Client Name

Market Analysis / Second Quarter 2015

Independent Wealth Management

Market Review 2015

- The second quarter concluded with a flurry of global economic news that rattled stock markets, including Greece defaulting on a debt payment to the IMF, Chinese stocks taking a sharp tumble, and Puerto Rico announcing it would be unable to fully repay its municipal debts
- Notwithstanding a dramatic last couple of days, the second quarter was generally positive for stocks with U.S., developed international, and emerging-markets stocks all generating small positive returns for the quarter
- After five consecutive quarters of gains, core bonds declined sharply in the second quarter as yields on 10-year Treasury bonds rose 40 basis points

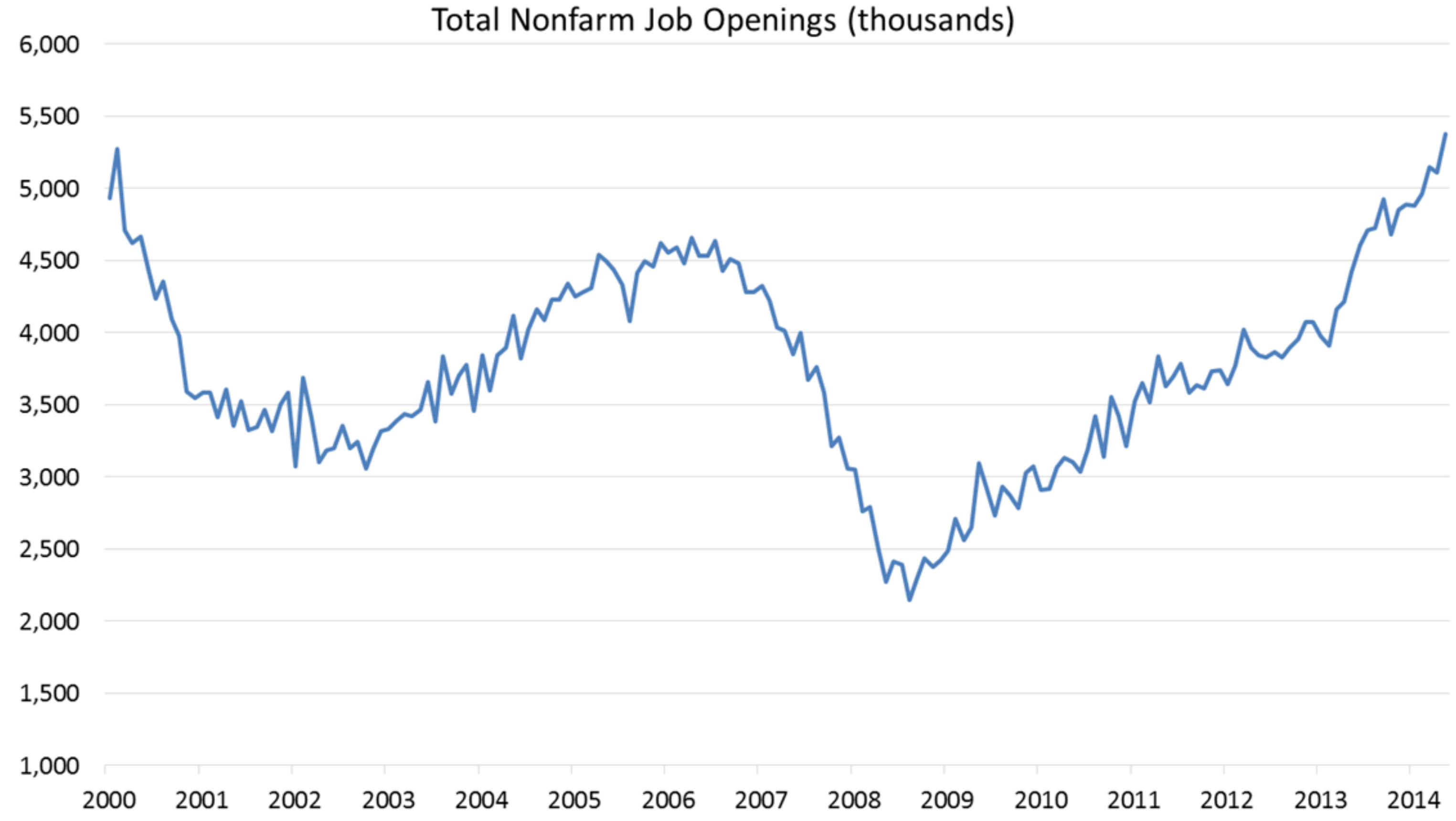
Asset Class	Q2 2015	Year-to-Date (6/30/2015)
U.S. Treasurys	0.00%	0.01%
U.S. Investment-Grade Bonds (Intermediate-Term)	-1.81%	-0.22%
Municipal Bonds	-0.89%	0.11%
Floating-Rate Loans	0.69%	2.83%
High-Yield Bonds	-0.05%	2.49%
U.S. Larger-Cap Stocks	0.26%	1.18%
U.S. Smaller-Cap Stocks	0.39%	4.71%
Developed International Stocks	0.80%	6.46%
Emerging-Markets Stocks	0.96%	3.29%

Asset Class Returns

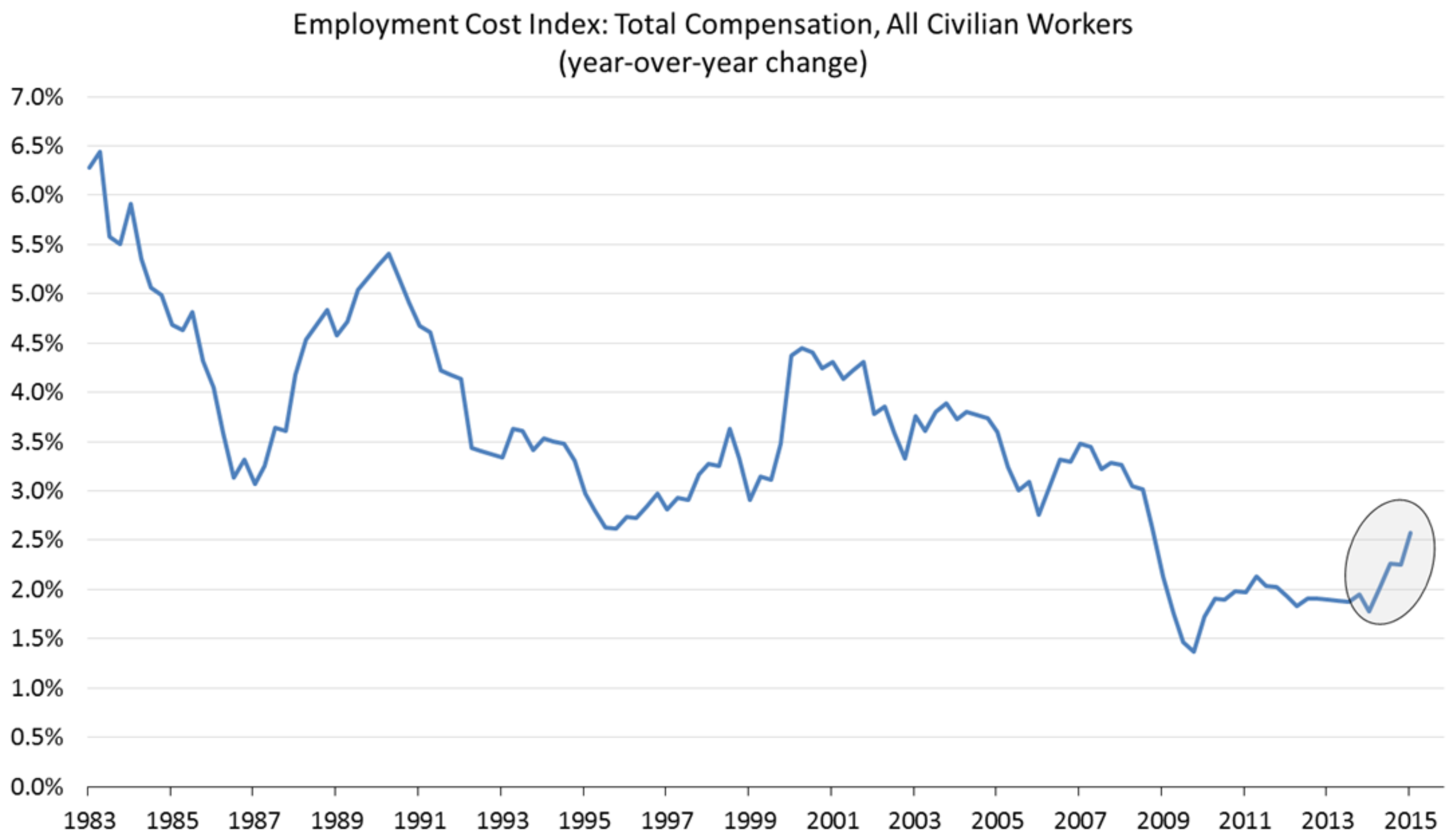
Through 06/30/2015 **Past performance may not be indicative of future returns.**

Asset Class	2nd Qtr. 2015	12 Months	5 Years (Ann.)
Russell 1000 Value iShare (Domestic Large-Cap Value)	0.07%	3.98%	16.27%
Russell 1000 Growth iShare (Domestic Larger-Cap Growth)	0.09%	10.39%	18.37%
Vanguard 500 Index (Domestic Larger-Cap Blend)	0.26%	7.29%	17.17%
Russell 2000 Value iShare (Domestic Smaller-Cap Value)	-1.21%	0.68%	14.67%
Russell 2000 Growth iShare (Domestic Smaller-Cap Growth)	2.00%	12.55%	19.42%
Russell 2000 iShare (Domestic Smaller-Cap Blend)	0.39%	6.51%	17.08%
Vanguard FTSE Developed Markets ETF (Foreign Stocks)	0.80%	-4.23%	9.94%
Vanguard REIT Index (Real Estate Investment Trust)	-10.49%	3.72%	14.08%
Merrill Lynch High Yield Master (High-Yield Bonds)	-0.05%	-0.57%	8.81%
Vanguard Total Bond Mrkt Index (Domestic Invest-Grade Bonds)	-1.81%	1.61%	3.12%
Citigroup World Gov't Bond (Global Invest-Grade Bonds)	-1.55%	-9.02%	1.05%
Dow Jones-AIGCI (Commodity Futures)	4.66%	-23.71%	-3.70%
JP Morgan Emg Local Mrkt+ (Short-term Local Currency Emg Markets Bonds)	-0.96%	-15.39%	0.94%

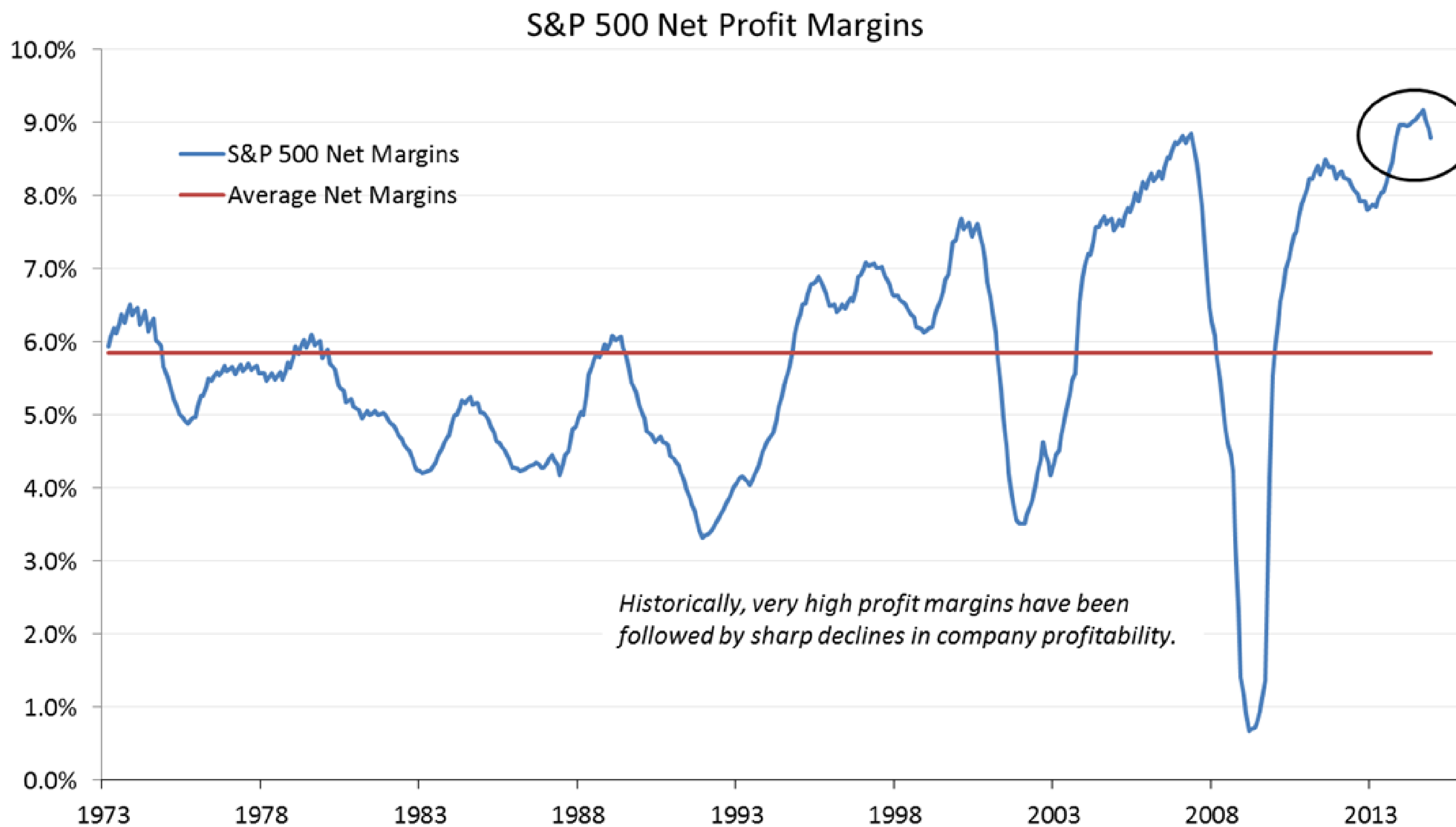
The Labor Market Continues to Improve



Wage Growth is Showing Signs of Accelerating



Improved Economic Growth Could Put Downward Pressure on Profit Margins and Earnings



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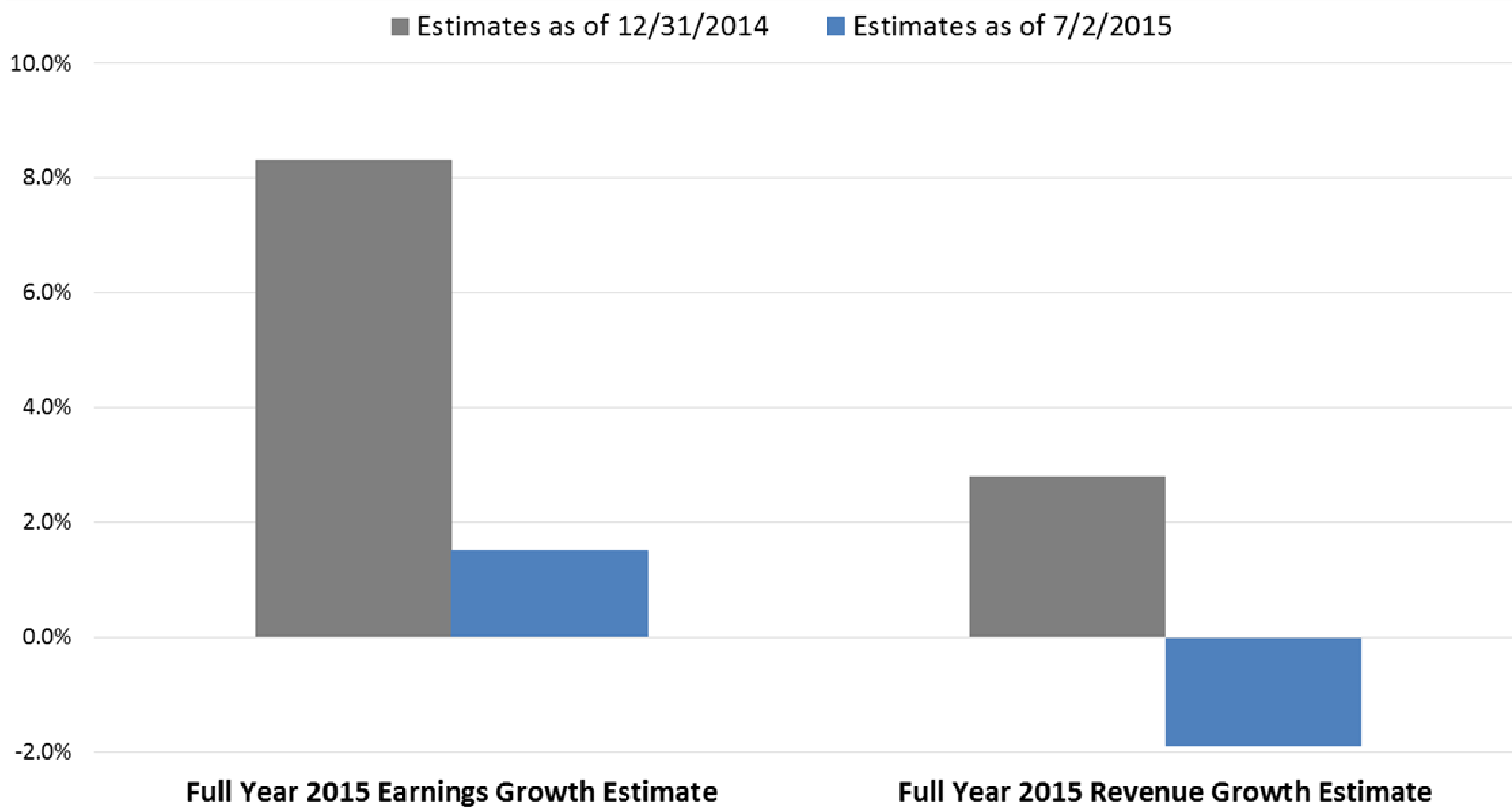
Earnings and Revenue Growth Estimates for U.S. Stocks Have Been Revised Down Since the Beginning of the Year



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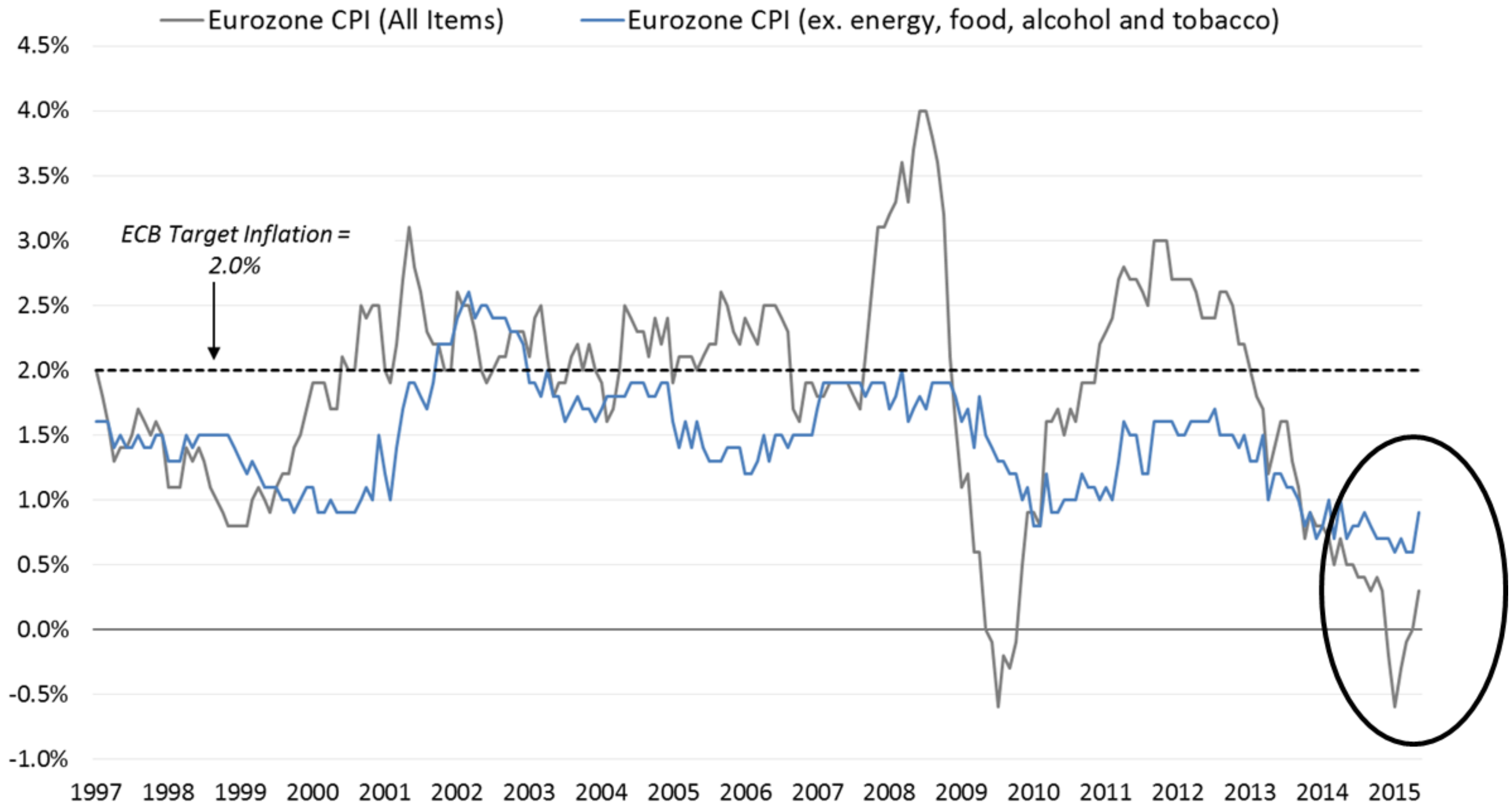
The Combination Of Expensive Valuations On Above-Normal Earnings Is A Recipe For Disappointing Longer-Term Returns For U.S. Stocks

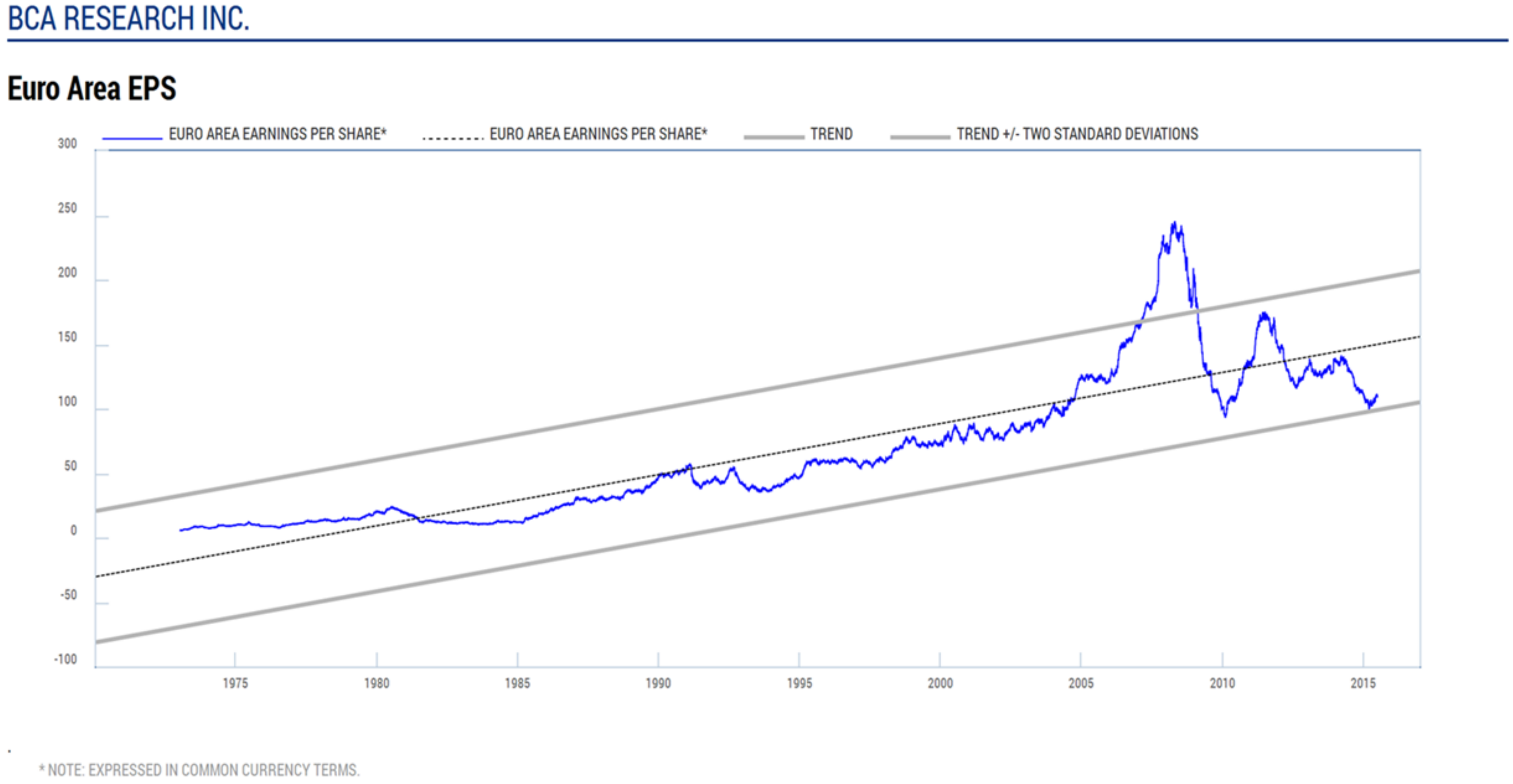
The Risk Associated With Greece Possibly Exiting the Eurozone Appears Contained

- It's important to keep Greece's economic impact in perspective
- Greece's economy represents only 2% of the Eurozone GDP and only 0.3% of global GDP
- Much of Greek debt is held by government-related or taxpayer supported entities, such as the ECB and IMF, which could handle a default
- If Greece exits the Eurozone, the risk of financial contagion (e.g., "another Lehman" or subprime crisis) is low
- But, markets could overreact and European stock prices could take a short-term hit

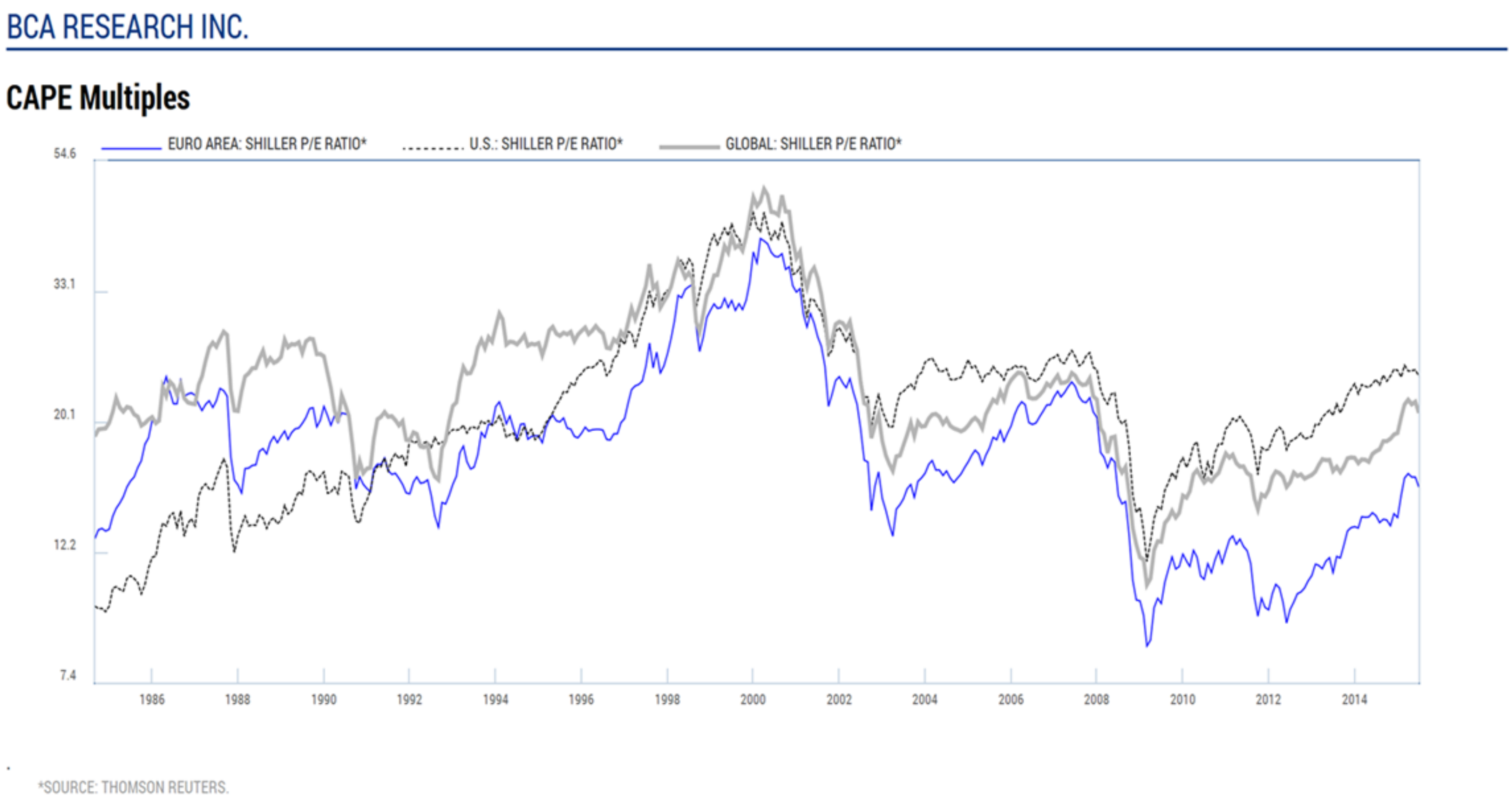
Economic Conditions in the Eurozone are Improving



Corporate Earnings Growth in Europe Still Has Room to Improve



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



Estimated Asset Class Returns Across Our Scenarios

Economic Scenario	*Bear Case*	*Base Case*	*Bull Case*
As of 6/30/2015. S&P 500 at 2063, Barclays Aggregate yield at 2.3%, MSCI EM Index at 972, Merrill Lynch High-Yield Cash Pay Index at 6.7%			
Equity Asset Classes	**Estimated Average Annual Returns Over Next Five Years**		
U.S. Equities	-5.5%	2.5%	9.7%
Developed International—Europe	-5.5%	11.5%	18.7%
Emerging Markets	**	7.4%-13.6%*	20.6%
REITs	3.1%	5.2%	3.8%
Fixed Income Asset Classes			
Investment-Grade Bonds	2.3%	1.5%	0.6%
High-Yield Bonds	4.2%	5.4%	4.7%
Floating-Rate Loans	5.4%	5.8%	6.1%
TIPS	0.6%	0.6%	-0.5%
Alternative Asset Classes			
Arbitrage Strategies	*Mid single-digit returns in most scenarios*		

**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.*

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.

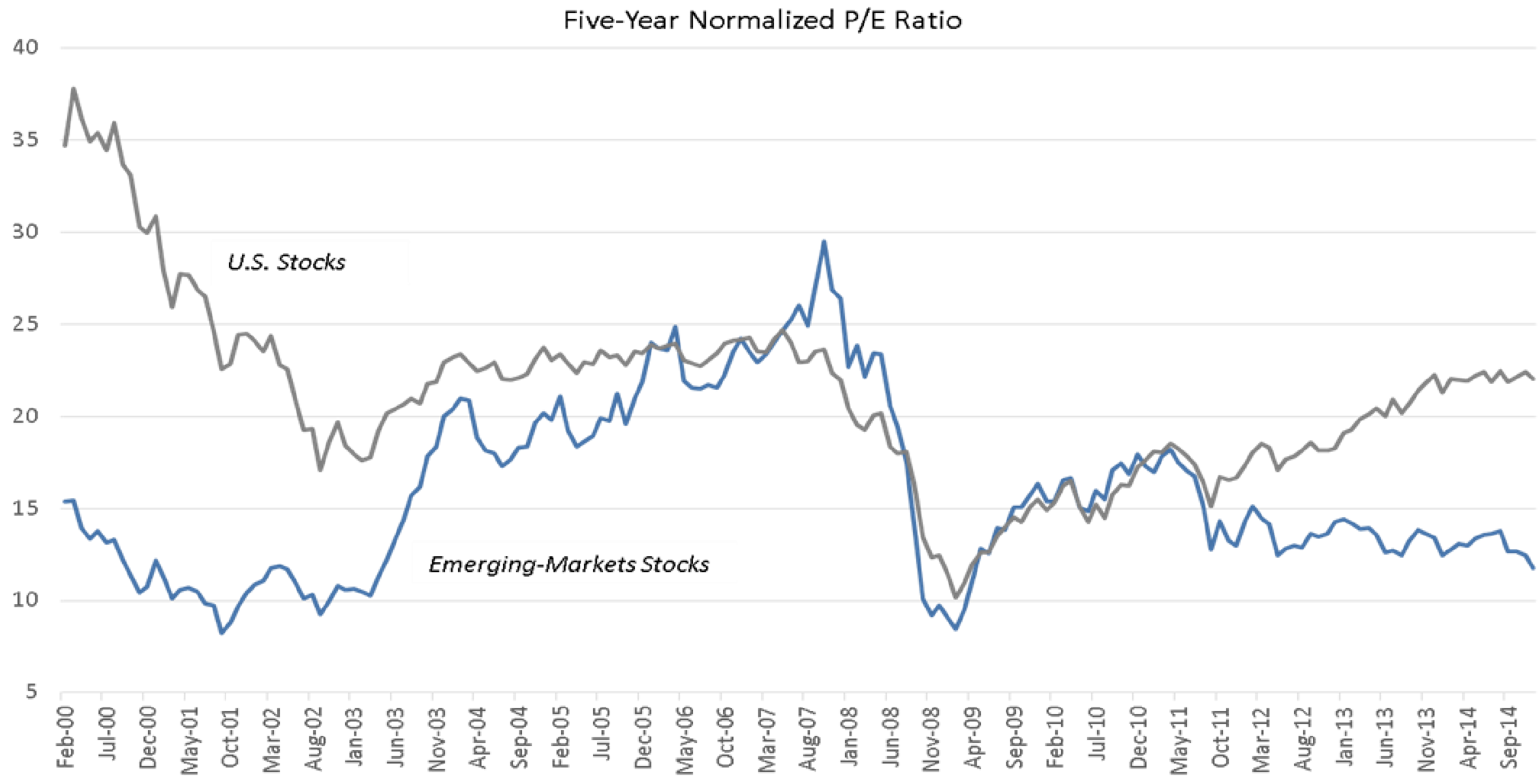
S&P 500 5-Year Return Estimates Under Each Scenario

Potential Five-Year Avg. Annual Returns for S&P 500

	Bear	Base	Bull
GAAP Earnings	*$87*	*$125*	*$150*
P/E	*16x*	*17x*	*20x*
Starting S&P 500 Level			
1400	2.9	12.1	19.8
1500	1.4	10.3	18.0
1600	-0.1	8.8	16.3
1700	-1.4	7.3	14.8
1800	-2.6	6.0	13.4
1900	-3.8	4.7	12.1
2000	-4.8	3.6	10.8
2100	-5.8	2.5	9.6
2200	-6.8	1.5	8.6
2300	-7.7	0.5	7.5
2400	-8.5	-0.4	6.5

HOW THIS WORKS:
If the S&P 500 were at 1900 today, and we factor in our estimate that earnings in our Base Case Scenario would reach $125 over five years, and apply a 17x P/E multiple to those earnings, then add in dividends (which are not shown here), the annualized five-year return would be 4.7%.

Emerging-Markets Stocks Are Trading At Attractive Valuations But There Could Be Greater Shorter-Term Downside Risk



Source: Bloomberg, L.P. Data as of 3/31/2015.

Additional Disclosure

Disclosures:

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There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments.

Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.