

Market Analysis / Third Quarter 2015



INDEPENDENT WEALTH MANAGEMENT

Market Review 2015

- Increasing concern about China's economy, accompanied by a surprise albeit modest devaluation of the yuan currency, helped trigger a sharp drop in global equity markets
- Emerging-markets stocks fared the worst, which is not surprising given the broad negative environment for global stocks, let alone that much of the turmoil was driven by disappointing developments in China
- As is expected, core bonds (Investment-Grade and Treasury's) held up better than equity markets, benefiting from investors seeking safety in lower-risk investments, while more credit sensitive sectors of the bond market didn't fare as well (high-yield and floating-rate loans) as credit spreads widened
- The Federal Reserve held off raising interest rates, citing recent global economic and financial developments, tightening financial conditions due to stock market declines, a stronger dollar, and wider credit spreads since their last meeting

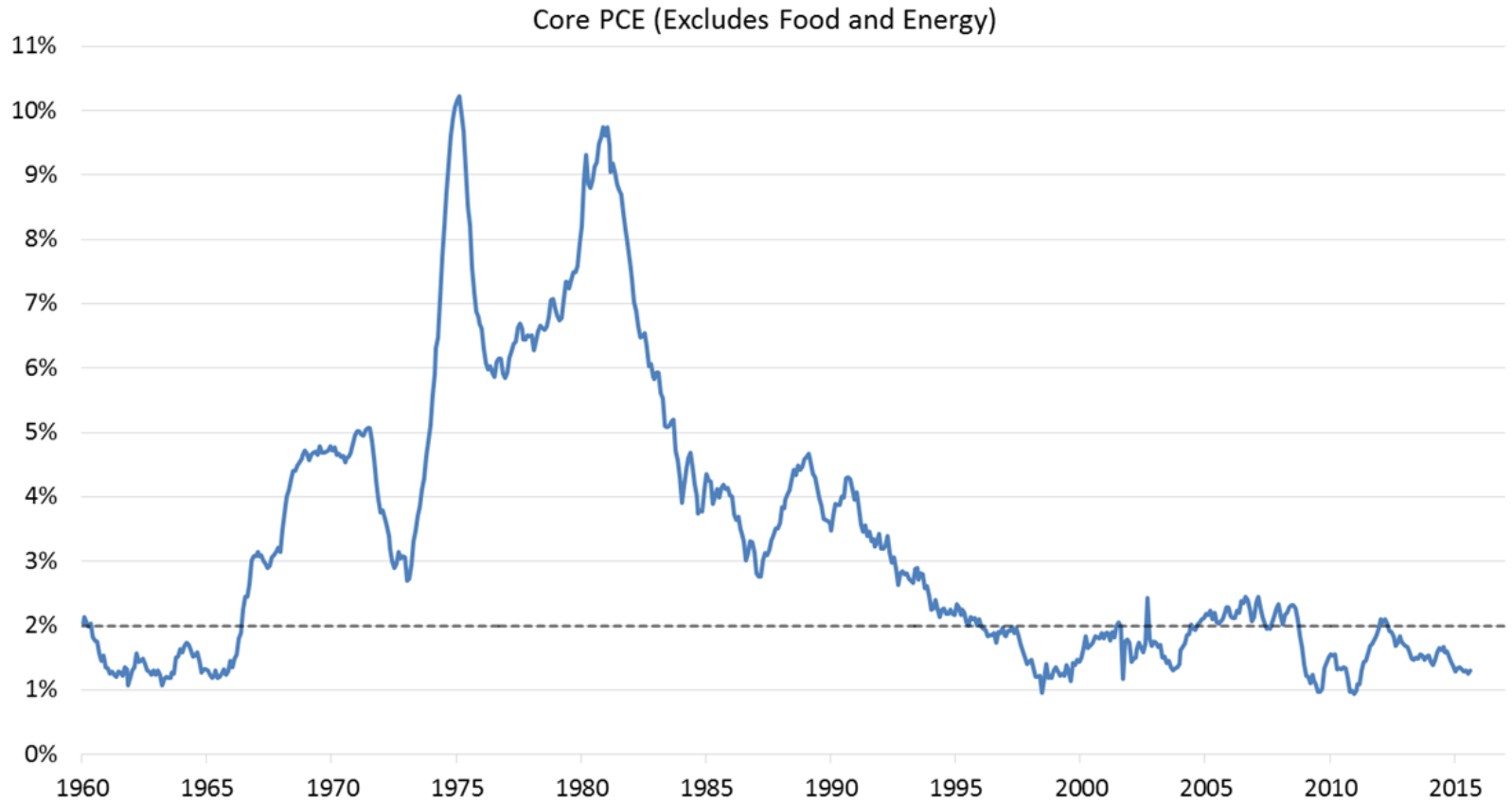
Asset Class	Q3 2015	Year-to-Date (9/30/2015)
U.S. Treasurys	1.76%	1.80%
U.S. Investment-Grade Bonds (Intermediate-Term)	1.16%	0.94%
Municipal Bonds	1.65%	1.77%
Floating-Rate Loans	-1.35%	1.44%
High-Yield Bonds	-4.90%	-2.53%
U.S. Larger-Cap Stocks	-6.48%	-5.38%
U.S. Smaller-Cap Stocks	-11.91%	-7.77%
Developed International Stocks	-9.72%	-3.89%
Emerging-Markets Stocks	-17.94%	-15.24%

Asset Class Returns

Through 09/30/2015 Past performance may not be indicative of future returns.

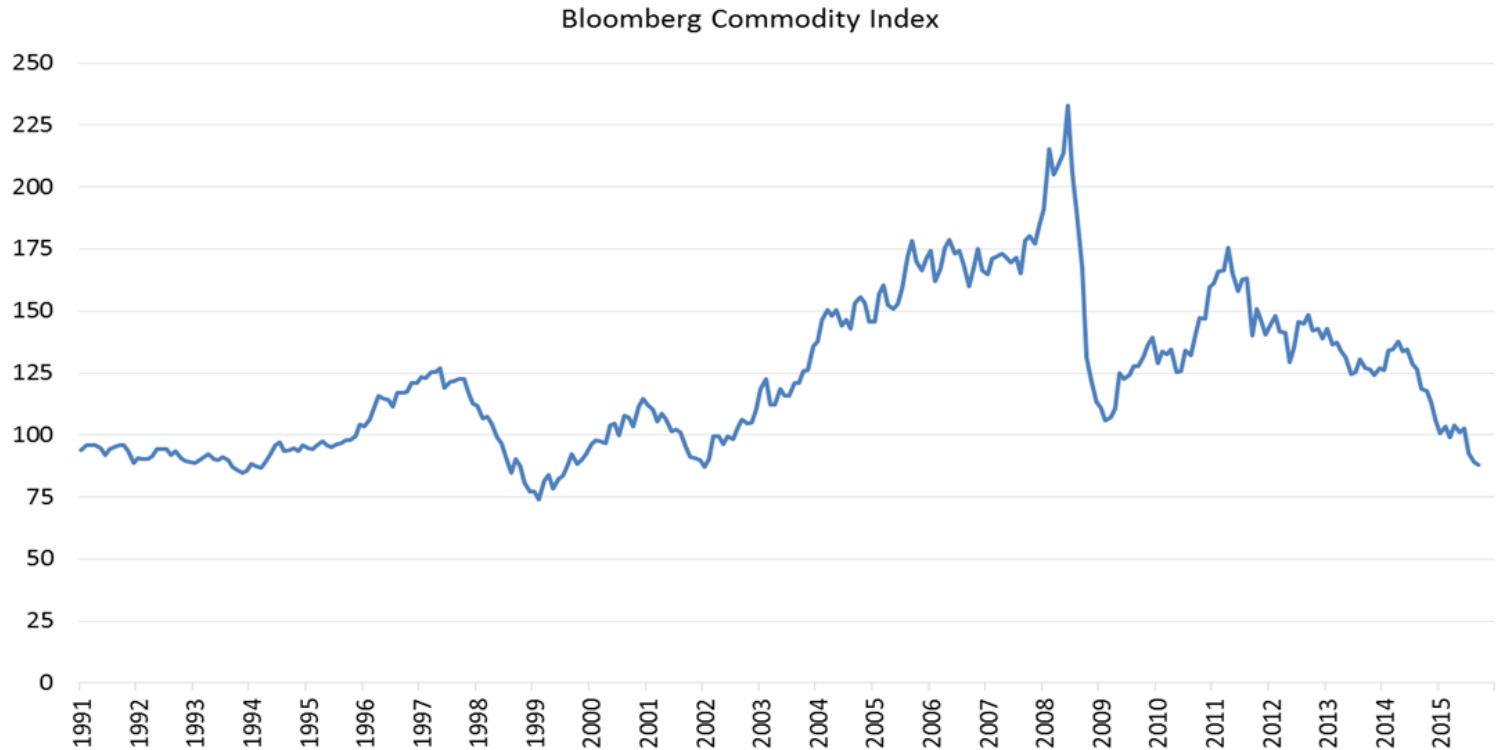
Asset Class	3rd Qtr. 2015	12 Months	5 Years (Ann.)
Russell 1000 Value iShare (Domestic Large-Cap Value)	-8.43%	-4.60%	12.06%
Russell 1000 Growth iShare (Domestic Larger-Cap Growth)	-5.43%	2.91%	14.24%
Vanguard 500 Index (Domestic Larger-Cap Blend)	-6.48%	-0.75%	13.17%
Russell 2000 Value iShare (Domestic Smaller-Cap Value)	-10.81%	-1.77%	10.03%
Russell 2000 Growth iShare (Domestic Smaller-Cap Growth)	-13.02%	4.14%	13.41%
Russell 2000 iShare (Domestic Smaller-Cap Blend)	-11.91%	1.27%	11.77%
Vanguard FTSE Developed Markets ETF (Foreign Stocks)	-9.72%	-7.84%	4.20%
Vanguard REIT Index (Real Estate Investment Trust)	1.98%	9.19%	11.74%
Merrill Lynch High Yield Master (High-Yield Bonds)	-4.90%	-3.57%	6.32%
Vanguard Total Bond Mrkt Index (Domestic Invest-Grade Bonds)	1.16%	2.64%	2.87%
Citigroup World Gov't Bond (Global Invest-Grade Bonds)	1.71%	-3.83%	-0.19%
Dow Jones-AIGCI (Commodity Futures)	-14.47%	-25.99%	-8.69%
JP Morgan Emg Local Mrkt+ (Short-term Local Currency Emg Markets Bonds)	-10.54%	-19.77%	-3.56%

Inflation Remains Well Below the Fed's Preferred Level of 2%



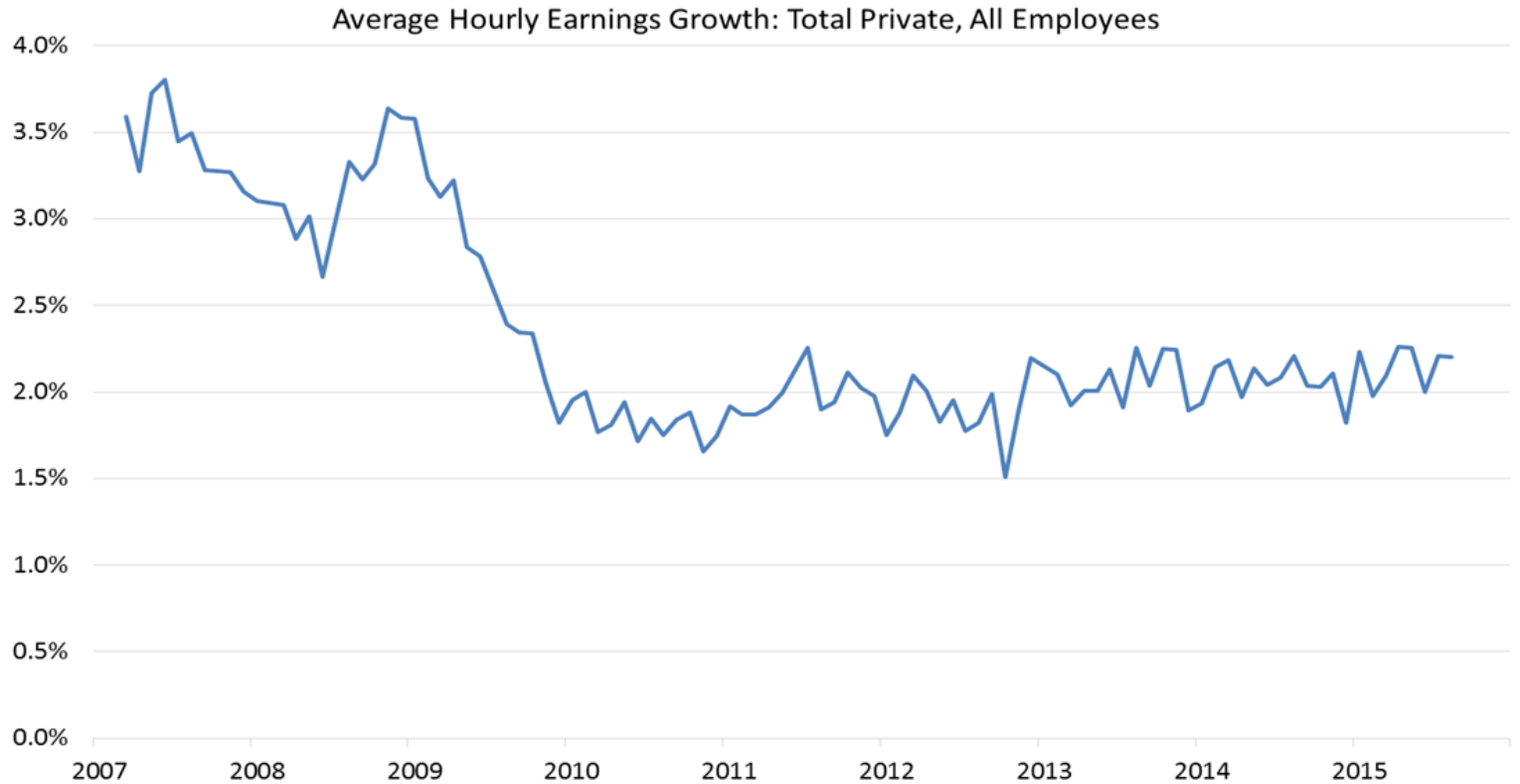
Source: US. Bureau of Economic Analysis. Data as of 8/31/2015.

Commodity Prices Are at Levels Not Seen Since 1999



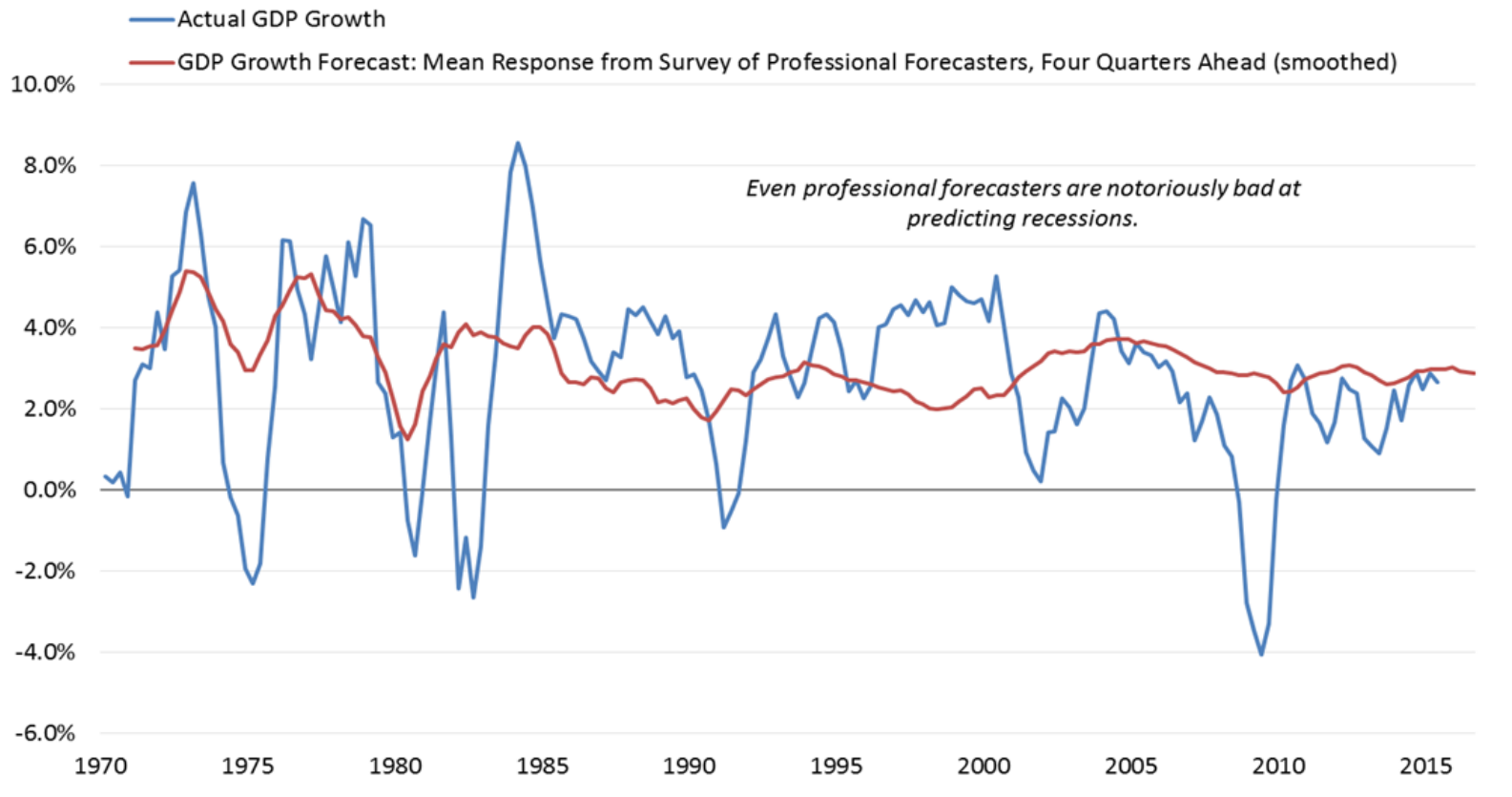
Source: Bloomberg. Data as of 9/30/2015.

The Labor Market Continues to Strengthen, However Wage Growth Remains Constrained



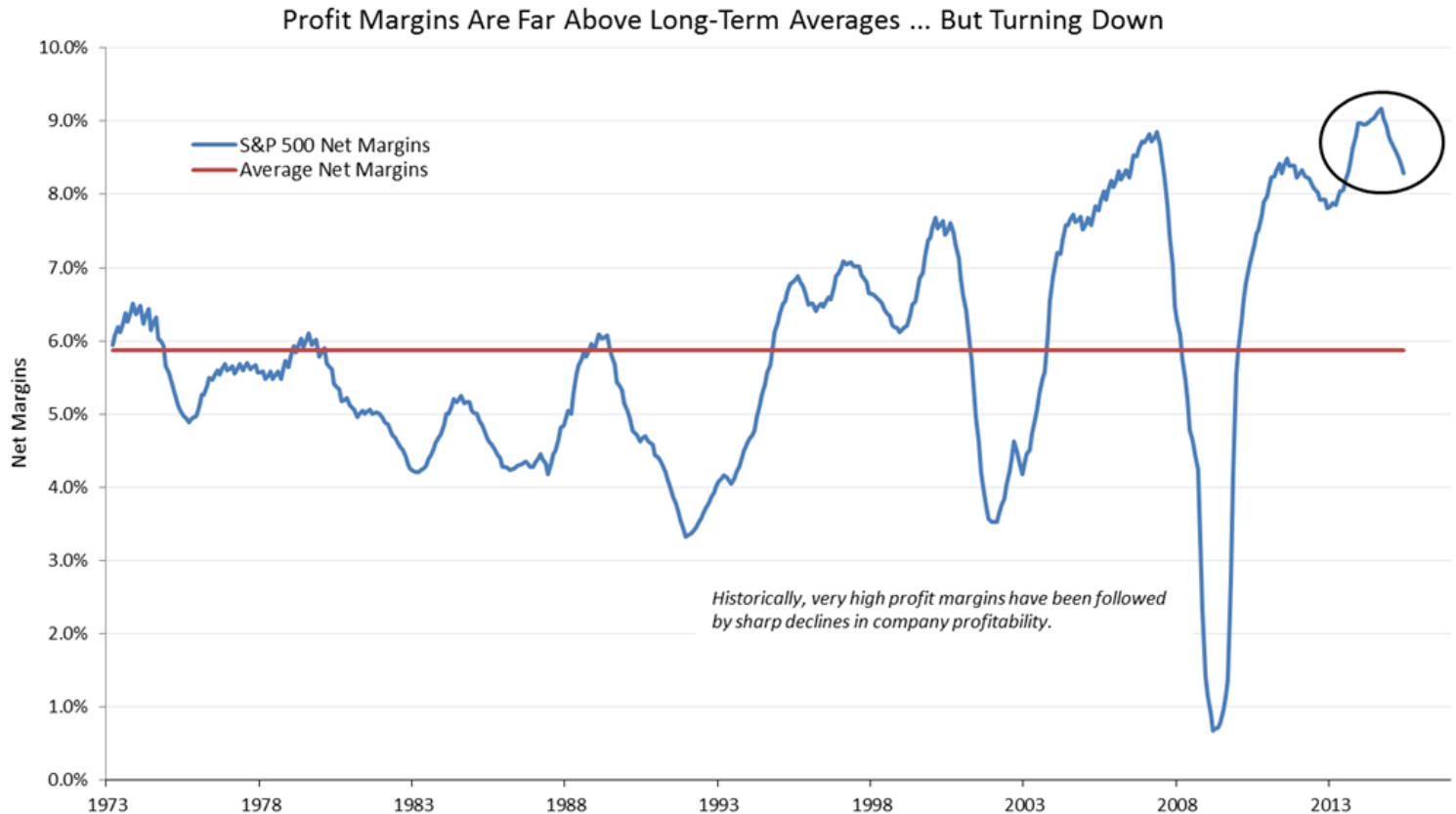
Source: Bureau of Labor Statistics. Data as of 8/31/2015.

The Probability of a Recession Seems Low But They Are Difficult to Predict



Source: US. Bureau of Economic Analysis / Federal Reserve Bank of Philadelphia. Data as of 8/14/2015.

Declining Profit Margins Have Put Downward Pressure on Earnings Growth

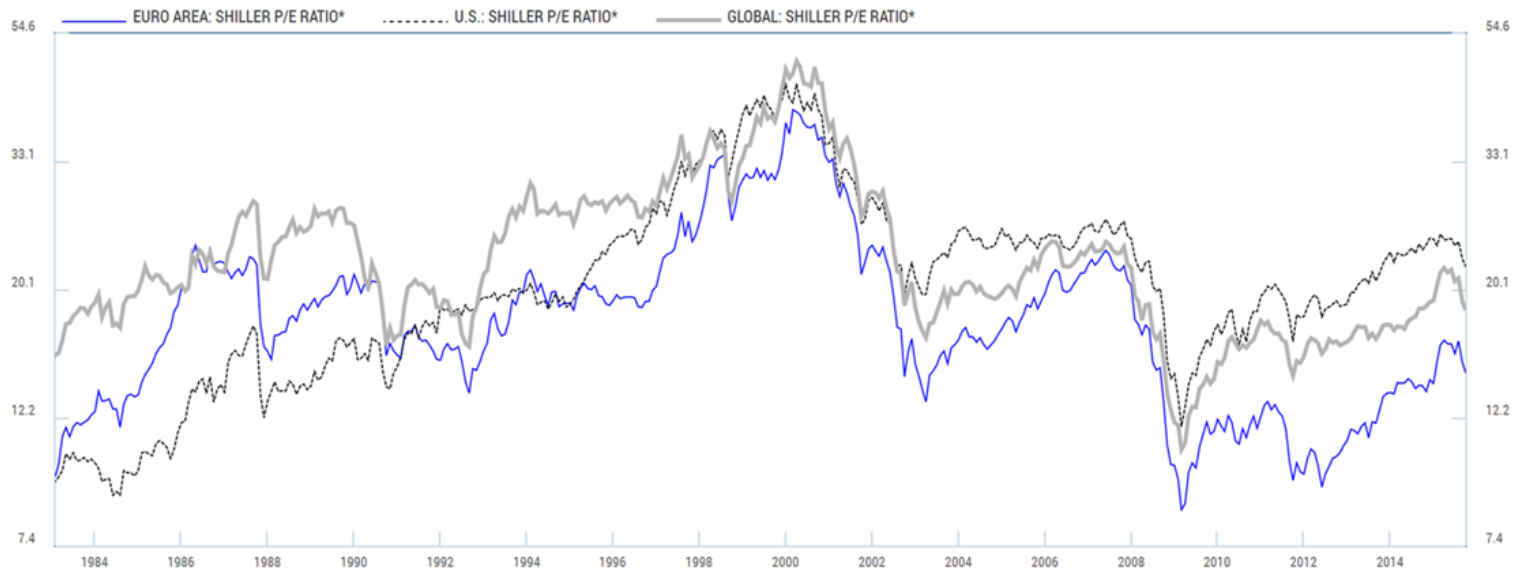


Source: Robert J. Shiller and Standard & Poor's. Data as of 6/30/2015.

European Stock Market Valuations are Attractive Both in Absolute Terms and Relative to U.S. Stocks

BCA RESEARCH INC.

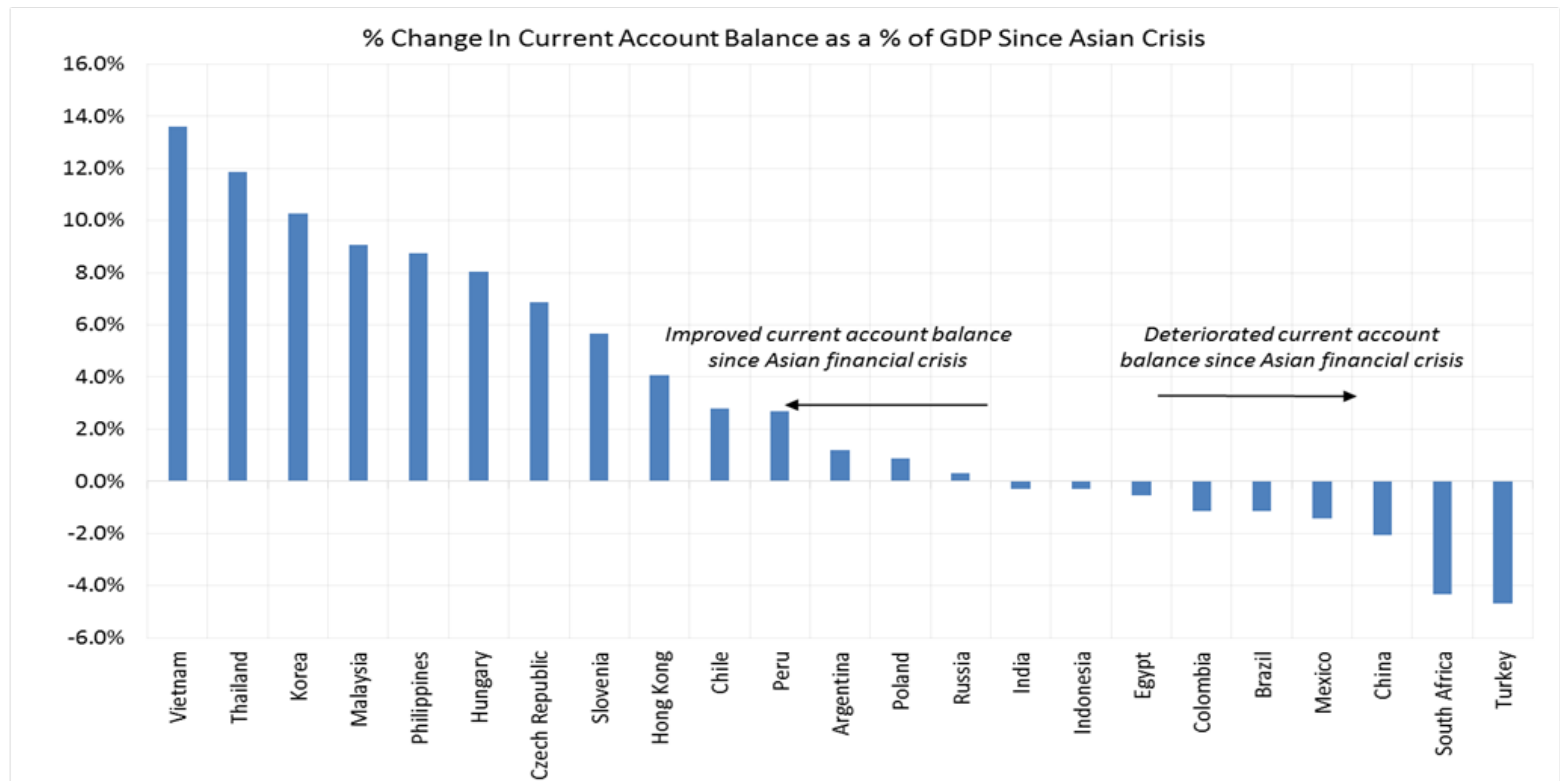
CAPE Multiples



*SOURCE: THOMSON REUTERS.

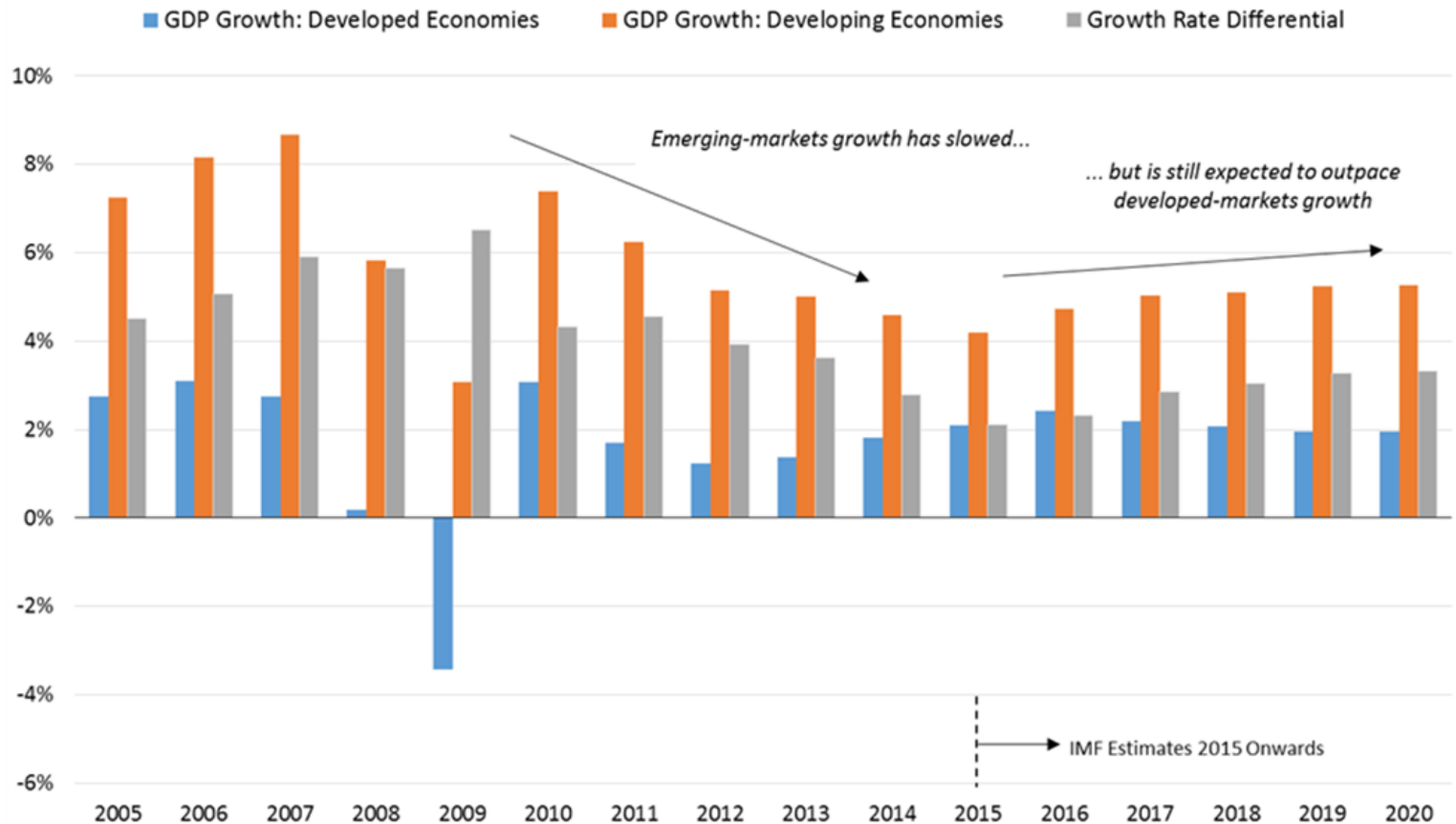
Source: BCA Research. Data as of 9/30/2015.

Emerging-Markets Macroeconomic Fundamentals Are Better Now Than They Were During Their Crisis-Prone Years of the Late 1990s/early 2000s



Source: IMF. Data as of April 2015.

Emerging-Market Economies Are Growing Faster Than the Developed World



Estimated Asset Class Returns Across Our Scenarios

Economic Scenario	Bear Case	Base Case	Bull Case
<i>S&P 500 at 1920, Barclays Aggregate yield at 2.2%, MSCI EM Index at 792, BofA ML High Yield Cash Pay Index at 8.0%.</i>			
Equity Asset Classes	Estimated Average Annual Returns Over Next Five Years		
U.S. Equities	-3.6%	5.0%	12.3%
Developed International—Europe	-3.6%	14.4%	21.7%
Emerging Markets	**	12.3%-19.1%*	26.5%
REITs	3.7%	5.8%	4.4%
Fixed Income Asset Classes			
Investment-Grade Bonds	2.2%	1.4%	0.4%
High-Yield Bonds	4.9%	6.2%	5.4%
Floating-Rate Loans	5.4%	6.0%	6.3%
TIPS	1.2%	1.0%	0.0%
Alternative Asset Classes			
Arbitrage Strategies	<i>Mid single-digit returns in most scenarios</i>		

*Our EM base case encompasses both positive and negative China scenarios (and the respectively higher and lower returns that could result from each) as we consider both scenarios as roughly equally likely.

**We believe the lower end of our base-case return range adequately factors in a bearish EM outcome. If our ongoing research indicates an explicit bear-case return is warranted or if we feel it would have a bearing on our portfolios' positioning, we would adjust our returns in this table accordingly.

Additional Disclosure

Disclosures:

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