

**Quarterly
Investment Briefing
November 12, 2015**

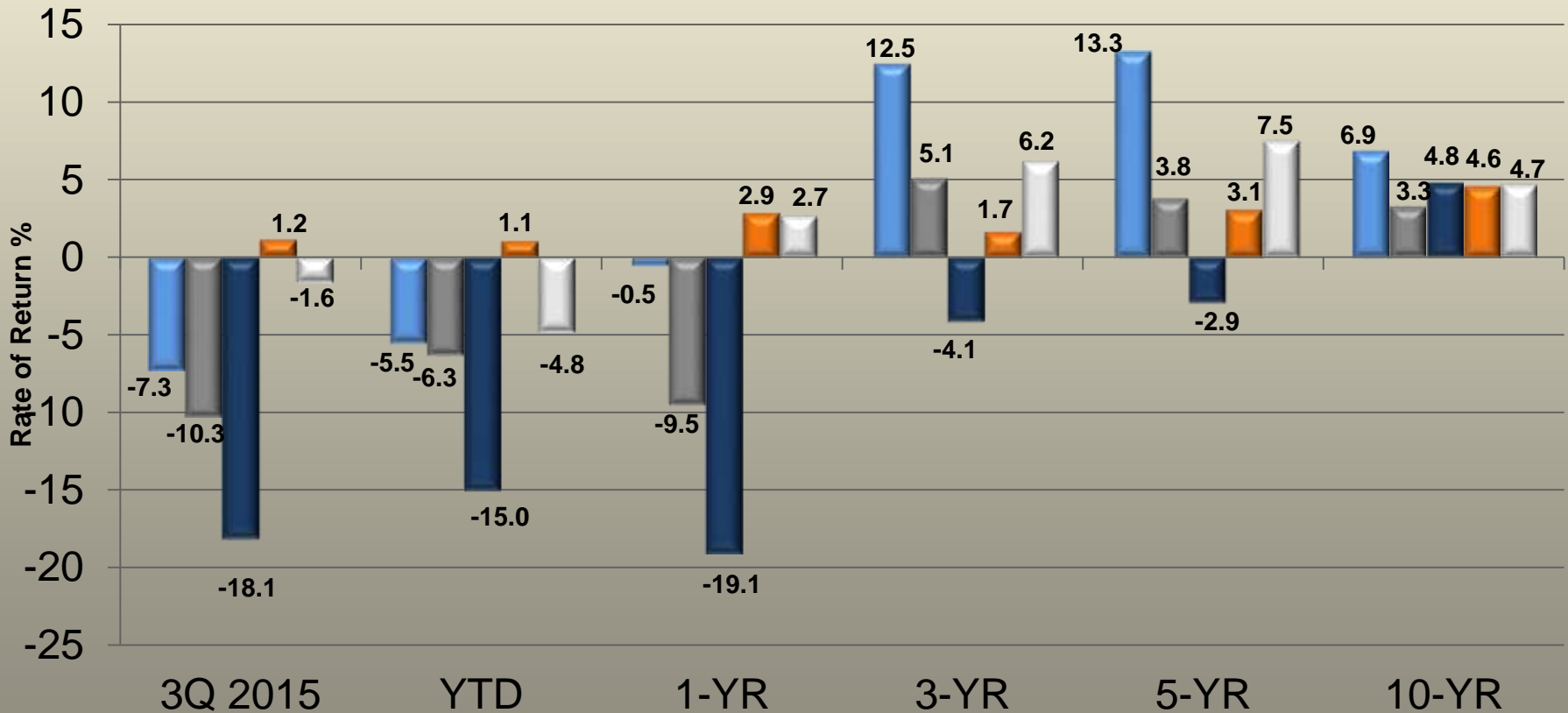


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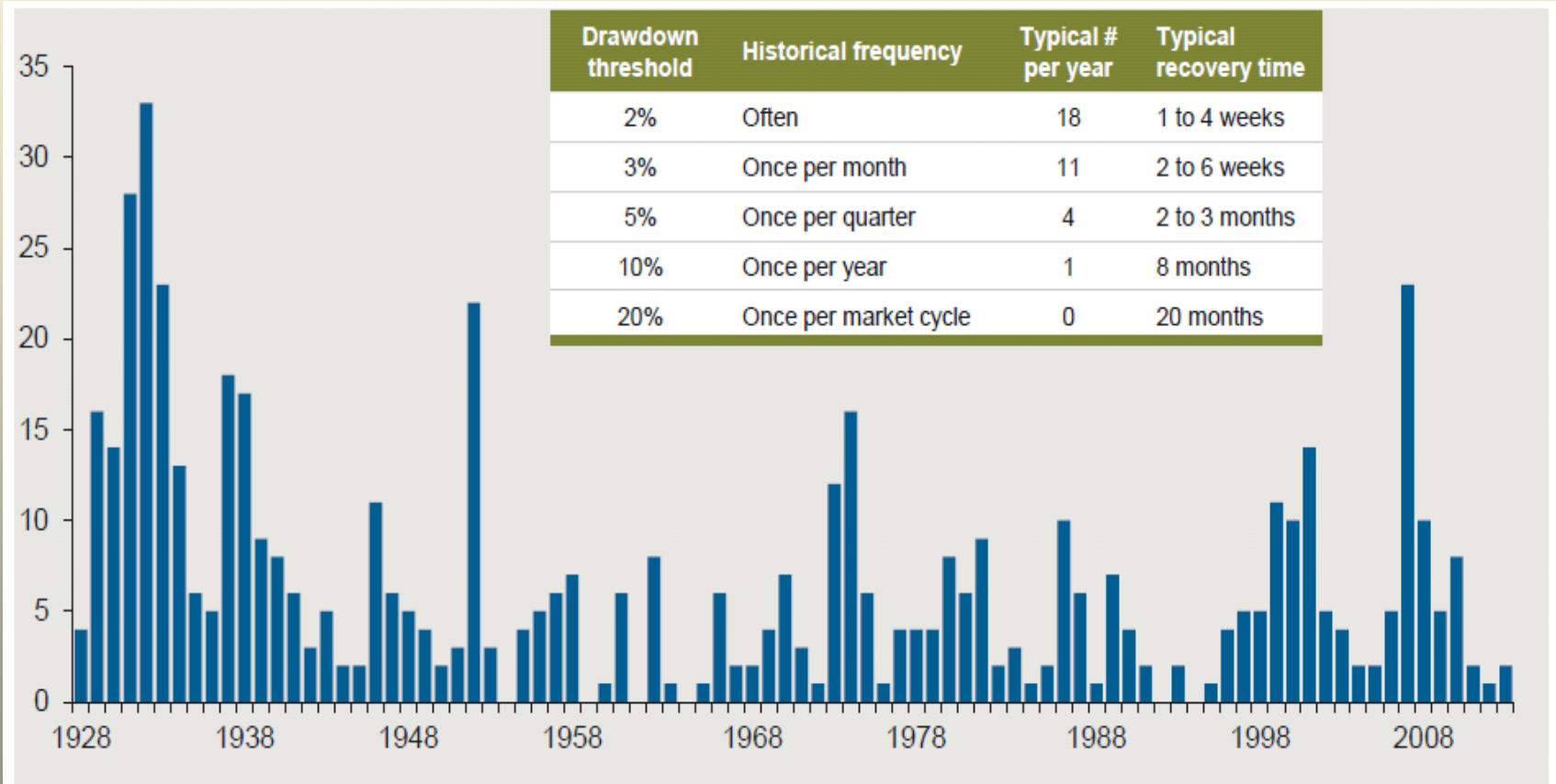
Capital Market Returns Current & Annualized Period Ending September 30, 2015

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

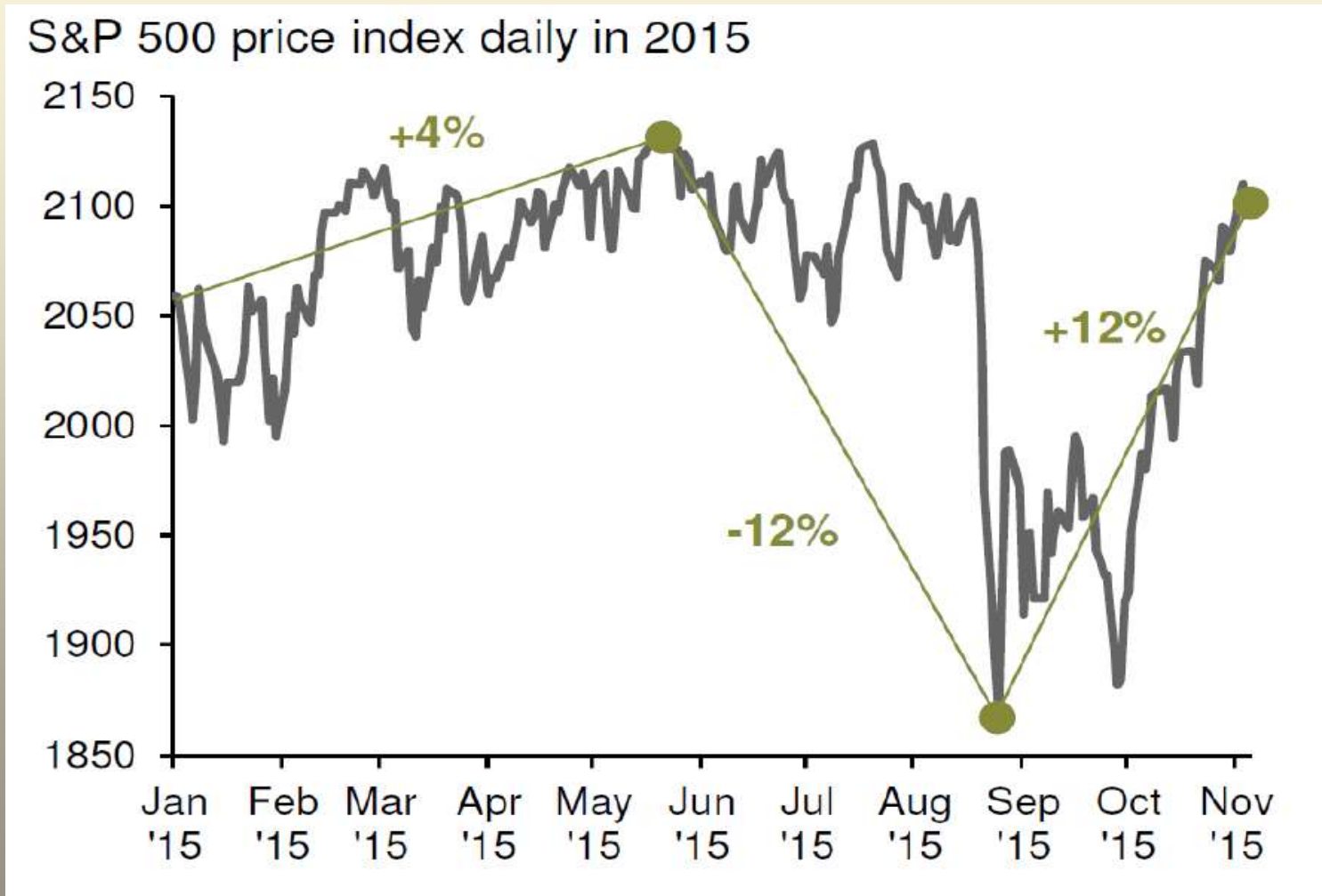


Market Volatility and Pullbacks in Historical Context

Number of 5% drawdowns experienced each year



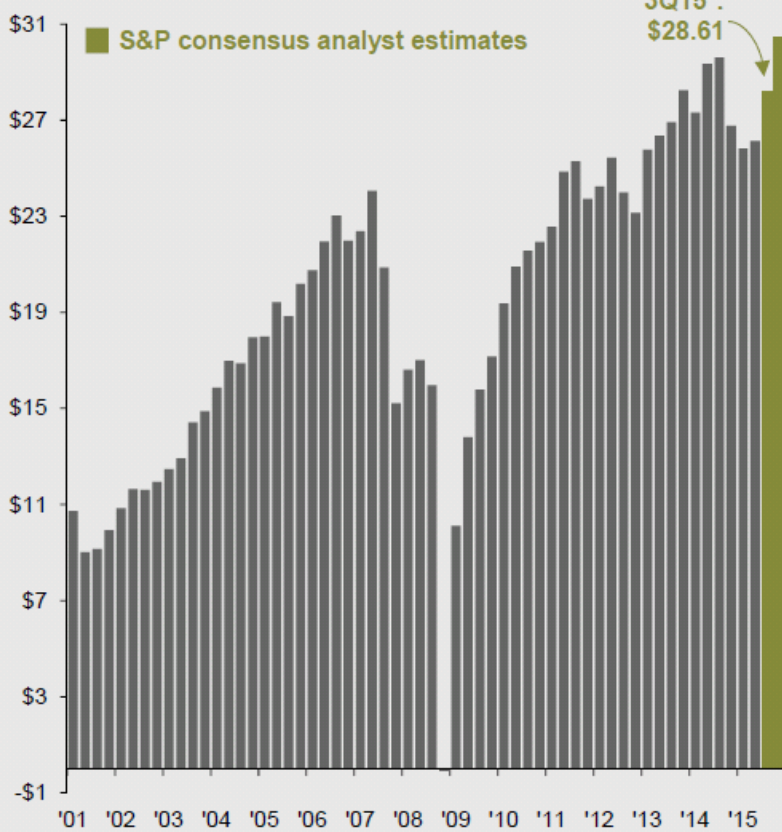
U.S. Equity Rebound Surprises Market Timers



Corporate Earnings: Set to Improve?

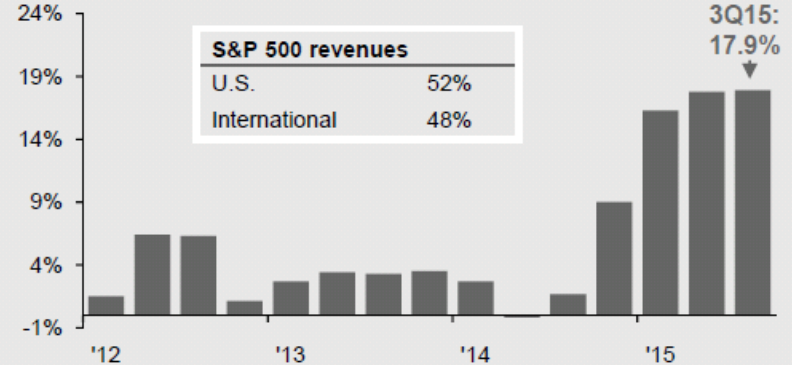
S&P 500 earnings per share

Index quarterly operating earnings



U.S. dollar

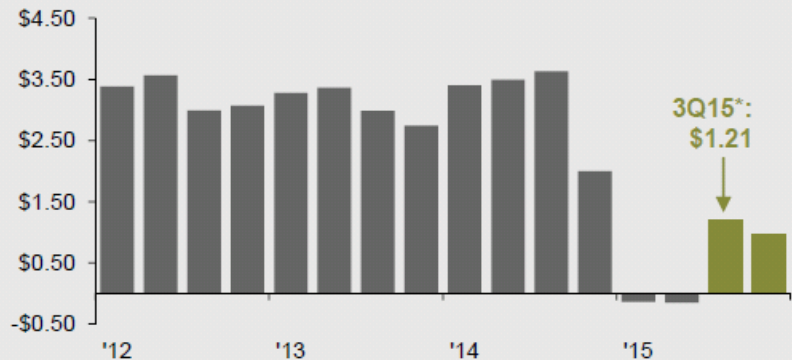
Year-over-year % change, quarterly, USD major currencies index



S&P 500 revenues	
U.S.	52%
International	48%

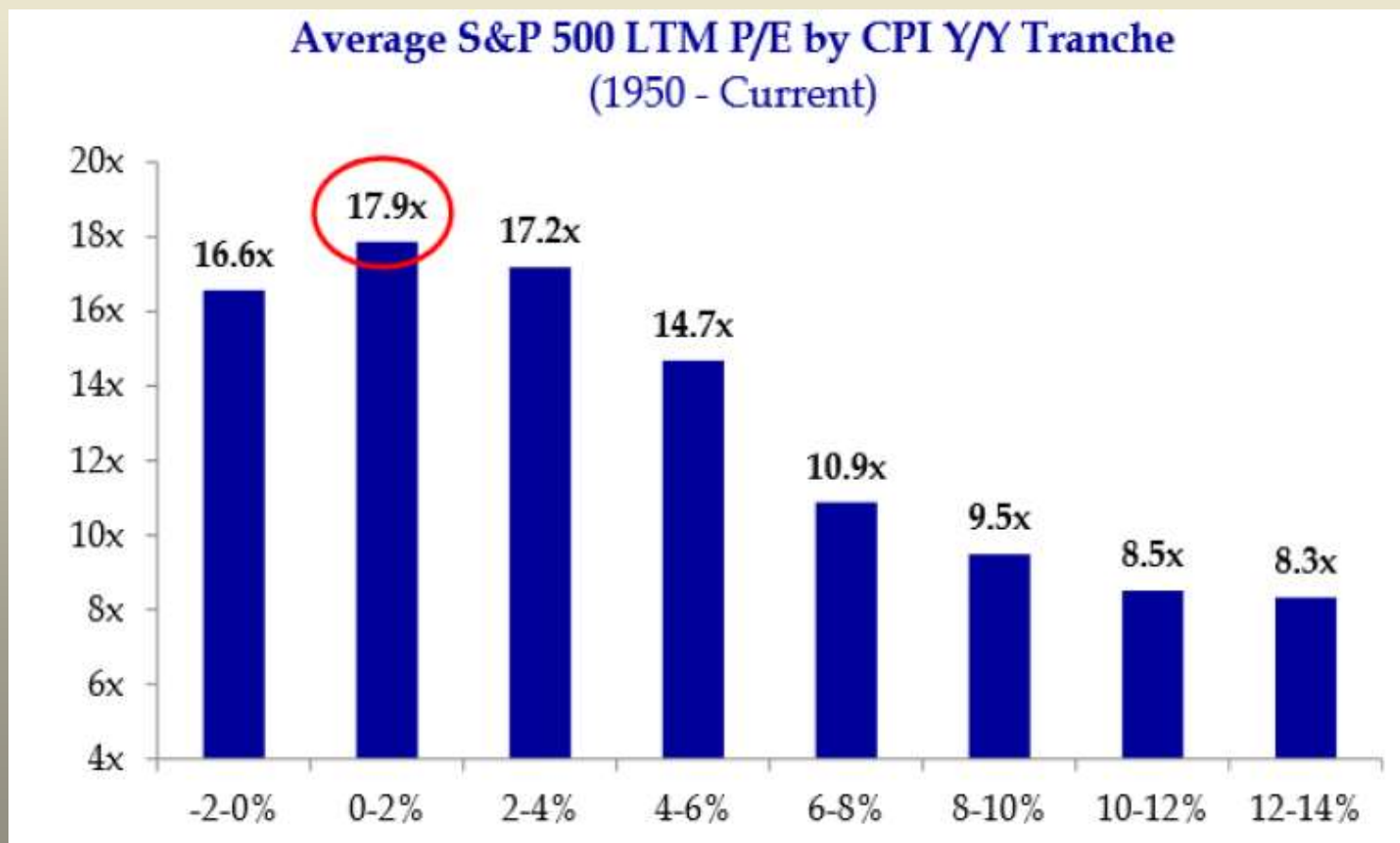
Energy sector earnings

Energy sector contribution to S&P 500 EPS, quarterly



Benign Inflation Helps U.S. Equity Valuations

Low but positive levels of inflation help support higher than average equity valuations, as these environments are typically accompanied by low interest rates. The Federal Reserve has attempted to utilize monetary policy to generate inflation towards its target of about 2% with mixed results.



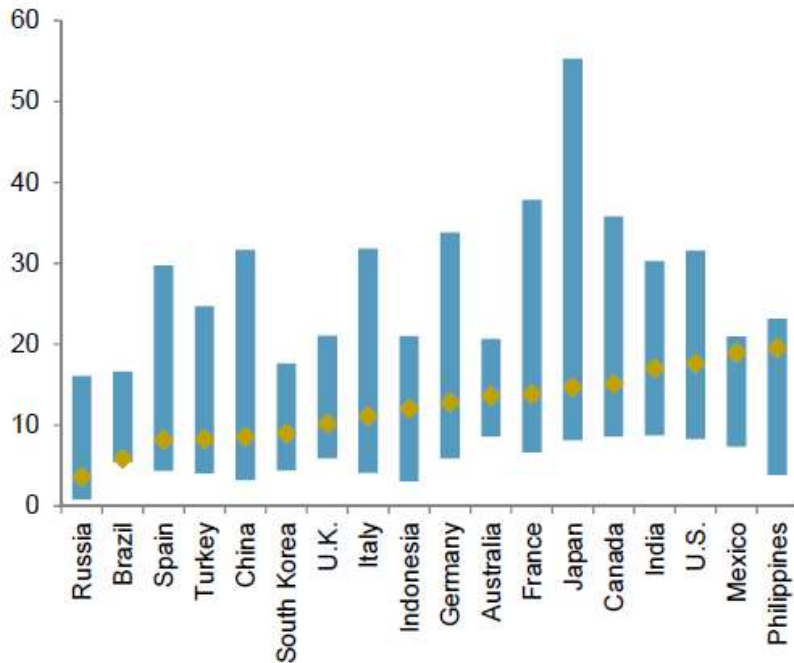
Non-U.S. Valuations Fall, Become More Attractive

Developed and emerging-market equities experienced multiple compression in Q3 due to weak equity performance. Valuations of most developed and emerging markets remained lower than U.S. multiples and fell further below long-term averages.

Cyclical P/Es

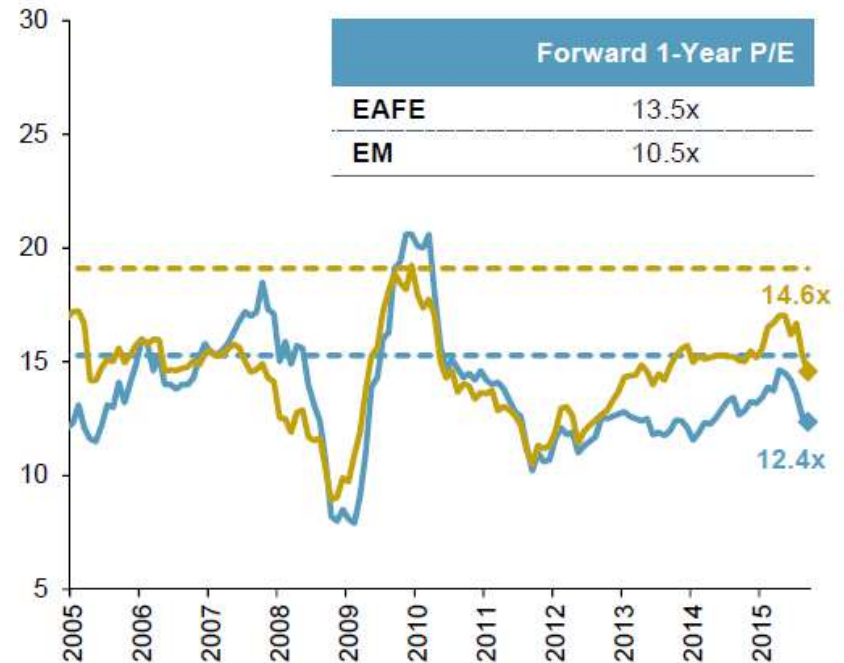
◆ Current ■ 20-Year Range

Price/5-Year Peak Real Earnings



Trailing 12-Month P/E Ratios

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

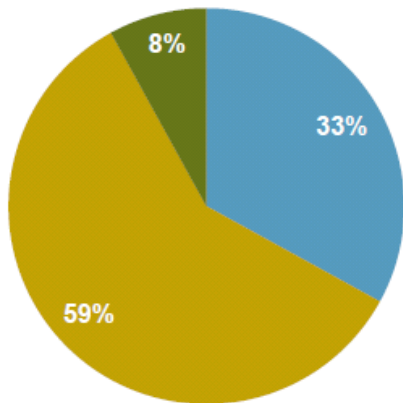


First Fed Rate Hike Not Typically the Start of a Downturn

Historically, the first interest-rate hike in a Federal Reserve tightening cycle occurs during the mid-cycle phase, is a sign that the economic expansion is strengthening, and rarely presages an abrupt move into the late-cycle phase. Typically, economically sensitive assets such as equities have performed well in the period immediately after the initial hike.

Frequency of First Fed Rate Hike by Business Cycle Phase, 1950-2010

■ Early ■ Mid ■ Late



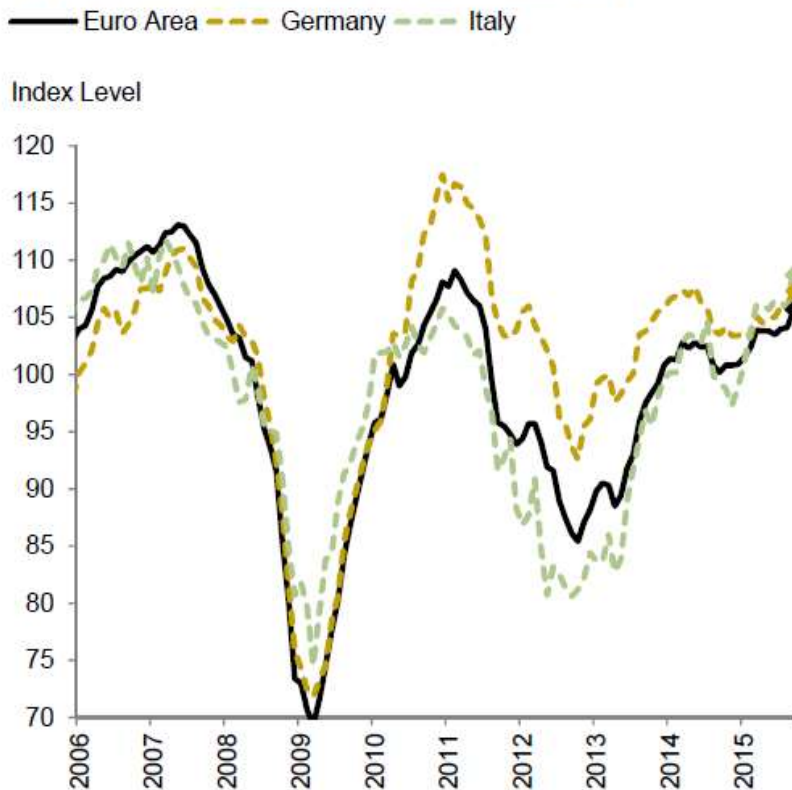
Median Performance During Fed Tightening Cycles, 1950-2010

Asset Class	3 Months Prior	6 Months After	12 Months After	24 Months After
U.S. Equities	7%	9%	10%	22%
DM Equities	6%	7%	14%	38%
EM Equities	5%	8%	16%	23%
Commodities	3%	4%	7%	34%
IG Bonds	0%	1%	3%	14%

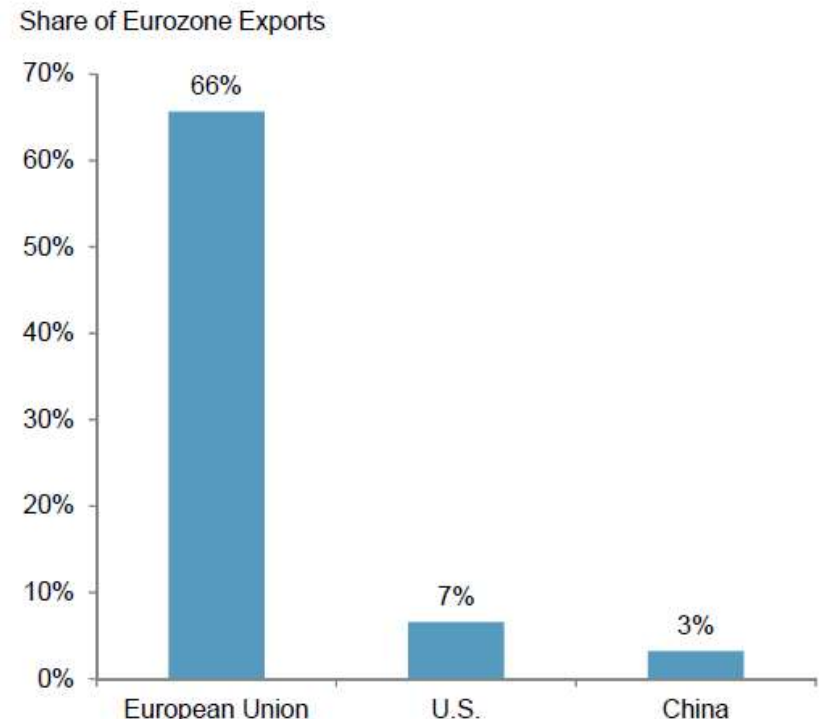
Domestic European Recovery Outweighs Foreign Drag

As evidenced by continued improvements in economic sentiment, Europe's domestic recovery continues amid supportive monetary policy and pent-up demand. Exports are more important for the euro-area countries than the U.S., but the majority of those exports go to other European economies, with a relatively small share destined for China.

Euro Area Economic Sentiment



Destination of Eurozone Exports



China is Slowing, not Collapsing

Important Driver of World Growth

1st



WORLD POPULATION

- › 4x the size of U.S., 10x Japan, 15x Germany
- › Rural to urban, manufacturing to consumer driven
- › Remains “emerging” due to low GDP per capita

2nd



GLOBAL ECONOMY

- › 60% the size of U.S., 2x Japan's, 2.5x Germany's
- › Growth is slowing (~7%), not ending
- › Top export destination for:
 - › Australia, Japan, South Korea, Singapore, Philippines, Saudi Arabia, Nigeria, Brazil and Venezuela

8th

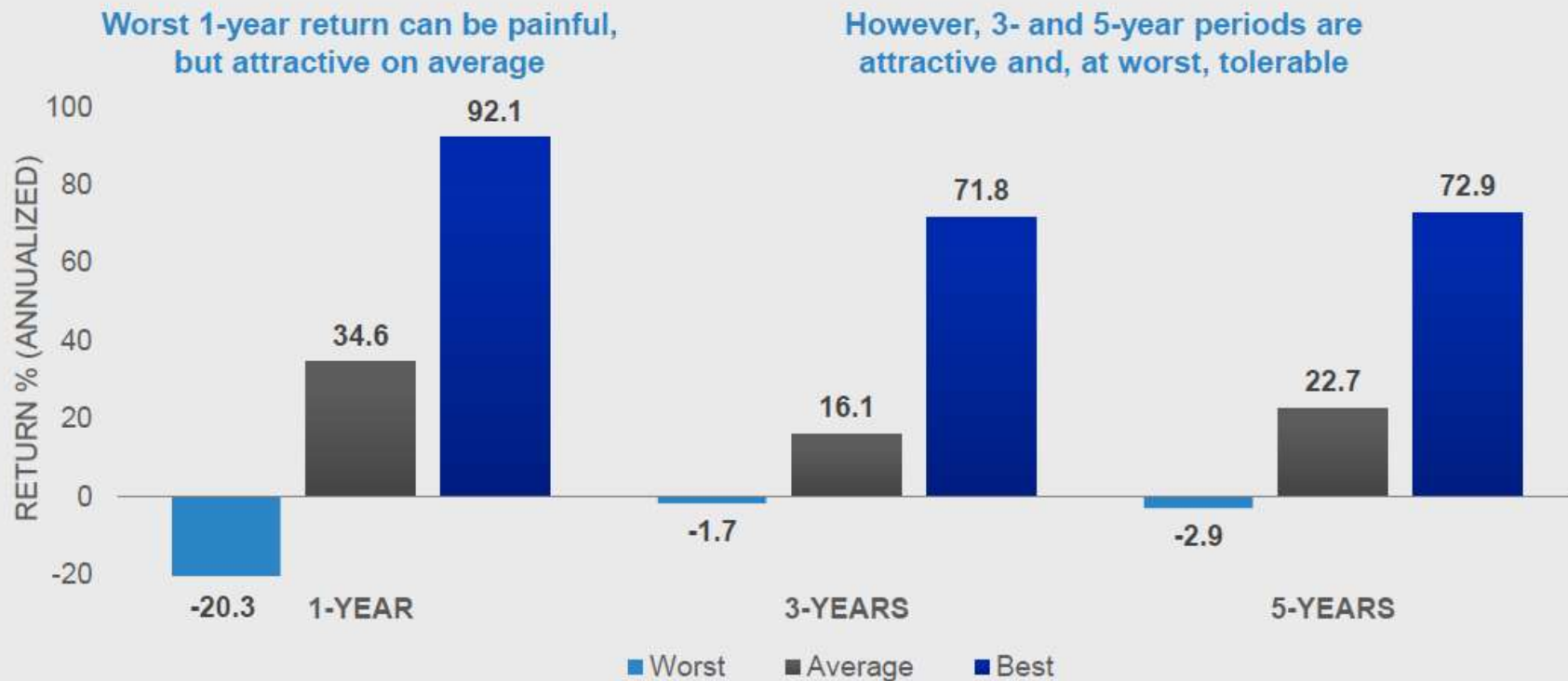


STOCK MARKET

- › 1/16th the size of U.S., 1/3rd Japan's, = Germany's
- › The largest emerging market at ~3% of world cap
- › Down 11% YTD, returned 0.0% over five years

Emerging Markets Have Rebounded From Past 20% Pullbacks

Emerging market returns following historical 20% pullbacks (1998–Sept. 2015)



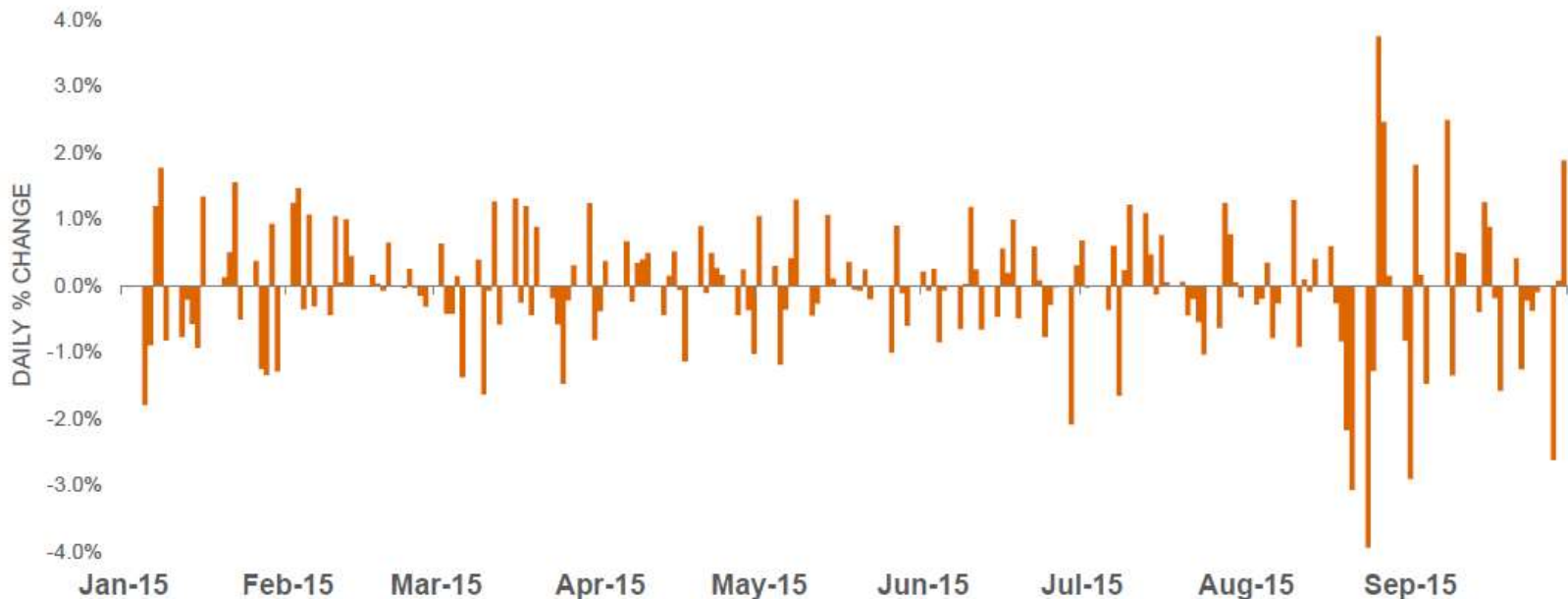
- › Since 1988, there have been 37 1-year periods with emerging market returns below -20%
- › Emerging markets were down 23% for the 12-months ending August 2015
- › Valuations becoming attractive, but uncertainty remains

Turning Stock Volatility Into Tax Assets

- › Market pullbacks can create opportunities to recognize (or harvest) losses
- › Loss harvesting defers recognition of capital gains

Daily Volatility of U.S. Equities

(January – September 2015)



Unlike traditional or passive approaches, active, tax-aware approaches can evaluate volatility throughout entire year – not just at year-end.

Consider Investment Decisions Based on Probabilities – Not Possibilities

