Market Analysis / Fourth Quarter 2015

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Independent Wealth Management

Market Review 2015

- Among the major global stock markets, U.S. stocks were the best performer, but that's faint praise given large-cap stocks' paltry 1.3% return
- Developed international stocks finished the year down slightly; similar to last year, a stronger U.S. dollar eroded the returns for U.S. dollar-based investors
- Investor concerns over slowing economic growth in China and a stronger U.S. dollar resulted in emerging-markets stocks falling close to 16%, their worst return since 2011
- Core bonds gained just 0.3%, their fourth worst year since the index's inception 40 years ago
- High-yield bonds fared worse, finishing down close to 5%, only the fifth negative year in the 30-year history of the asset class
- Municipal bonds were a relative bright spot, finishing the year up over 3%

Asset Class	Q4 2015	Year-to-Date (12/31/15)
U.S. Treasurys	-0.94%	0.84%
U.S. Investment-Grade Bonds (Intermediate-Term)	-0.63%	0.30%
Municipal Bonds	1.50%	3.30%
Floating-Rate Loans	-2.10%	-0.69%
High-Yield Bonds	-2.17%	-4.64%
U.S. Larger-Cap Stocks	7.00%	1.25%
U.S. Smaller-Cap Stocks	3.58%	-4.47%
Developed International Stocks	3.66%	-0.38%
Emerging-Markets Stocks	-0.67%	-15.81%

Asset Class Returns

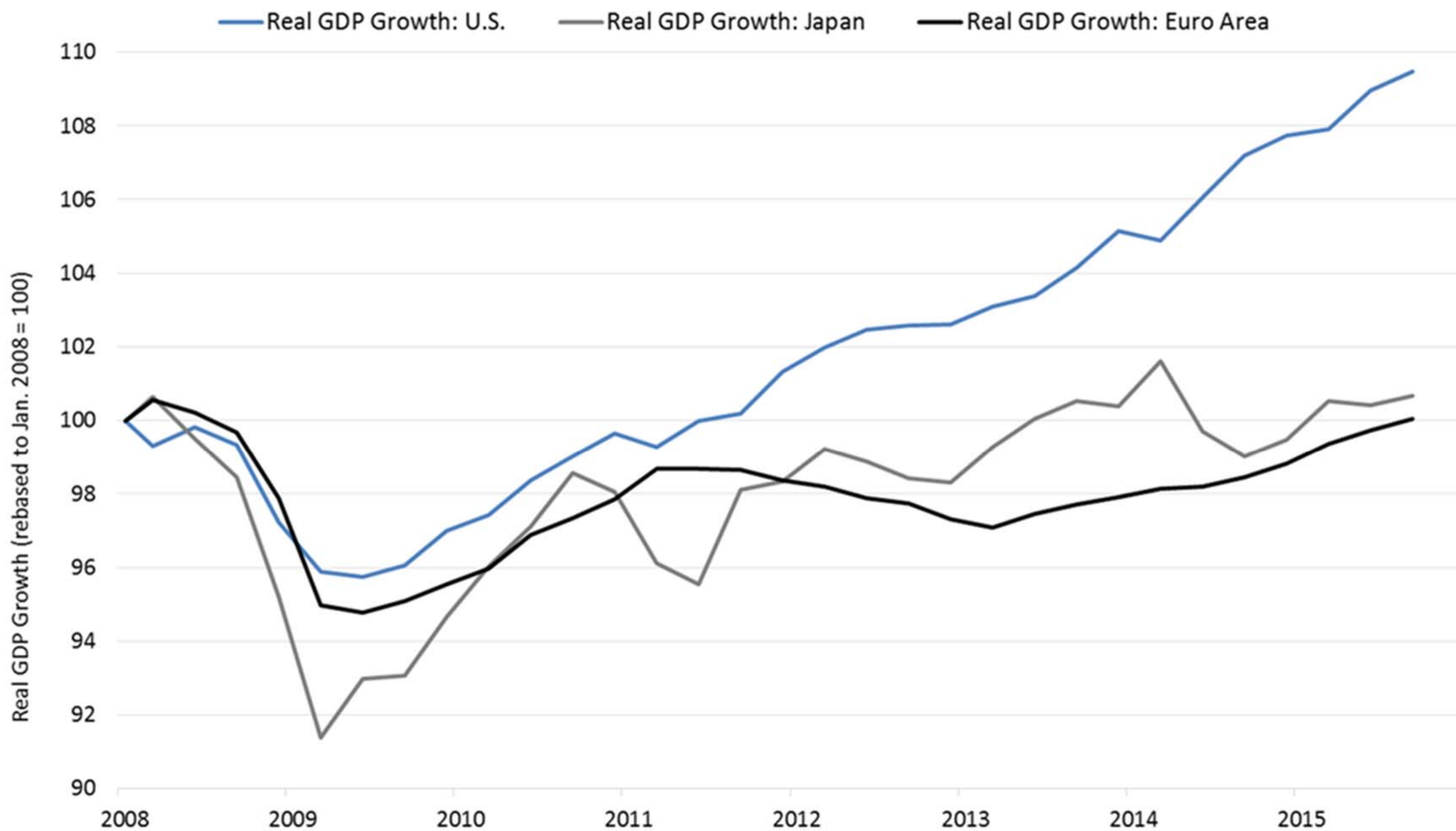
Through 12/31/2015 **Past performance may not be indicative of future returns.**

Asset Class	4th Qtr. 2015	12 Months	5 Years (Ann.)
Russell 1000 Value iShare (Domestic Large-Cap Value)	5.62%	-3.97%	11.03%
Russell 1000 Growth iShare (Domestic Larger-Cap Growth)	7.38%	5.50%	13.31%
Vanguard 500 Index (Domestic Larger-Cap Blend)	7.00%	1.25%	12.40%
Russell 2000 Value iShare (Domestic Smaller-Cap Value)	2.75%	-7.72%	7.49%
Russell 2000 Growth iShare (Domestic Smaller-Cap Growth)	4.27%	-1.34%	10.77%
Russell 2000 iShare (Domestic Smaller-Cap Blend)	3.58%	-4.47%	9.19%
Vanguard FTSE Developed Markets ETF (Foreign Stocks)	3.66%	-0.38%	3.48%
Vanguard REIT Index (Real Estate Investment Trust)	6.98%	2.22%	11.65%
Merrill Lynch High Yield Master (High-Yield Bonds)	-2.17%	-4.64%	4.84%
Vanguard Total Bond Mrkt Index (Domestic Invest-Grade Bonds)	-0.63%	0.30%	3.02%
Citigroup World Gov't Bond (Global Invest-Grade Bonds)	-1.23%	3.57%	-0.08%
Dow Jones-AIGCI (Commodity Futures)	-10.52%	-24.66%	-13.28%
JP Morgan Emg Local Mrkt+ (Short-term Local Currency Emg Markets Bonds)	-0.01%	-14.92%	-3.48%

2015 was a Challenging Year for Investment Returns

- Last year was the first time since 2001 that no single asset class posted double digit returns (stocks, bonds, commodities, currencies)
- Likewise, no single sector in the S&P 500 hit double digits
- The S&P 500 was the best-performing major global stock market up 1.3%, but it was a very narrow market with a handful of big technology/Internet stocks (Facebook, Amazon.com, Netflix, and Google), generating the bulk of returns
- The lack of market breadth was reflected in the outperformance of growth stocks (up 5.5%) and momentum stocks (up 9.3%) vs. value stocks (down -4.0%)
- The U.S. dollar index finished the year up close to 10% following a 12% rise in 2014
- Commodity-related asset classes were the worst-performing areas of the market, down on the order of -25% to -30% for the year
- Oil prices hit an 11-year low in December and fell -30% for the year, after plunging -50% in 2014

The U.S. Economy Continues to Outpace Other Developed Economies



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

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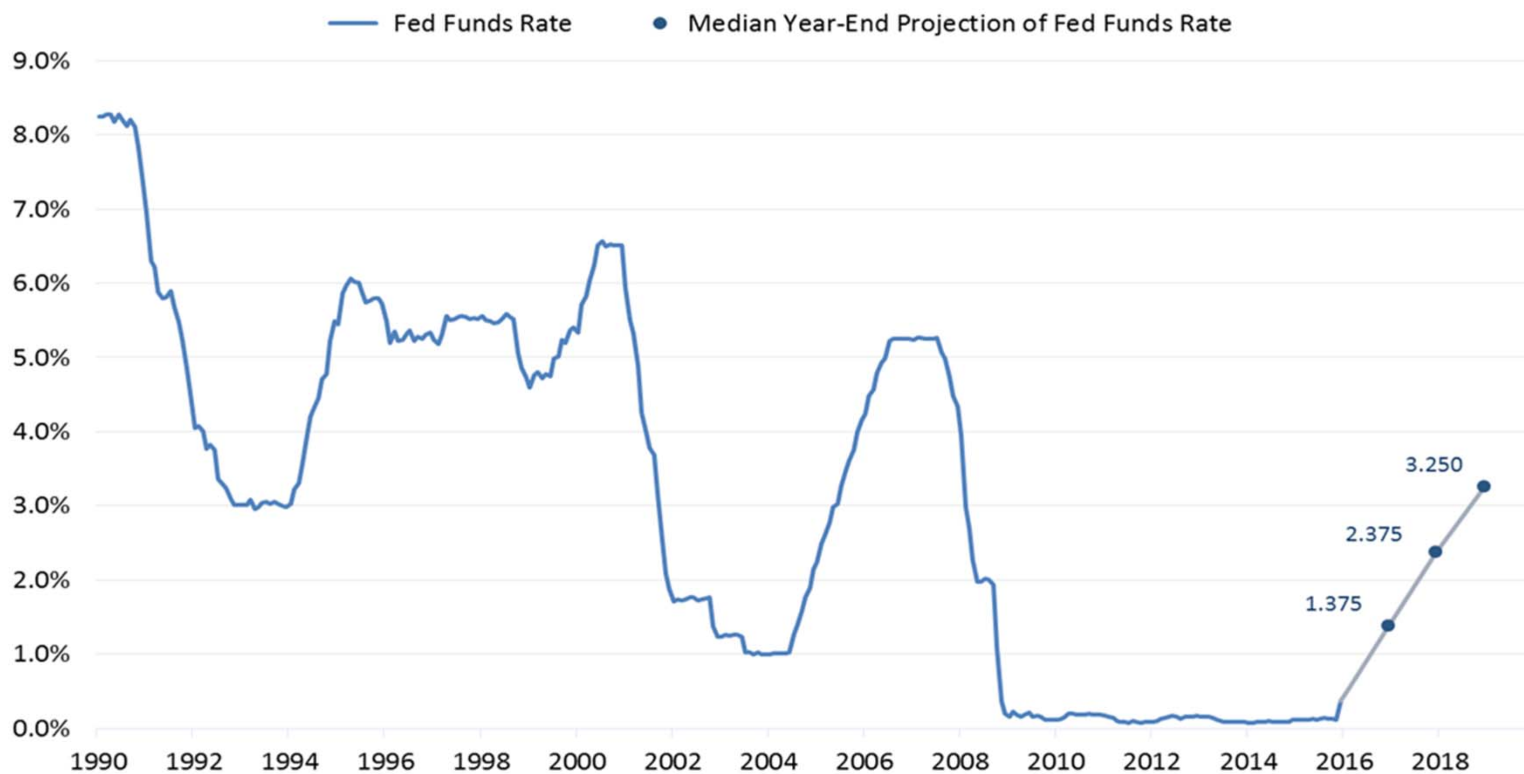
The Fed Raised Rates for the First Time in Nearly a Decade



Source: Board of Governors of the Federal Reserve System. Data as of 12/31/2015.

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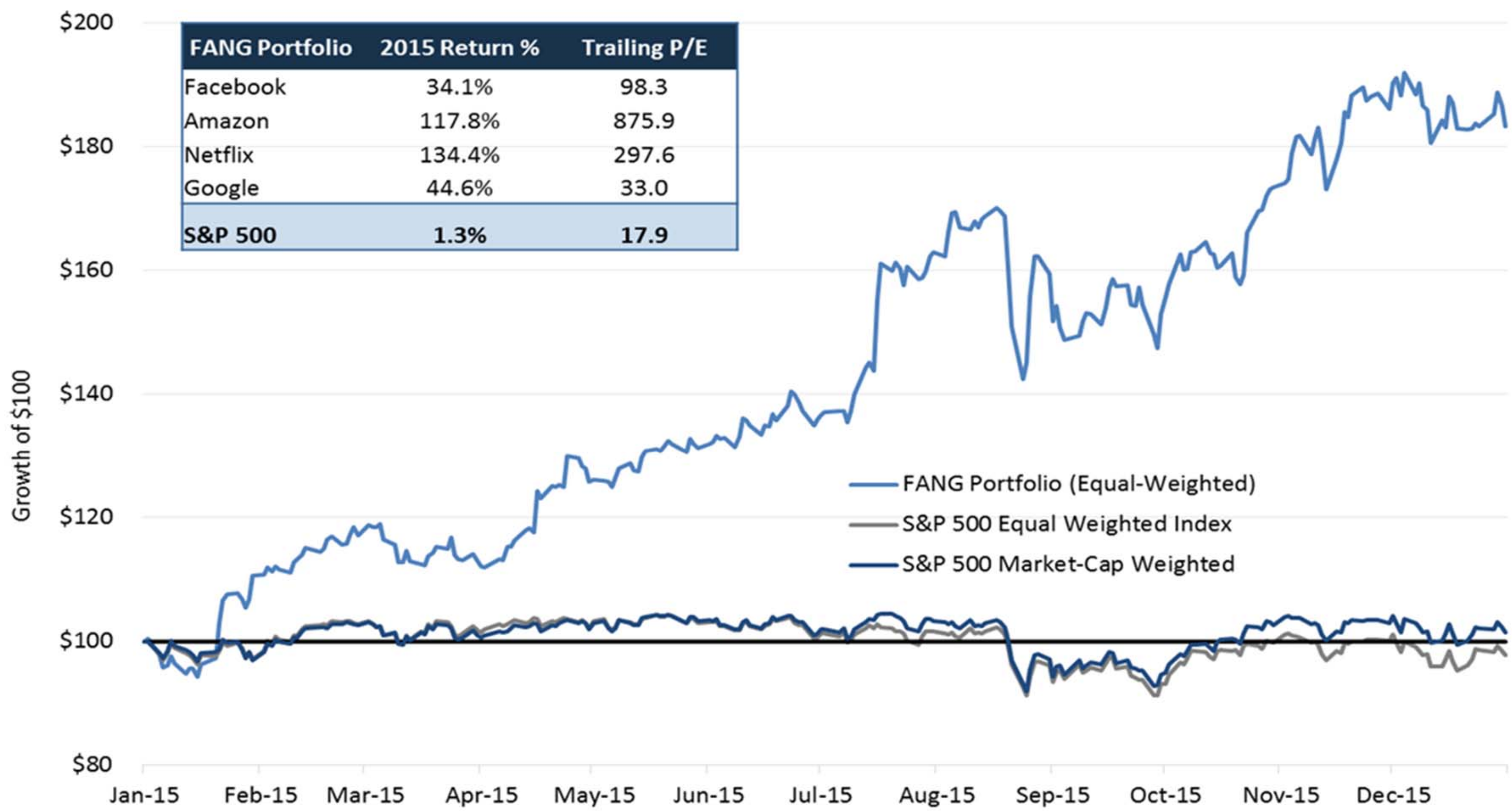
A Handful of Stocks Drove the Modest Gains in 2015

FANG Portfolio	2015 Return %	Trailing P/E
Facebook	34.1%	98.3
Amazon	117.8%	875.9
Netflix	134.4%	297.6
Google	44.6%	33.0
S&P 500	**1.3%**	**17.9**



Source: Morningstar Direct. Data as of 12/31/2015.

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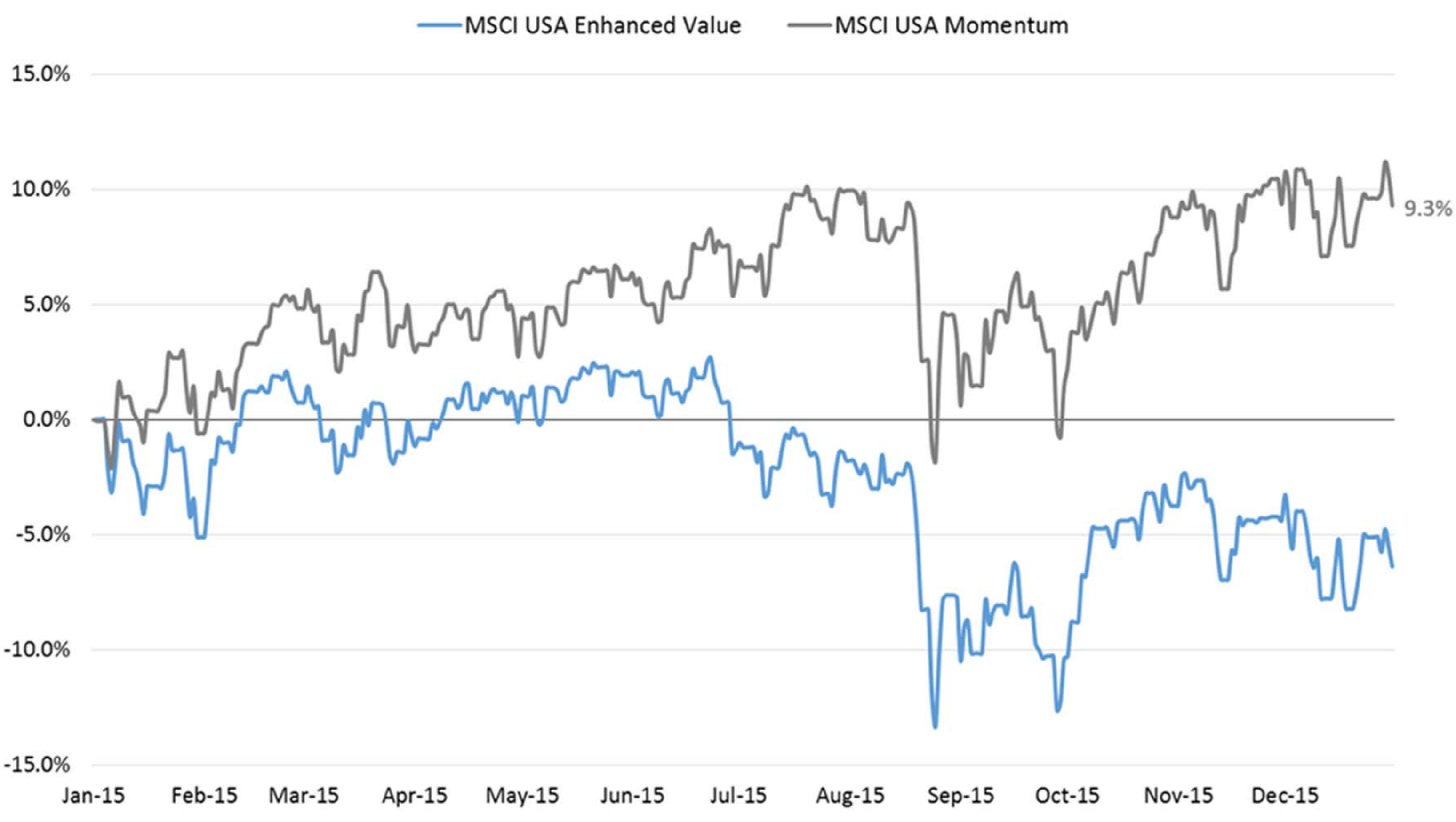
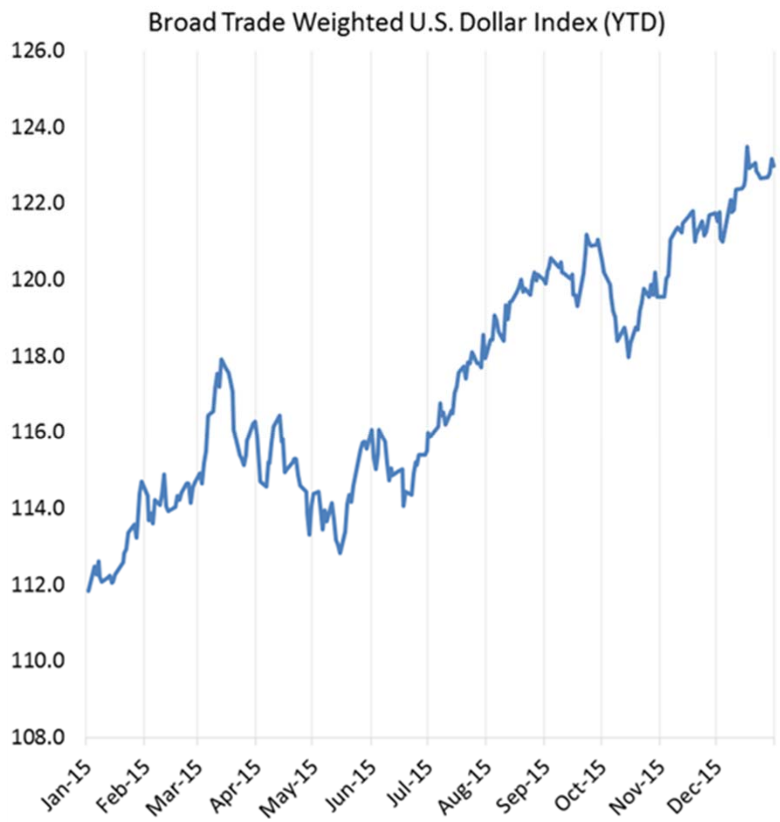
Momentum Stocks Outpaced Value Stocks by a Wide Margin



Source: Morningstar Direct. Data as of 12/31/2015.

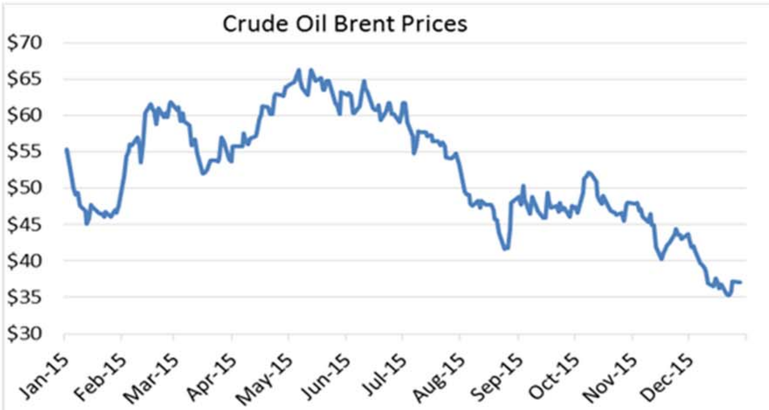
U.S. Dollar Strength Continued to Impact Multiple Asset Classes

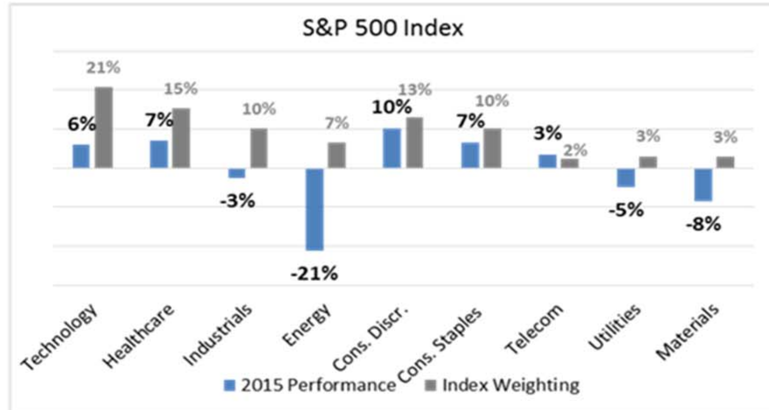


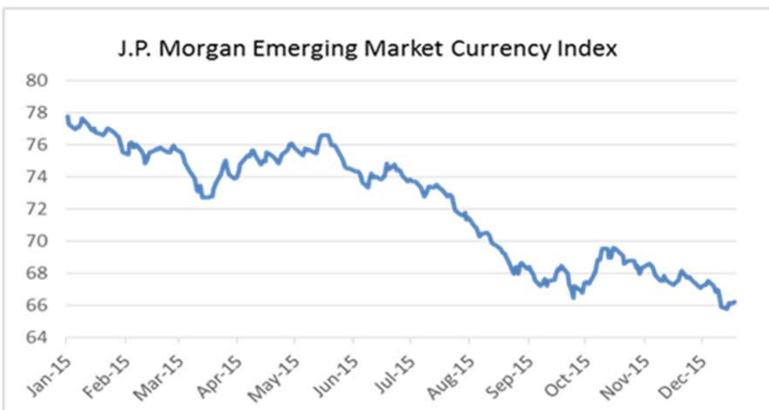
Source: Federal Reserve. Data as of 12/31/2015.

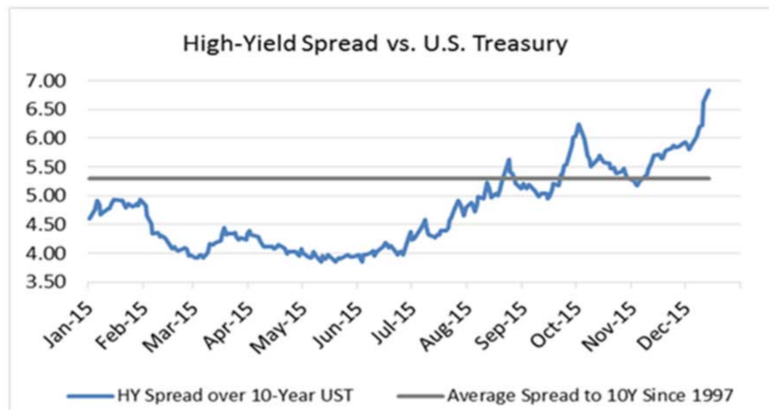
- The U.S. Dollar Index finished the year up close to 10%, following up on last year's 12% gain
- U.S. dollar strength has had a significant impact on multiple asset classes
- Oil, which is priced in dollars, is down more than -70% since mid-2014
- Developed international and emerging-markets stocks have lagged U.S. stocks, due in large part to the euro and emerging-markets currencies declining versus the dollar
- Earnings growth for U.S. companies, especially those that generate more of their revenues outside the United States, have slowed significantly

Falling Commodity Prices Impacted Stock and Bond Markets









Source: U.S. Energy Information Administration. Source: Bloomberg. Data as of 12/31/2015.
Source: OECD. Data as of 9/30/2015

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Litman Gregory Outlook: Unchanged

- U.S. Equities: Risk
  - Profit margins are near record highs and unsustainable
  - Stocks are pricey and most likely expected returns from current valuation levels are not encouraging
- Rising interest rates: Risk
  - Low returns expected for core bonds over the next five years
  - Absolute-return-oriented fixed-income funds can better manage their interest rate sensitivity

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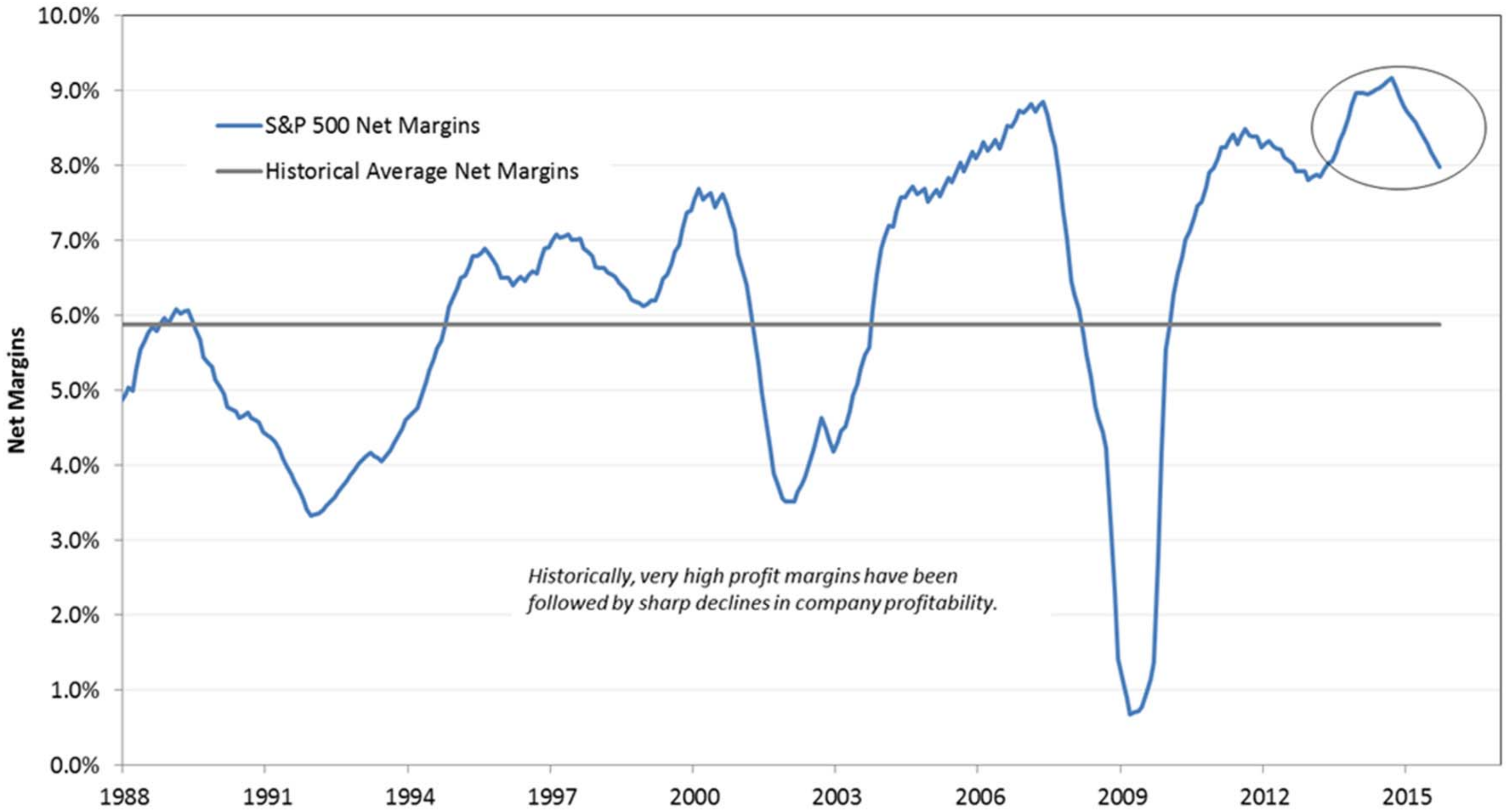
- International Equities: Opportunity
  - Attractive stock valuations despite recent elevated uncertainty
  - Probability is high that market earnings growth will be higher than current depressed levels indicate
- Alternative strategies: Opportunity
  - Better risk-adjusted return potential in volatile equity and bond markets
  - Diversification and a source of return independent from traditional stock and bond markets

A Declining Trend in Profit Margins Appears to be Underway



Source: Robert J. Shiller and Standard & Poor's. Data as of 9/30/2015.

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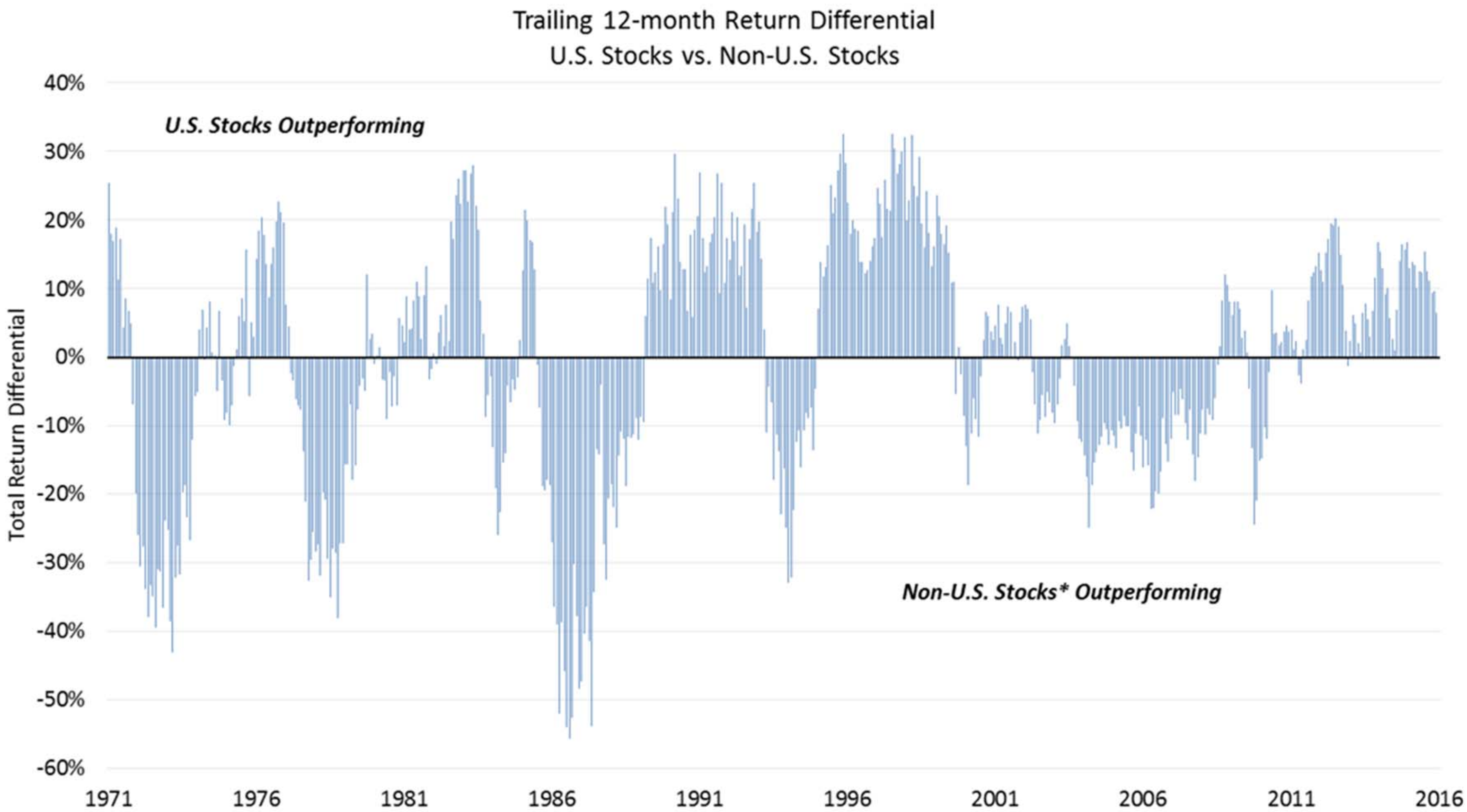
The Case for Global Equity Exposure



Source: Morningstar Direct. Data as of 12/31/2015.
*Non-U.S. stocks represented by MSCI World ex. U.S. from 1970 to 1987. From 1988 onwards, it is represented by MSCI ACWI ex. U.S.

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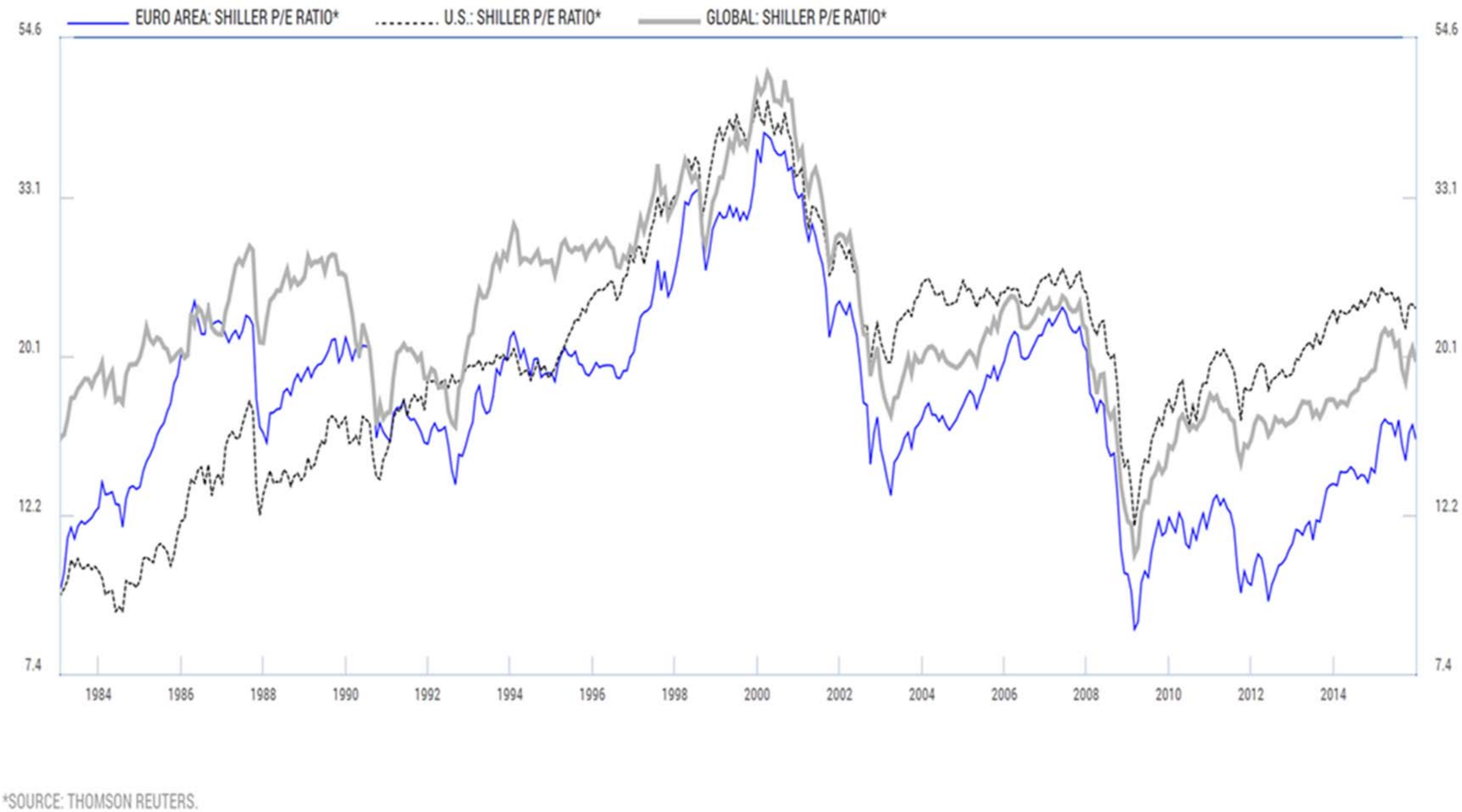
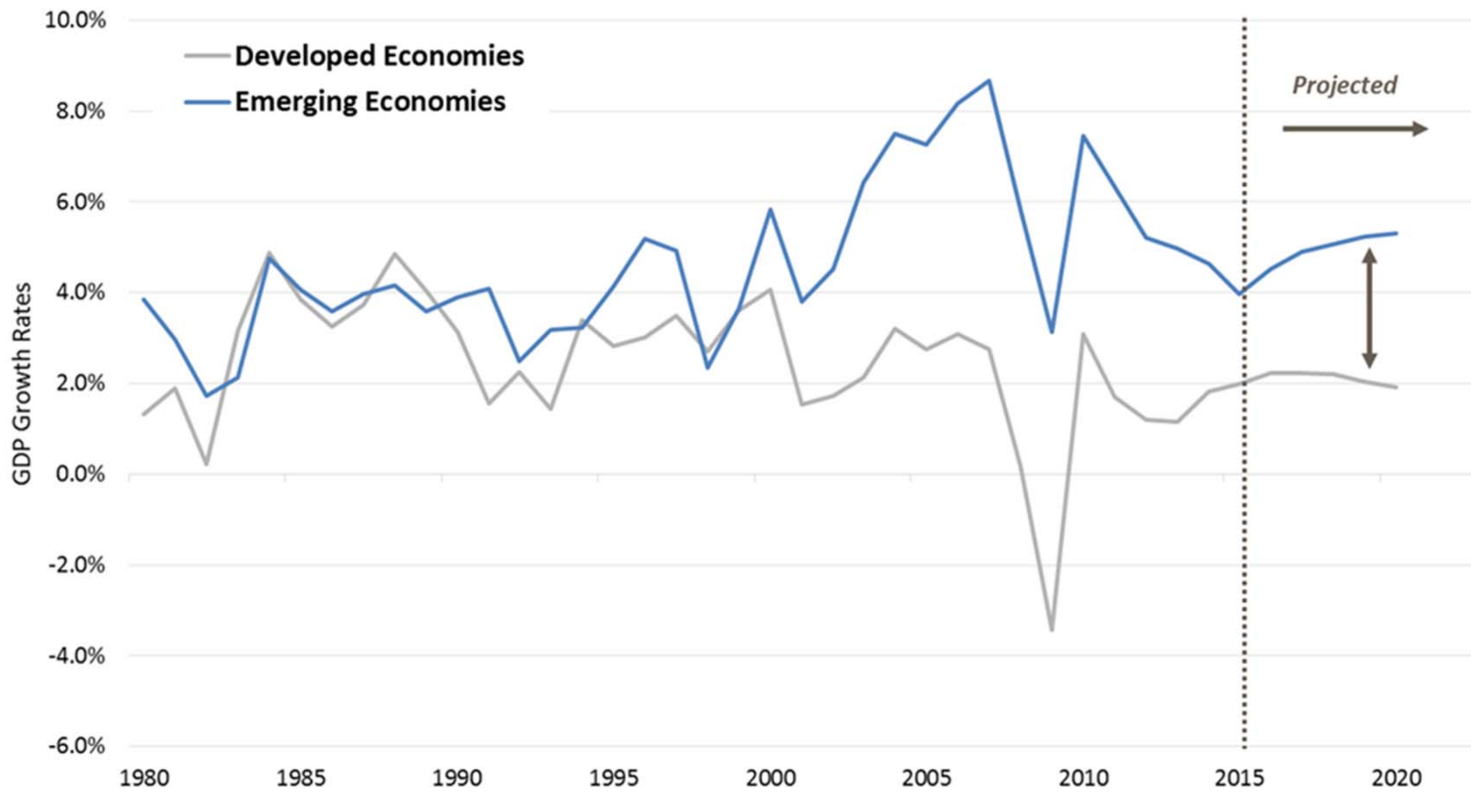
European Stocks are Trading at Attractive Valuations



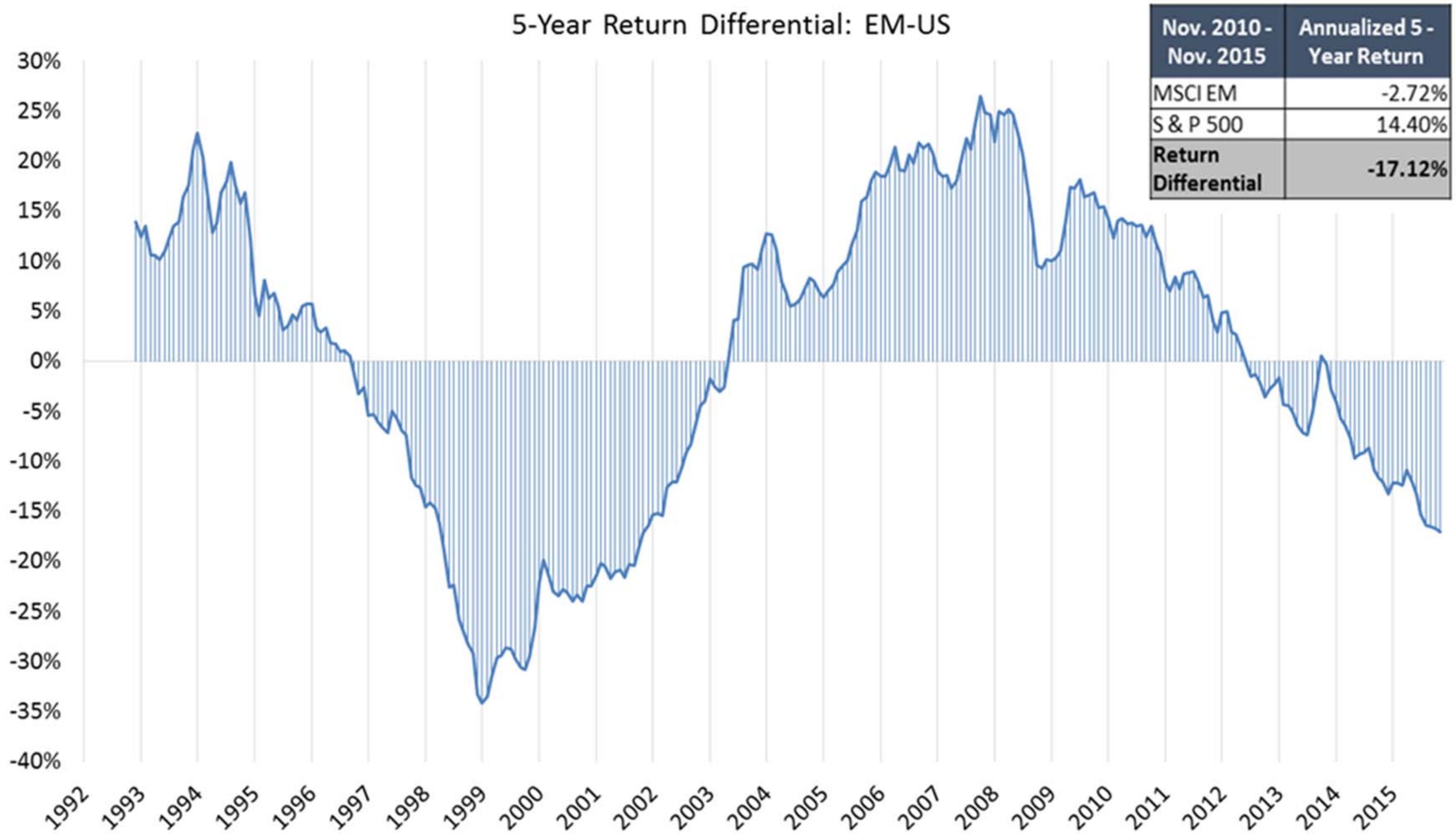
Source: BCA Research. Data as of 12/31/2015.

Despite a Slowdown, Economic Growth Rates in Emerging Markets are Still Higher Than Developed Markets



Source: International Monetary Fund, WEO October 2015.

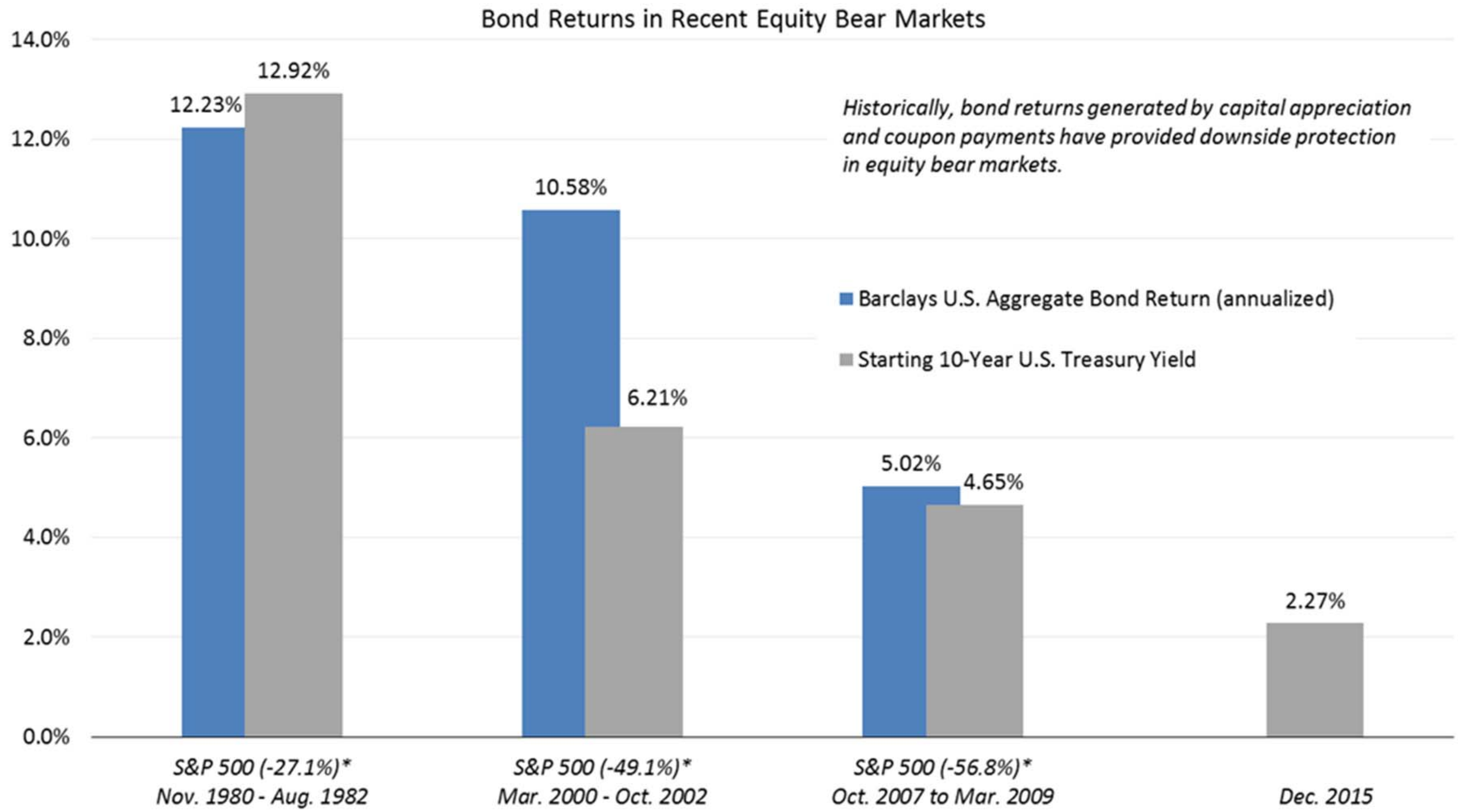
However, Looking Forward We Believe Emerging-Markets Stocks Offer Higher Return Potential



Nov. 2010 - Nov. 2015	Annualized 5 - Year Return
MSCI EM	-2.72%
S & P 500	14.40%
Return Differential	**-17.12%**

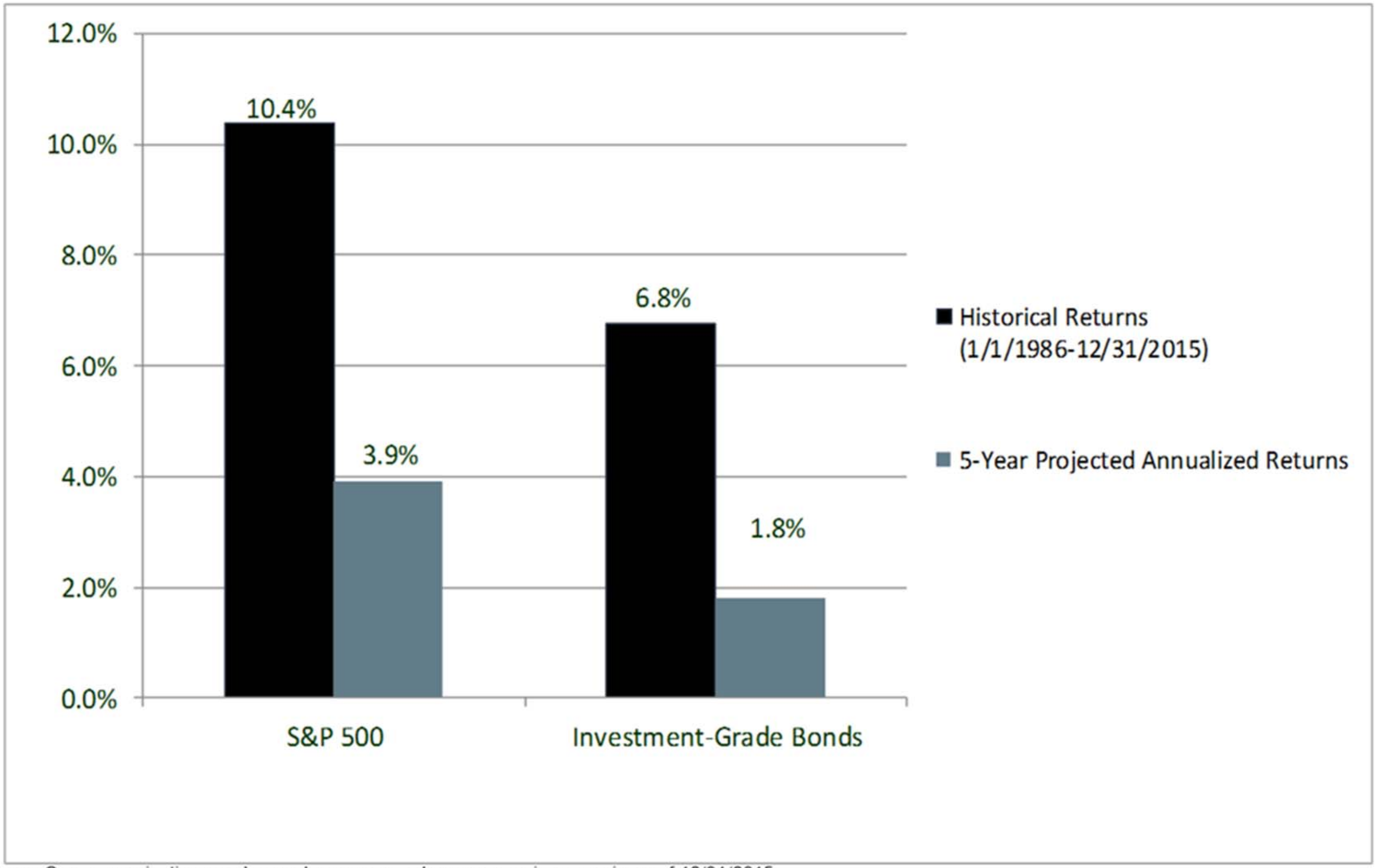
Source: Bloomberg. Data as of 12/31/2015.

Core Bonds Provide Limited Risk Management Benefits in a Low Yield Environment



Source: Morningstar Direct. Data as of 12/31/2015. *Cumulative return during the period.

Expect Future Returns of Stocks and Bonds to be Lower than Experienced Historically



1 Litman Gregory projections under our base case, subpar economic scenario as of 12/31/2015.
2 As measured by the Barclays Capital U.S. Aggregate Bond Index.

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Estimated Asset Class Returns Across Our Scenarios

Economic Scenario	*Bear Case*	*Base Case*	*Bull Case*
S&P 500 at 2044, Barclays Aggregate yield at 2.5%, MSCI EM Index at 794, BofA ML High Yield Cash Pay Index at 8.7%.			
Equity Asset Classes	**Estimated Average Annual Returns Over Next Five Years**		
U.S. Equities	-4.7%	3.9%	11.1%
Developed International—Europe	-4.7%	14.0%	21.2%
Emerging Markets	**	12.3%-19.1%*	26.7%
REITs	3.1%	5.0%	4.0%
Fixed Income Asset Classes			
Investment-Grade Bonds	2.6%	1.8%	0.9%
High-Yield Bonds	4.8%	6.4%	5.6%
Floating-Rate Loans	7.4%	6.4%	6.8%
TIPS	1.6%	1.6%	0.7%
Alternative Asset Classes			
Arbitrage Strategies	*Mid single-digit returns in most scenarios*		

**Our emerging markets 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 emerging markets 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.*

Our Base Case Scenario Continues To Be A Moderate Economic Recovery

SCENARIO	DEFINITION
Bull Case	U.S. economic growth is above average and/or earnings end the period above the long-term trendline. Helped by stronger non-U.S. growth, releveraging of the U.S. consumer, and corporate investment spending, a self-reinforcing global growth cycle develops.
Base Case	Moderate economic recovery continues with no major crisis, but a normal recession is likely within the five-year time horizon. Assumes GDP growth rates and interest rates start to "normalize" toward the end of our five-year horizon.
Bear Case	The economy falls into recession for any of various reasons, such as deleveraging/deflation from Europe or China, unexpected systemic shock, Fed policy error, etc. This scenario does not assume another severe financial crisis, i.e., not a repeat of 2008-2009.

Additional Disclosure

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