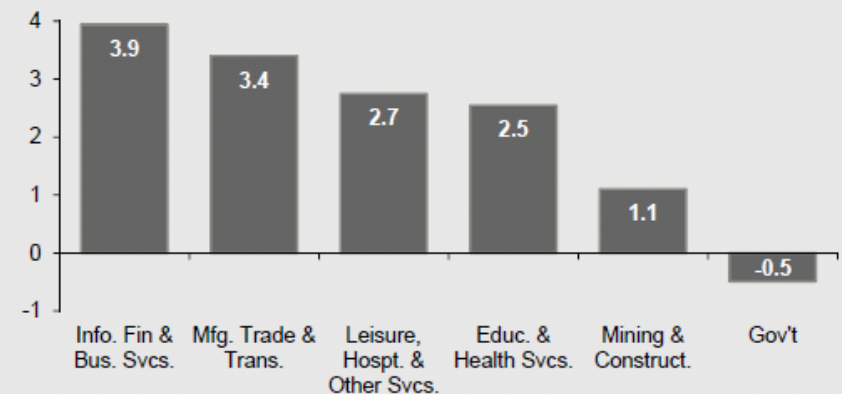
## Labor force participation rate

Population employed or looking for work as a % of total, ages 16+



## Net job creation since Feb. 2010

Millions of jobs



# Oil: A Story Of Supply And Demand

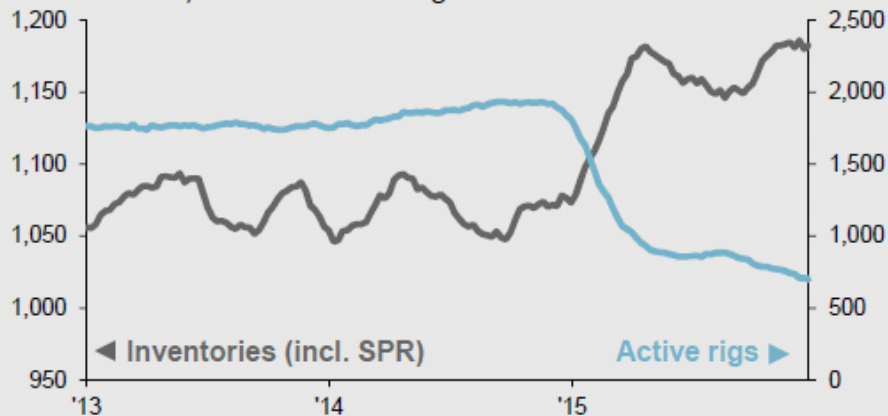
## Change in production and consumption of oil

Production, consumption and inventories, millions of barrels per day

	2013	2014	2015*	2016*	Growth since 2013
<b>Production</b>					
U.S.	12.4	14.1	14.9	14.7	19.0%
OPEC	36.4	36.4	37.4	38.1	4.5%
<b>Global</b>	<b>90.9</b>	<b>93.3</b>	<b>95.5</b>	<b>95.8</b>	<b>5.4%</b>
<b>Consumption</b>					
U.S.	19.0	19.1	19.4	19.6	3.2%
China	10.5	10.9	11.2	11.5	9.7%
<b>Global</b>	<b>91.3</b>	<b>92.5</b>	<b>93.8</b>	<b>95.2</b>	<b>4.3%</b>
<b>Inventory Change</b>	<b>-0.4</b>	<b>0.8</b>	<b>1.7</b>	<b>0.6</b>	

## U.S. crude oil inventories and rig count\*\*

Million barrels, number of active rigs



## Price of oil

Brent crude, nominal prices, USD/barrel



# Time Horizon Is The Best Volatility Hedge

## Range of stock, bond and blended total returns

Annual total returns, 1950-2015

