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Performance Notes
Third Quarter 2015

When investors think back to the Third Quarter of 2015, what will they remember? Stocks entered "correction territory"? Or that oil crashed? Or that China melted down for a few weeks in August? Or the global economy slowing? Or that the Federal Reserve couldn't agree on interest rates nor could they reliably give any direction on economic conditions? Today it may seem like we narrowly avoided financial ruin and should remain highly cautious. Or we could look back on it and see it as a tremendous buying opportunity because you can't expect gains without possible losses. It's not unhealthy, or uncommon for the stock market to fall. If the stock market never falls, there's no risk and if there's no risk, there's no risk premium. The equity risk premium that investors receive, and pay for with the possibility of losing portfolio value, has always been there in varying degrees throughout history. When the market shoots up like the last few years, investors can forget they have a bill to pay – the risk premium bill – and we paid it in the third quarter.

For the quarter, stocks were sharply negative. It was the worst quarter for the S&P 500, the Dow Jones Industrial Average and the NASDAQ composite since the 3rd Quarter of 2011[1]. Emerging Markets lost nearly 18% in the three months alone[1]. The strongest catalysts for poor equity performance were threefold:

- Trouble in the Energy and Materials sectors as oil's drop intensified in August along with other commodities,
- China's stock market swiftly pulled back and stoked fear amongst investors and instigated some panic selling, and,
- Broad based selling based on uncertainty regarding the economic cycle mainly through the Federal Reserve's indecision on interest rates and gloomy outlook. The market seemed to recalibrate based on a new macroeconomic outlook.

Outside the US and Emerging Markets, equity performance was at best mediocre. Europe held up decently well until German markets were shaken by an automaker's emissions scandal. Canada was swept up in the Energy sell-off as it is a natural resource driven economy. Japan was up and down, as government intervention remained in an attempt to provide a spark to their capital markets. Overall, it was difficult to find any bright spots for equities around the globe during the quarter.

Bonds rallied as a whole but sector performance was dispersed for the quarter. As a safe haven, capital flew out of equities, particularly Emerging Markets, and into less risky assets. In the US, Treasuries rallied and yields dropped after the Fed's policy promised to remain accommodative for another month at least. Inflation expectations dropped. Not everything was positive for bonds values though, high yields spread rose to their highest levels since the 2008 Financial Crisis[2] mainly due to problematic issuers in the Energy space. Emerging Markets debt was also pummeled due to a rising US dollar and political instability in some areas.

As always please let know of any questions and concerns, we hope the data, charts, tables, graphs and commentary in the following slides can help paint the picture for the quarter's investment performance.

John Nagle, CFA
Analyst

See Disclosure, Page 48

[1] Morningstar Direct as of 9/30/15
[2] See Attached Slide #46, https://research.stlouisfed.org/fred2/series/BAMLH0A0HYM2

2015
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Global Broad Markets

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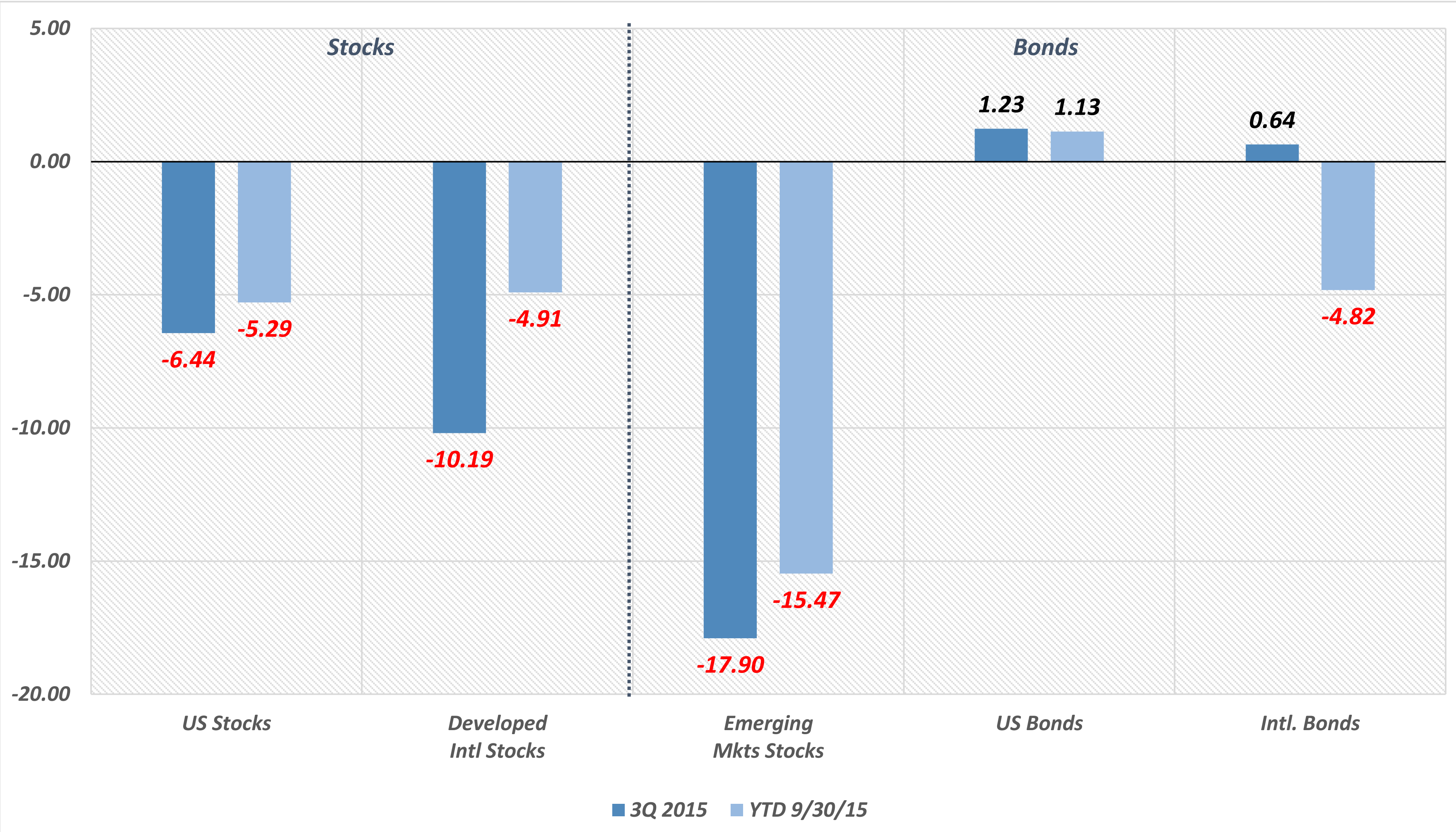
Total Returns: 7/1/15 – 9/30/15 and Year to Date 9/30/15



Source: Morningstar Direct as of 9/30/2015, see page 49 for asset class descriptions and index proxies

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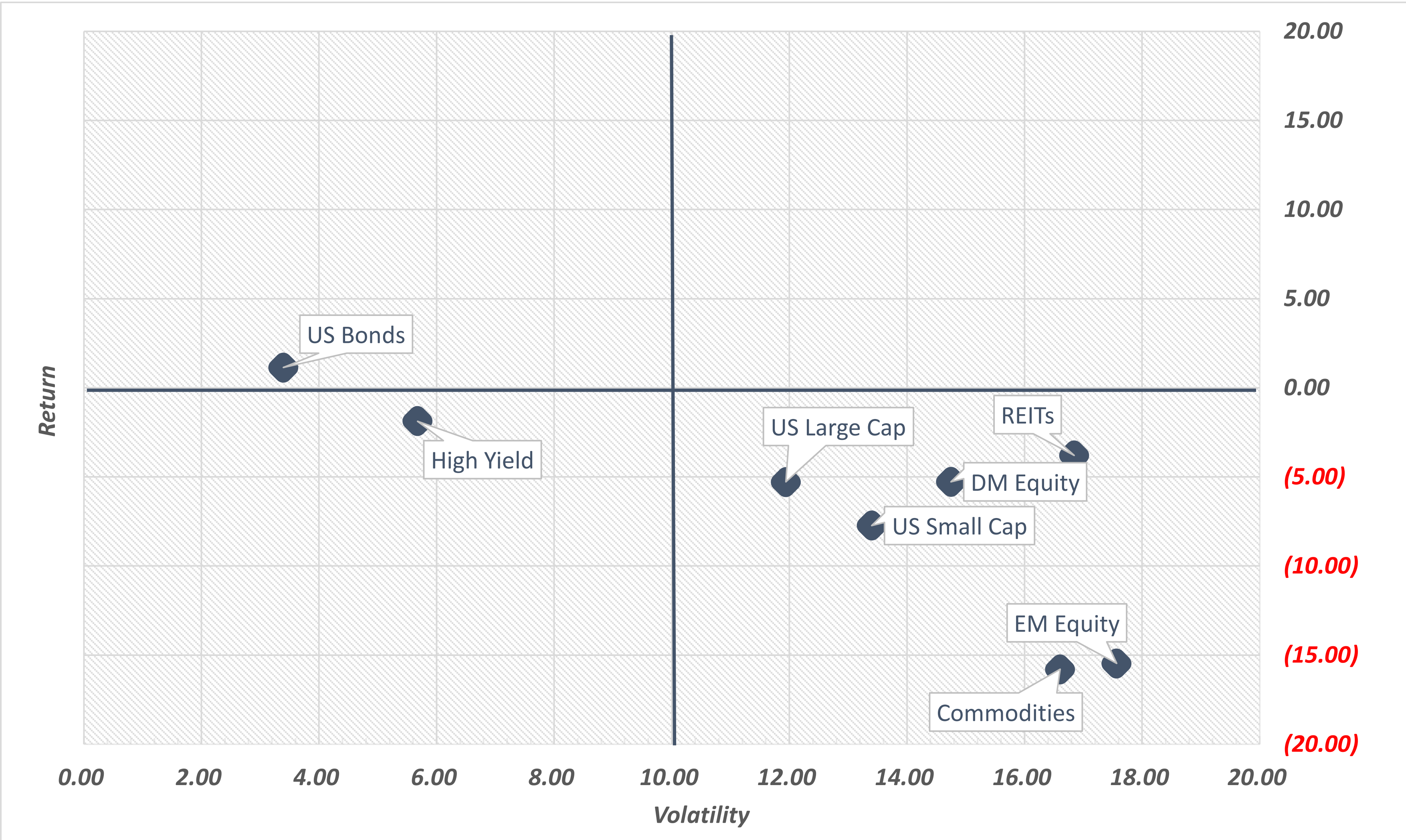
See Disclosure and Index Definitions, Pages 48-49

Asset Class Scatter Plot

Year to Date 9/30/15, Total Returns, Daily



See Disclosure and Index Definitions, Pages 48-49

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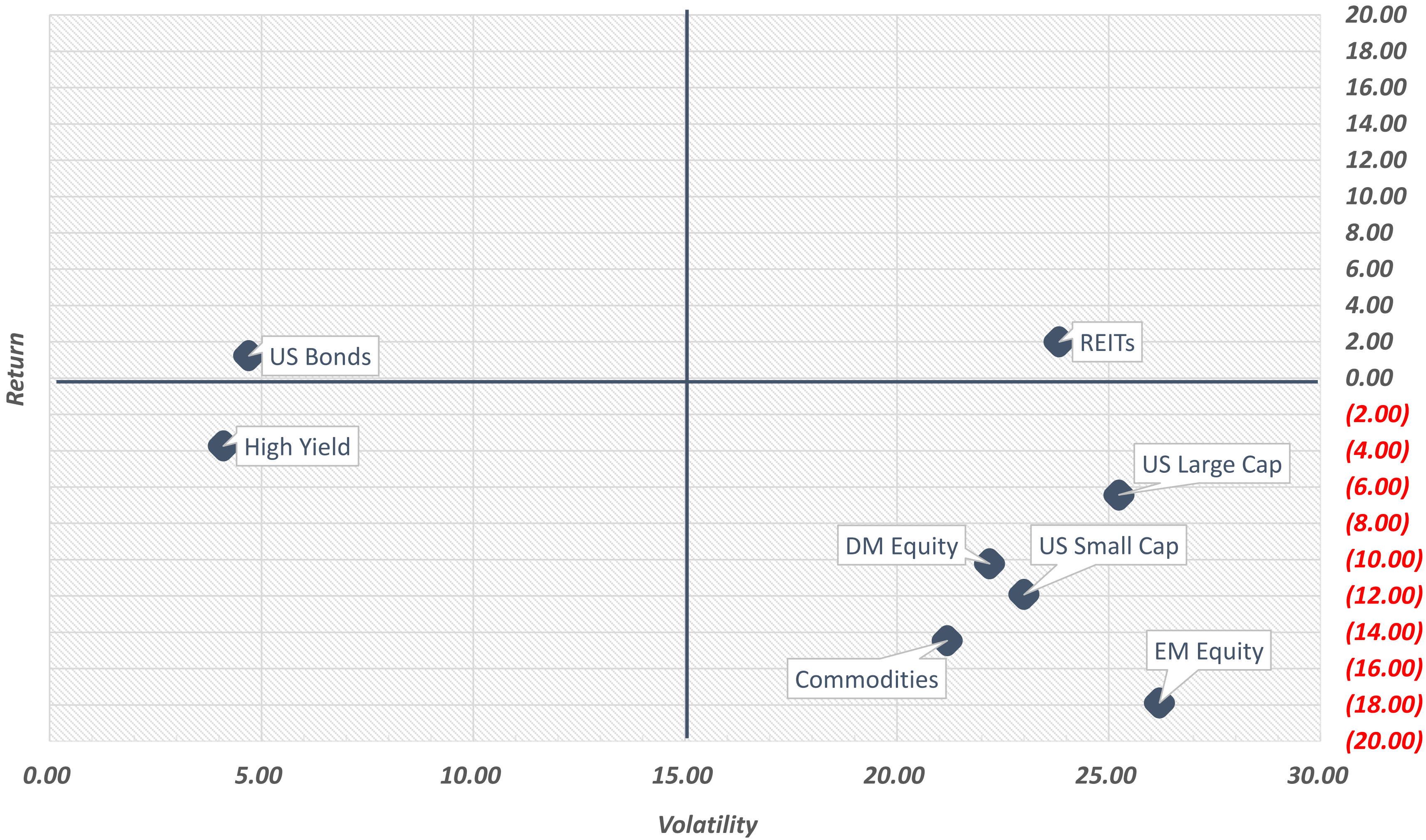
Asset Class Scatter Plot

3rd Quarter 2015, Total Returns, Daily



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See Disclosure and Index Definitions, Pages 48-49

Asset Class Heatmap

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD 9/30/15
Best	Cmmdty 31.8	REITs 13.9	Cmmdty 25.9	EM Equity 55.8	REITs 31.6	EM Equity 34.0	REITs 35.1	EM Equity 39.4	US Bonds 5.2	EM Equity 78.5	REITs 28.0	REITs 8.3	US High Yld 19.6	US Sm Cap 38.8	REITs 30.1	US Bonds 1.1
	REITs 26.4	US Bonds 8.4	US Bonds 10.3	US Sm Cap 47.3	EM Equity 25.6	Cmmdty 21.4	EM Equity 32.1	Cmmdty 16.2	CASH 1.5	US High Yld 59.4	US Sm Cap 26.9	US Bonds 7.8	EM Equity 18.2	US Lg Cap 32.4	US Lg Cap 13.7	CASH 0.0
	US Bonds 11.6	CASH 3.8	US High Yld 4.1	DM Equity 38.6	DM Equity 20.2	DM Equity 13.5	DM Equity 26.3	DM Equity 11.2	US High Yld -26.9	DM Equity 31.8	EM Equity 18.9	US High Yld 3.1	REITs 18.1	DM Equity 22.8	US Bonds 6.0	US High Yld -1.9
	CASH 6.0	US Sm Cap 2.5	REITs 3.8	REITs 37.1	US Sm Cap 18.3	REITs 12.2	US Sm Cap 18.4	US Bonds 7.0	US Sm Cap -33.8	REITs 28.0	Cmmdty 16.8	US Lg Cap 2.1	DM Equity 17.3	US High Yld 7.3	US Sm Cap 4.9	REITs -3.8
	US High Yld 1.0	US High Yld 2.3	CASH 1.6	US High Yld 32.4	US High Yld 13.2	US Lg Cap 4.9	US Lg Cap 15.8	US Lg Cap 5.5	Cmmdty -35.6	US Sm Cap 27.2	US Lg Cap 15.1	CASH 0.0	US Sm Cap 16.3	REITs 2.5	CASH 0.0	DM Equity -5.3
	US Sm Cap -3.0	EM Equity -2.6	EM Equity -6.2	US Lg Cap 28.7	US Lg Cap 10.9	US Sm Cap 4.6	US High Yld 13.7	CASH 4.5	US Lg Cap -37.0	US Lg Cap 26.5	US High Yld 14.8	US Sm Cap -4.2	US Lg Cap 16.0	CASH 0.1	US High Yld 0.0	US Lg Cap -5.3
	US Lg Cap -9.1	US Lg Cap -11.9	DM Equity -15.9	Cmmdty 23.9	Cmmdty 9.1	US High Yld 3.6	CASH 4.8	US High Yld 3.2	REITs -37.7	Cmmdty 18.9	DM Equity 7.8	DM Equity -12.1	US Bonds 4.2	US Bonds -2.0	EM Equity -2.2	US Sm Cap -7.7
	DM Equity -14.2	Cmmdty -19.5	US Sm Cap -20.5	US Bonds 4.1	US Bonds 4.3	CASH 2.9	US Bonds 4.3	US Sm Cap -1.6	DM Equity -43.4	US Bonds 5.9	US Bonds 6.5	Cmmdty -13.3	CASH 0.1	EM Equity -2.6	DM Equity -4.9	EM Equity -15.5
Worst	EM Equity -30.8	DM Equity -21.4	US Lg Cap -22.1	CASH 1.0	CASH 1.2	US Bonds 2.4	Cmmdty 2.1	REITs -15.7	EM Equity -53.3	CASH 0.1	CASH 0.1	EM Equity -18.4	Cmmdty -1.1	Cmmdty -9.5	Cmmdty -17.0	Cmmdty -15.8

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Major US Indices in 2015

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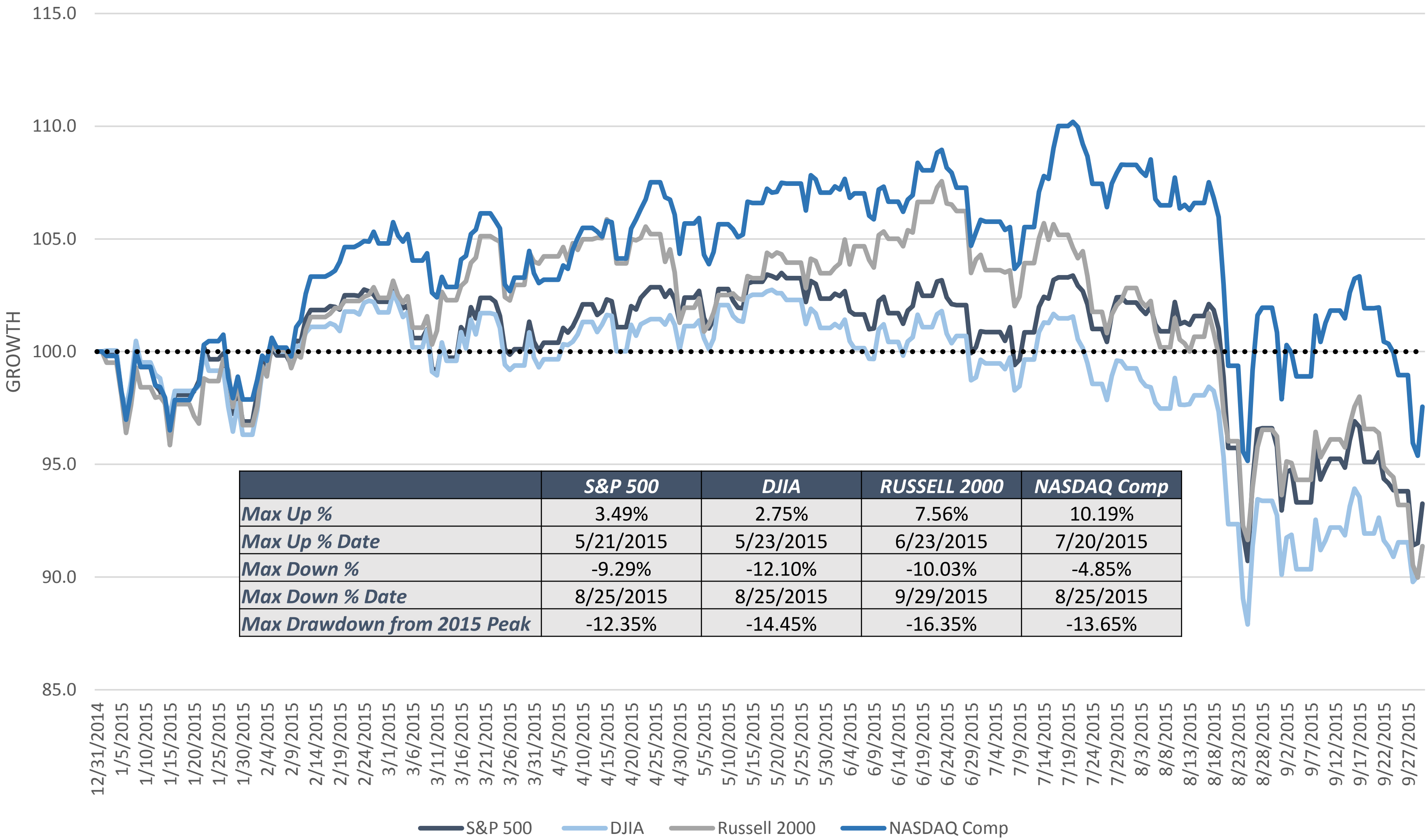

	S&P 500	DJIA	RUSSELL 2000	NASDAQ Comp
Max Up %	3.49%	2.75%	7.56%	10.19%
Max Up % Date	5/21/2015	5/23/2015	6/23/2015	7/20/2015
Max Down %	-9.29%	-12.10%	-10.03%	-4.85%
Max Down % Date	8/25/2015	8/25/2015	9/29/2015	8/25/2015
Max Drawdown from 2015 Peak	-12.35%	-14.45%	-16.35%	-13.65%

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015

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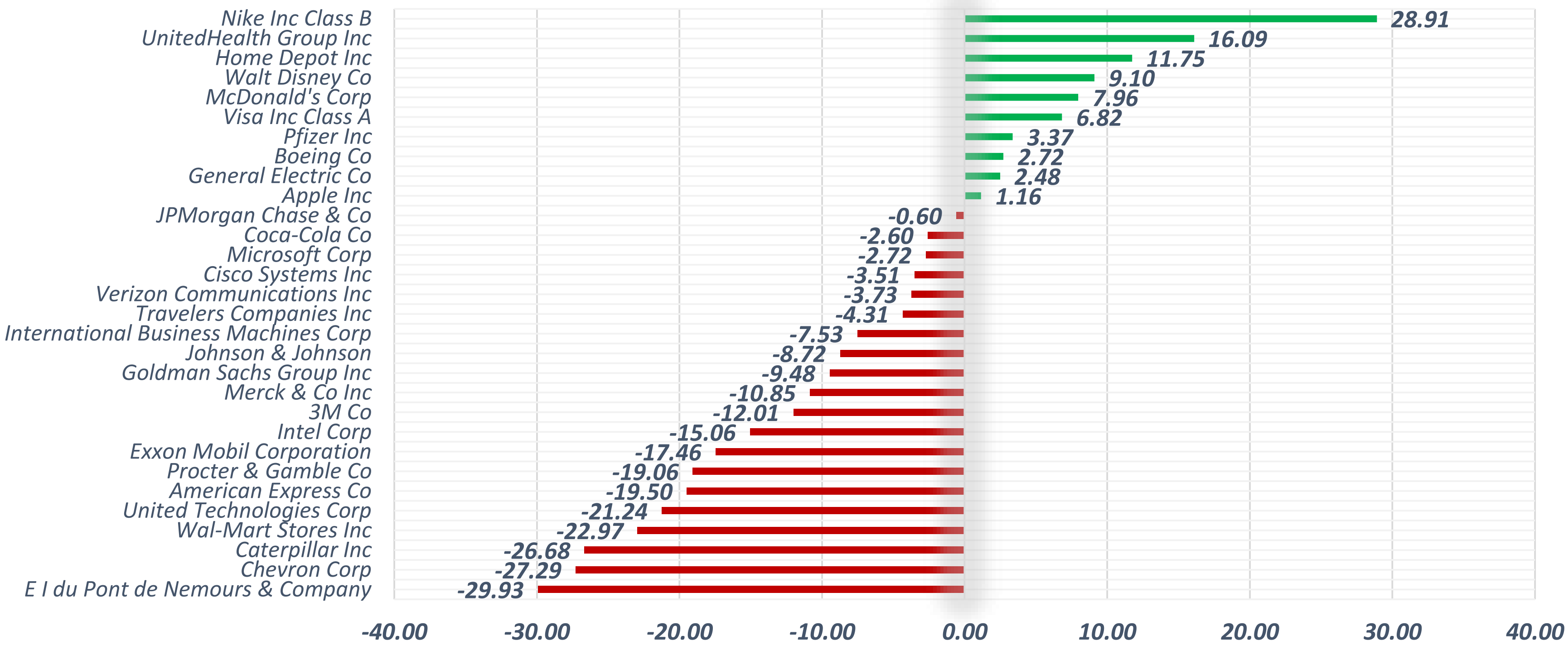
Dow Jones Industrial Average

DJIA Individual Company Returns (%), YTD 9/30/15



- The Dow finished the quarter down 6.95% for the year on a total return basis, erasing the narrow gain it made during the first half of the year. It produced a -6.98% return for the three months.
- The Dow's last negative year was 2008 and its worst performing year since was 2011 with a +8.4% return for the year.
- For the quarter, Nike was a positive outlier for the index, gaining over 14%. The company released a very strong earnings report in September.
- Caterpillar lost significant value during the month of September after releasing a very pessimistic statement on global growth.
- Chevron and Exxon Mobil continued their up and down moves in near lockstep with the price of oil.
- Apple placed in a rare spot as one of the bottom performers during the 3rd quarter but for the year has a solid return figure. The company has large exposure to the Chinese economy.
- Microsoft is falling further behind large tech companies like Google, Apple, and others.

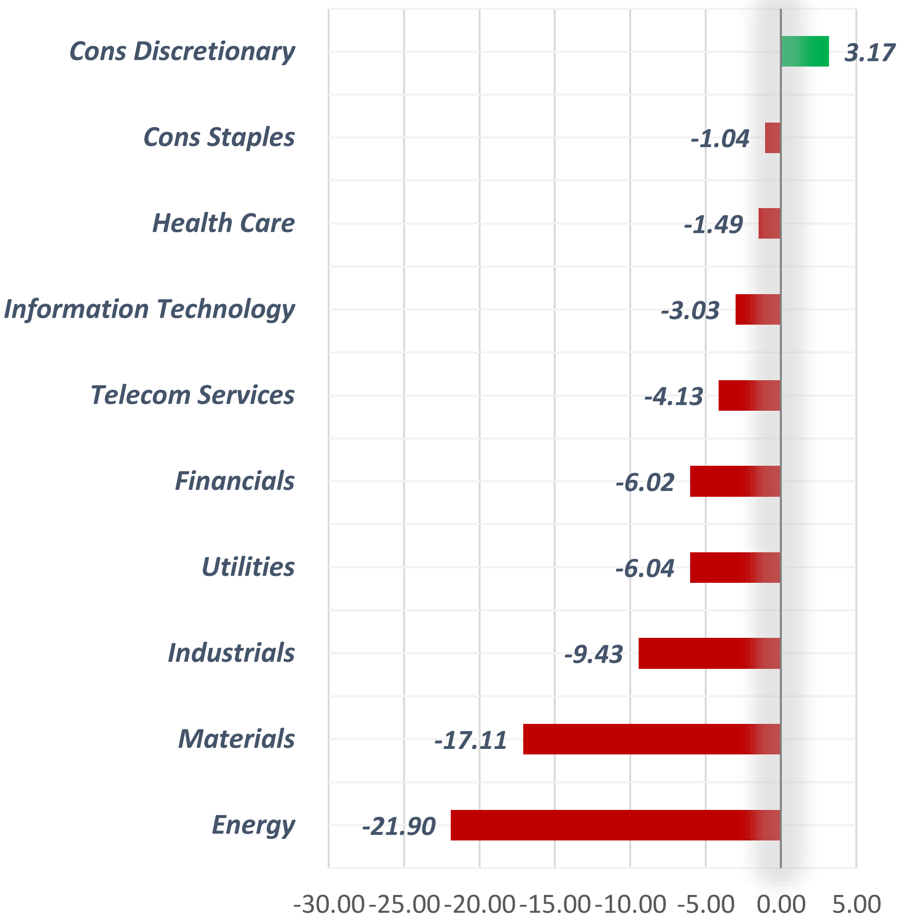
See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015

US Equities by Sector

- Every US sector sans Consumer Discretionary is negative for 2015, with the Materials and Energy sectors losing the most.
- Energy companies have fallen primarily due to the drop in oil and gas prices during the past twelve months. Earnings have decreased significantly in this sector.
- Materials companies tell a similar story to the Energy sector as companies have fallen along with the prices of the commodities they produce. Metals like gold, copper and steel as well as chemicals, paper, etc. are down for the year, effecting the earnings of the price-taking producers.
- For the third quarter, the Healthcare sector was pulled down by the September developments in Biotechs. These companies came under scrutiny politically and led to a swift decline, losing over 20% in just eight days. A drop like that hadn't occurred in the sector since October 2008. The Healthcare sector was leading the pack at mid year with solid gains but has given those up and then some during the past three months.
- Consumer Staples and Utilities held up during the third quarter sell off.

US Sector Returns (%), YTD 9/30/15



See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, Bloomberg/Bespoke Investment Group[1]

US Equities by Style

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Total Return: 3rd Quarter (top) and YTD 9/30/15 (bottom)

3rd Qtr.
YTD 9/30/15

- For the quarter, the Small Cap area saw the biggest drawdowns during the pullback with Small Cap Growth leading the way down, losing over 13% in the three months.
- Overall, Growth held up better during the quarter than Value. Large Cap Growth has been the best performing US equity style during 2015. This can also be observed by looking at the performance of the Growth heavy NASDAQ Composite and its large allocation to Tech stocks.
- Performance deteriorated down the cap spectrum. Larger, more mature businesses outperformed smaller companies. The effects on the largest multinational stocks of the rallying US dollars subsided some during the quarter. This effect had helped small caps during the first half of the year.

US Style Indices

		Growth	Core	Value
Total	3rd Qtr.	-5.93	-7.25	-8.59
	YTD 9/30/15	-7.73	-10.06	-5.45
Large	3rd Qtr.	-4.13	-6.31	-8.55
	YTD 9/30/15	-0.42	-4.99	-9.53
Mid	3rd Qtr.	-7.99	-8.01	-8.04
	YTD 9/30/15	-4.15	-5.84	-7.66
Small	3rd Qtr.	-13.06	-11.92	-10.73
	YTD 9/30/15	-1.86	-9.05	-5.47

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, see page 49 for style descriptions and index proxies

US Equities by Factor

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Factor	3rd Qtr. 2015	YTD 9/30/15
Momentum	-4.19	+1.41
Value	-7.55	-7.97
Quality	-3.35	-1.07
Yield	-4.19	-6.75
Size	-8.33	-6.69
Low Volatility	-1.26	-0.62

Factor Indexes are systematic rules-based indexes that represent the return of factors which have earned a persistent premium over long periods of time.

Emphasis:
Quality: High ROE, stable earnings growth, low leverage
Value: Low P/S, P/E, P/CF, P/B
Size: Equal weighted index exploits small cap premium
Low volatility: low beta and volatility
Yield: High dividend yield
Momentum: high price momentum

- For the year, the price momentum factor weighted index has held onto its earlier gains through the correction.
- The most significant action this quarter was in the small cap space. The size factor index (equally weighted across all US companies which places a greater emphasis on small caps over large caps) lost over 8% over three months. The small cap premium that has been observed also comes with higher volatility.
- Value orientations (low prices multiples) slumped considerably as well, losing over 7.5% in the quarter alone. When compared to the Quality factor, which has held up relatively well during the year, it's apparent that some companies and sectors become cheap for fundamental reasons. For instance, the Energy space has at times this year appeared historically cheap based on some valuation methods – particularly dividend yield and trailing price multiples, however, as oil and gas prices plummeted the fundamentals changed and the companies lost value based on future prospects.
- Low volatility factors predictably have held up well as markets moved erratically.

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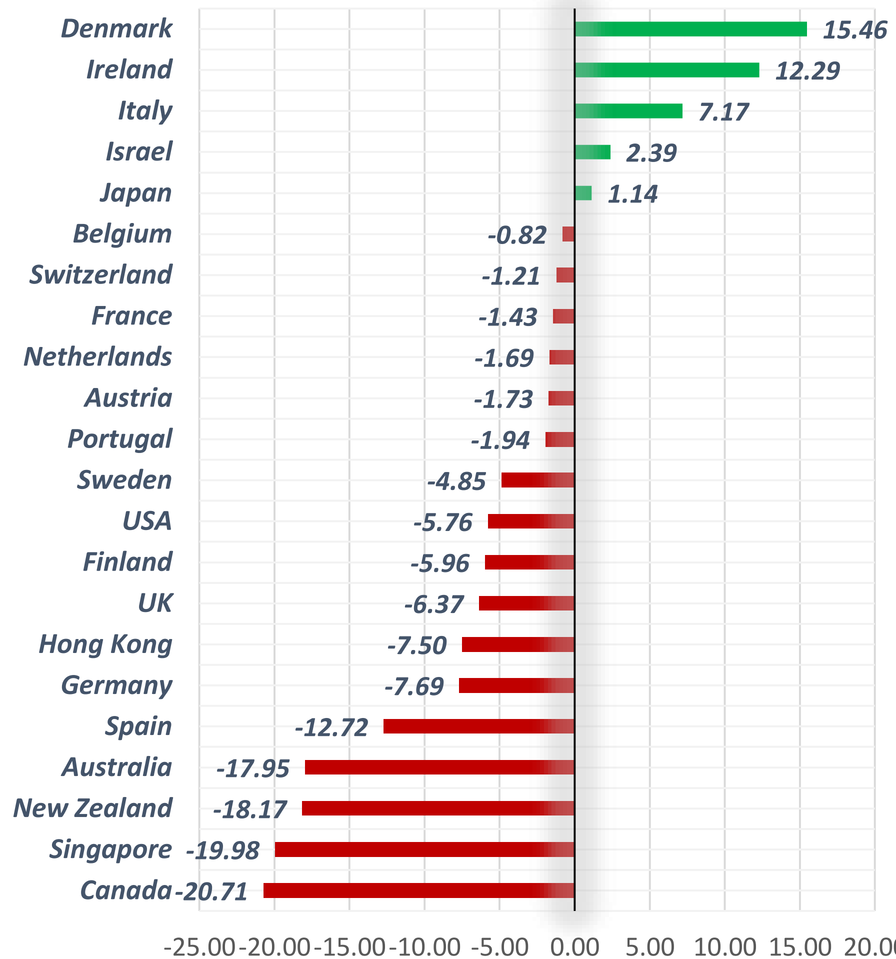
See Disclosure and Index Definitions, Pages 48-49

Developed Intl. Markets

- Developed International Markets continued to show dispersion through the end of the third quarter.
- In Asia, Singapore and Hong Kong indices were pulled down along with China mainland markets while Japan was somewhat insulated from the panic selling.
- Japan has embarked on further economic stimulus, nicknamed ‘Abenomics’ after PM Shinzo Abe, which initially brought appeal to the markets during the first half of the year but the trend reversed during the third quarter. The market is still positive for 2015 despite other Asian weakness.
- In Europe, Germany markets felt the effects of the large automaker, Volkswagen's, emission scandal in September. After the subsequent sell off at the broad market level, German stocks have lost nearly 10% for the quarter.
- Australia markets are experiencing a market downturn along with a weakening currency. Commodity and real estate prices falling in the country are threatening to bring on the first recession for the country in decades. The Aussie Index lost nearly 15% during the third quarter.
- Canada’s natural resource focused economy was further impacted by weak energy prices. The Canadian index lost nearly 15% as well during the third quarter.

Total Return YTD 9/30/15

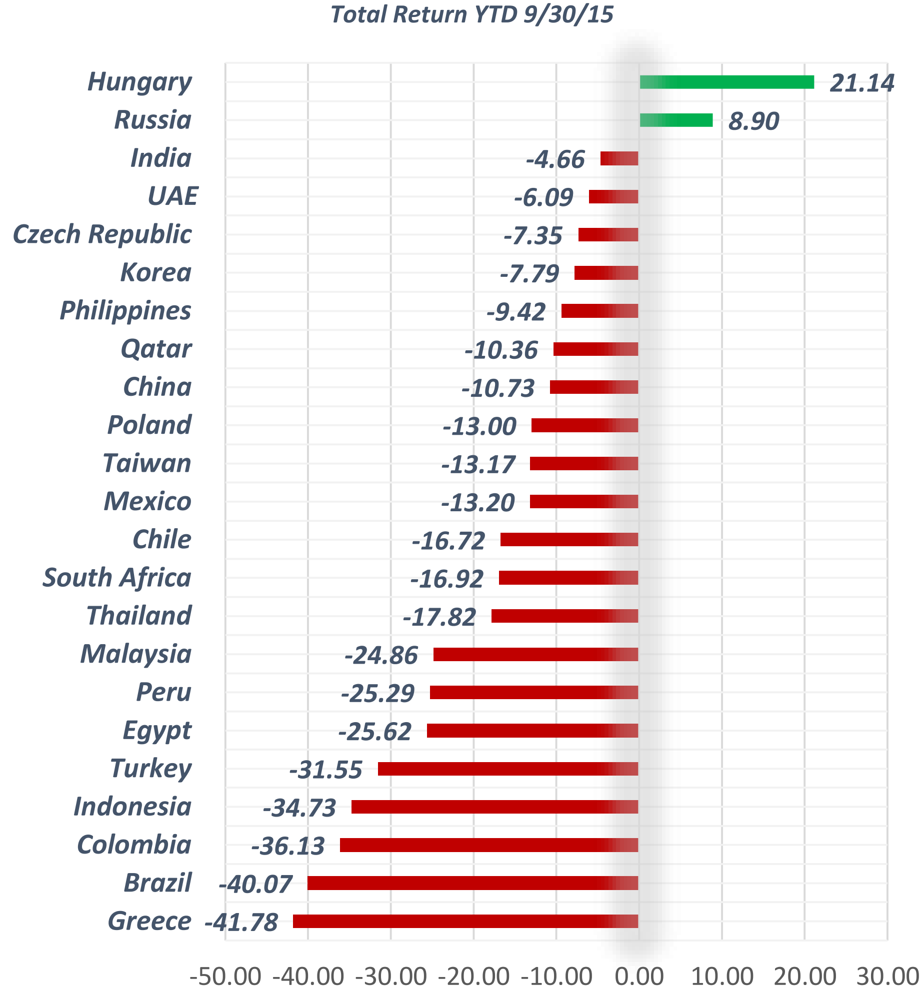


See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/15, see page 49 for asset class descriptions and index proxies

Emerging Markets

- Emerging Markets have seen a drastic sell off and capital outflows during 2015 that intensified during the third quarter. The asset class is one of the most negative contributors to portfolios. The strongest factors in this decline is the rising US dollar and sinking commodity prices.
- Characteristically, Emerging economies rely heavily on producing natural resources and as the world saw an across the board drop in commodity prices their home companies struggled.
- China, for all of it's headlines, is still "only" down as an investable market by about 11% for the year.
- The bigger story among the BRICs was Brazil. The resource focused economy cratered along with the country's currency in the third quarter. The Brazil Index lost nearly 34% during the three months. The downturn spread to other South American markets that are heavily influenced by commodity prices: Colombia, Peru and Chile.
- Greece has not recovered from it's near total collapse earlier in the year.
- The lone positives came in Eastern Europe as Russia and Hungary markets were in the green.



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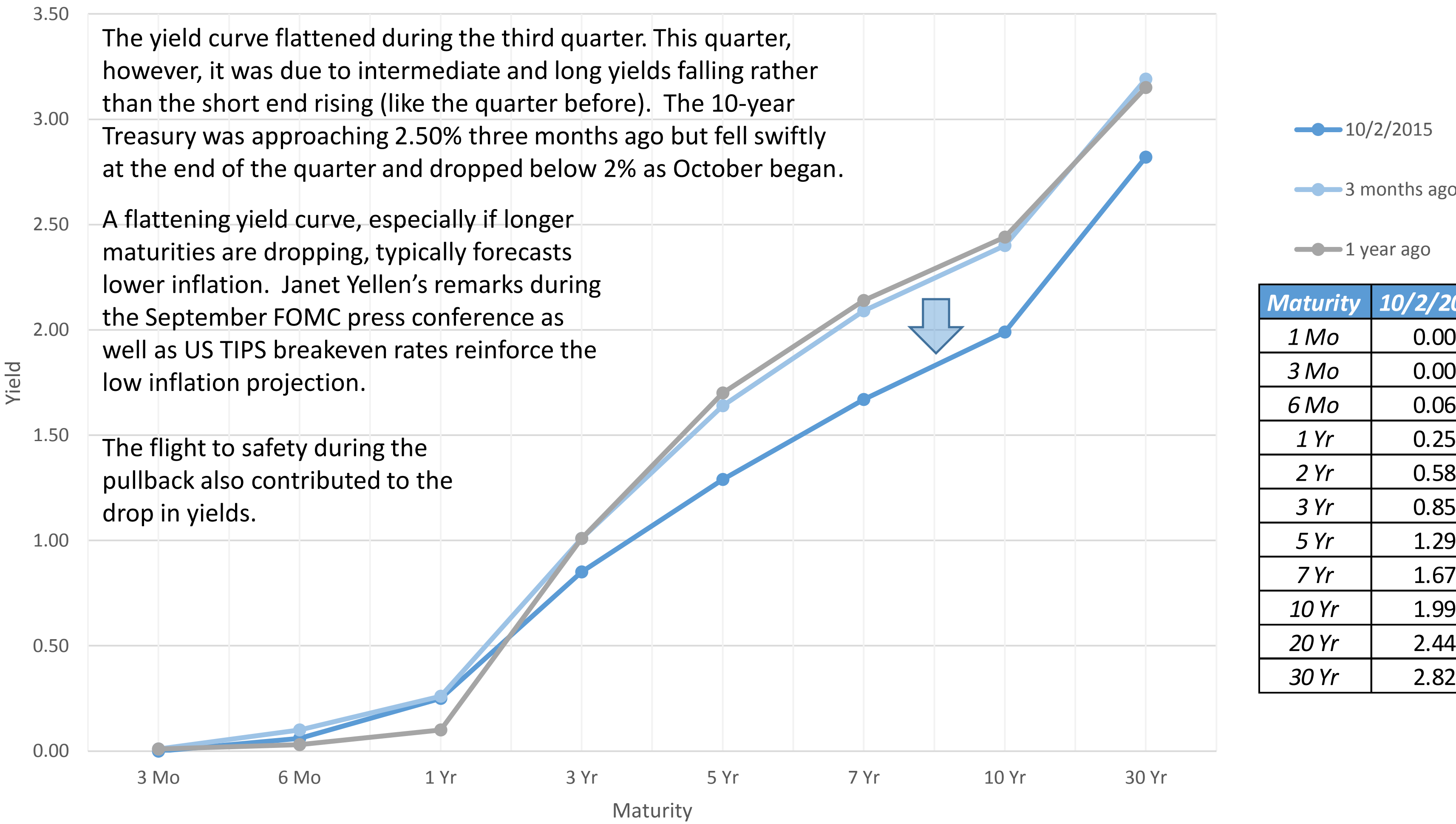
See Disclosure and Index Definitions, Pages 48-49

US Treasury Yield Curve

As 10/2/15



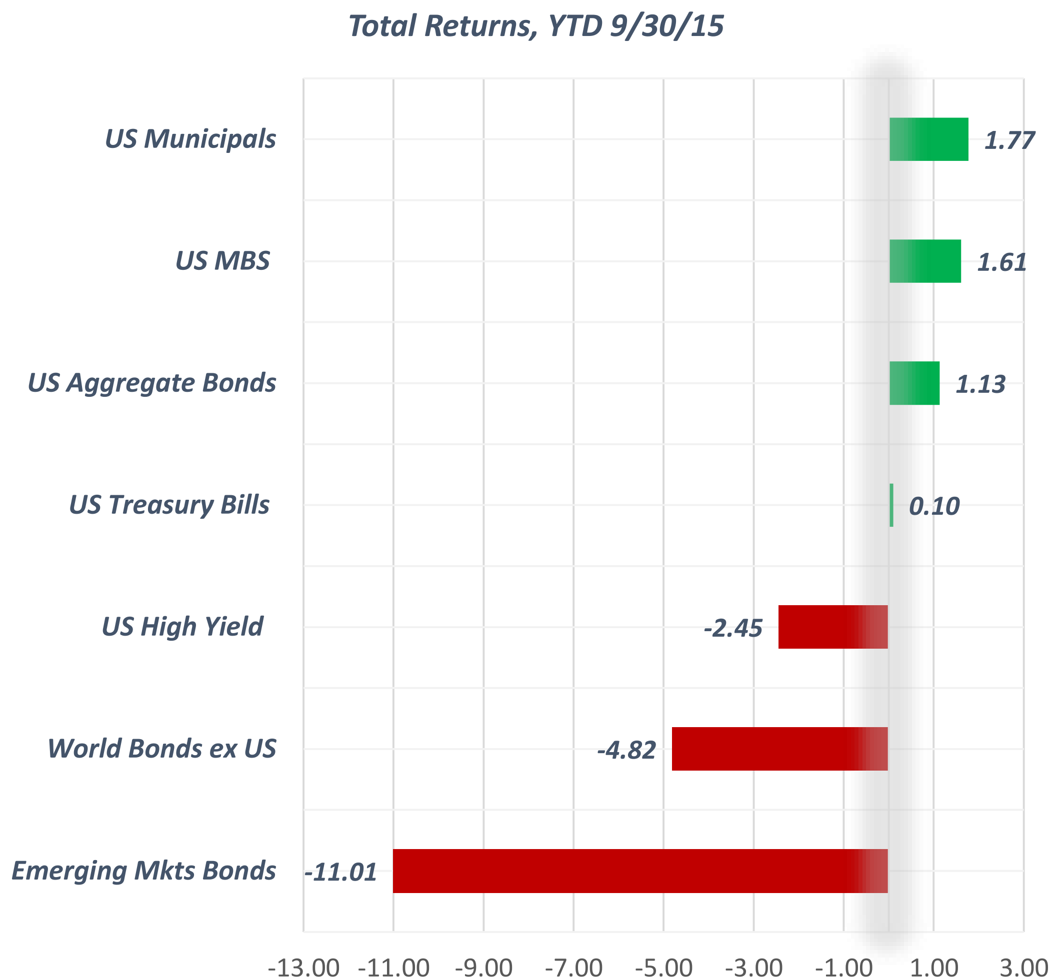
Maturity	*10/2/2015*
1 Mo	0.00
3 Mo	0.00
6 Mo	0.06
1 Yr	0.25
2 Yr	0.58
3 Yr	0.85
5 Yr	1.29
7 Yr	1.67
10 Yr	1.99
20 Yr	2.44
30 Yr	2.82

See Disclosure and Index Definitions, Pages 48-49

Source: US Treasury as of 10/2/15[2]

Fixed Income

- As monetary policies diverge around the world, volatility picked up in the bond markets.
- In the US, capital flowed to bonds from the equity markets and fixed income produced moderate returns as yields dropped. Munis have held up well despite Puerto Rico's turmoil. The Junk bond sector was the exception to this as further weakness amongst Energy and other commodity sensitive issuers was pronounced.
- Globally the story was Emerging Markets as yields and uncertainty shot up during the quarter. Most of the negative total return is attributed to the currency rout that was experienced. The table on the right shows returns in US dollar terms. In local currency terms its not as negative of a picture. The volatility present in EM debt illustrates it's dissimilarities from other fixed income sectors.
- Emerging Markets bonds lost value in 2013 and 2014 as well.

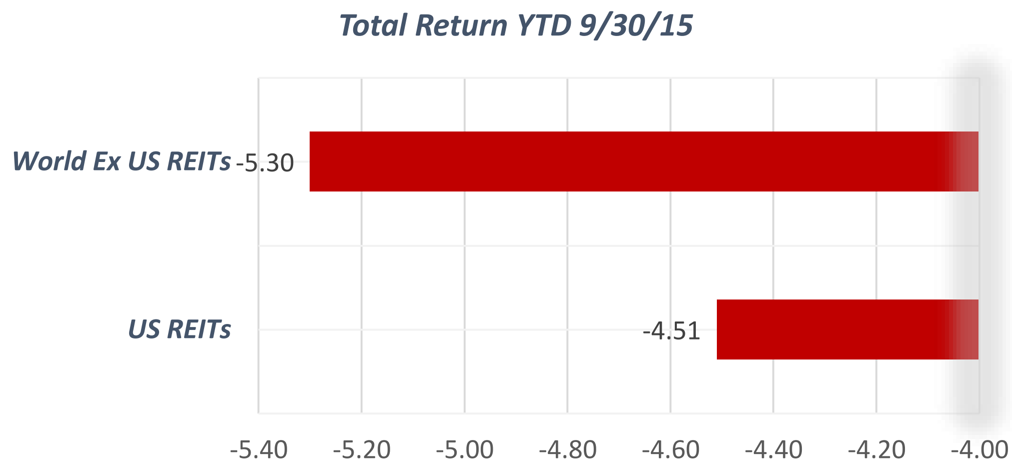


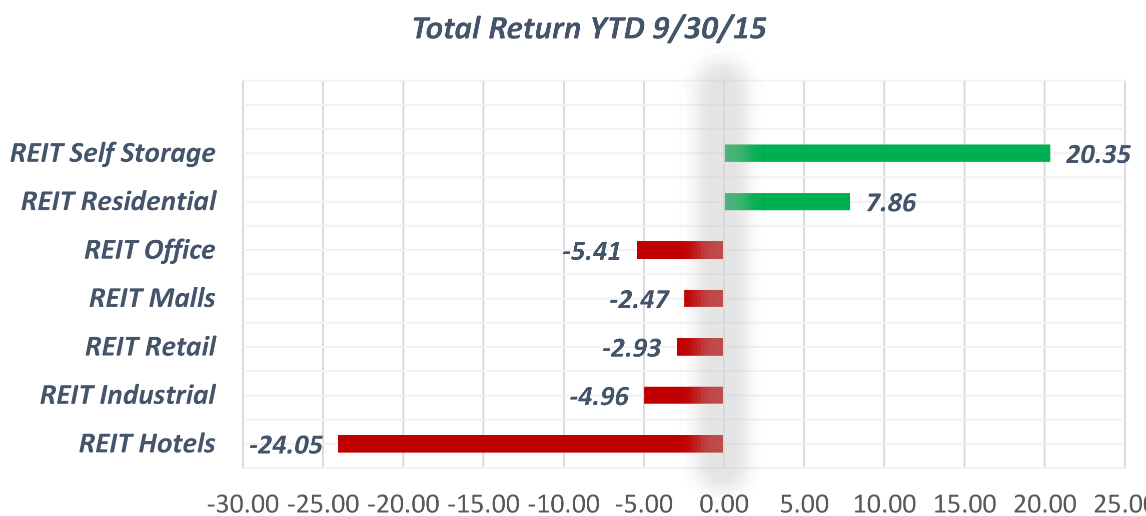
See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/15, see page 49 for asset class descriptions and index proxies

Real Estate

- REITs were among the worst performing asset class during the 2nd quarter but were a relatively positive contributor during the past three months albeit mostly out of focus to investors due to other developments.
- REITs will historically respond to interest rates and react positively when rates drop as they did this quarter.
- For the year, both US and International REITs are down but US REITs returned a small gain during the quarter.
- Sector wise, Self Storage properties were typically reliable, while Hotels struggled the most.





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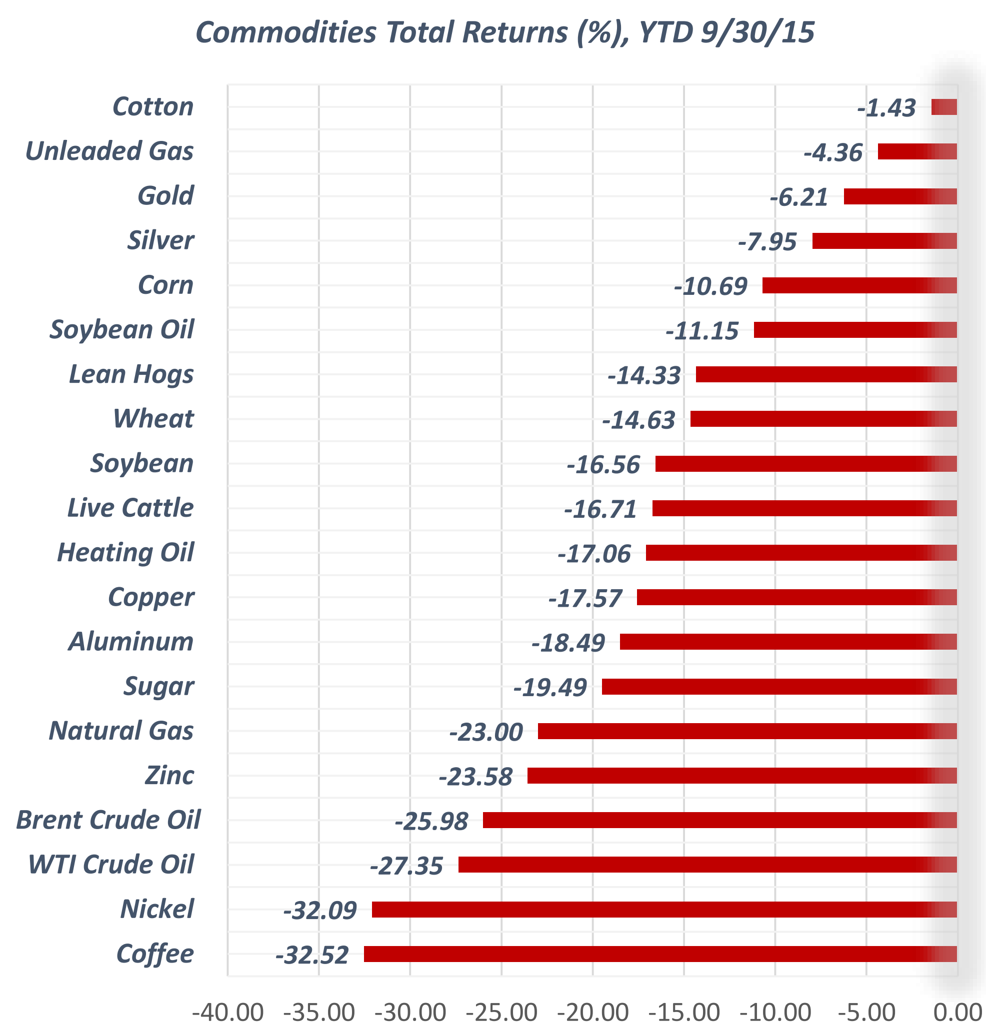
Commodities

- Obviously its hard to draw anything positive from the chart on the right. The drop in commodity prices was deep and all encompassing for the quarter – effecting raw materials of all types: energy, agriculture, metals, paper and clothing materials, chemicals, etc.

- Crude Oil somewhat settled in a tighter range in September but during August the commodity crashed swiftly, bottoming out below $40 – its lowest levels since 2009. Oil's long term decline was exacerbated this quarter and led to a good portion of the anxiety within markets. Gasoline products have yet to completely respond to the drop in oil but began to loosen up in September.

- Industrial metals – copper, nickel, aluminum, etc. - continued their decline as well during the quarter.

- Even Gold, which is typically seen as a safe haven asset, lost value in the commodity rout, dropping 5% for the quarter.



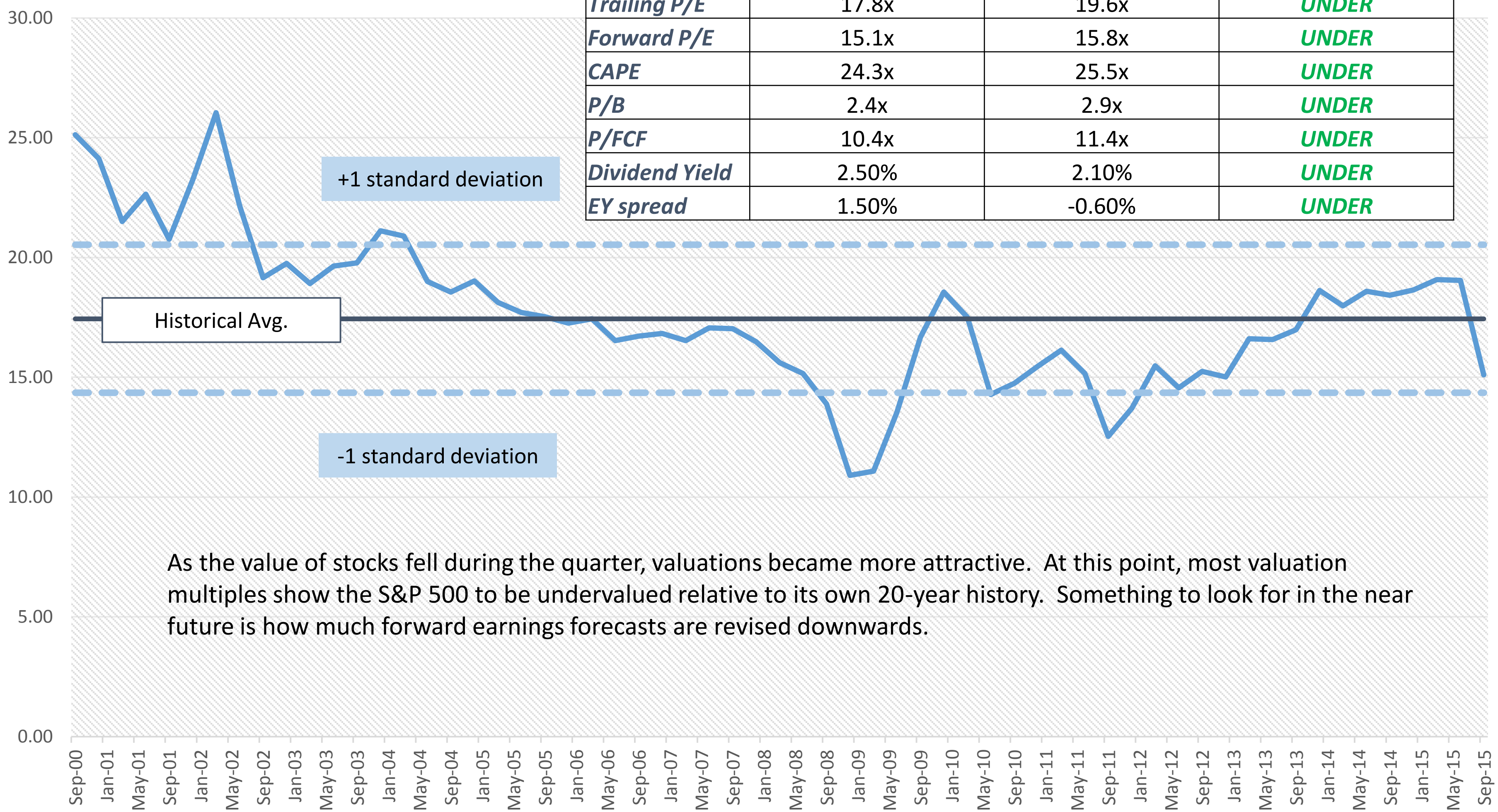
See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/15, see page 49 for asset class descriptions and index proxies

US Equity Valuations

S&P 500 Trailing P/E Ratio

S&P 500	As of 9/30/2015	20 year Average	Over/under/fair valued
Trailing P/E	17.8x	19.6x	UNDER
Forward P/E	15.1x	15.8x	UNDER
CAPE	24.3x	25.5x	UNDER
P/B	2.4x	2.9x	UNDER
P/FCF	10.4x	11.4x	UNDER
Dividend Yield	2.50%	2.10%	UNDER
EY spread	1.50%	-0.60%	UNDER

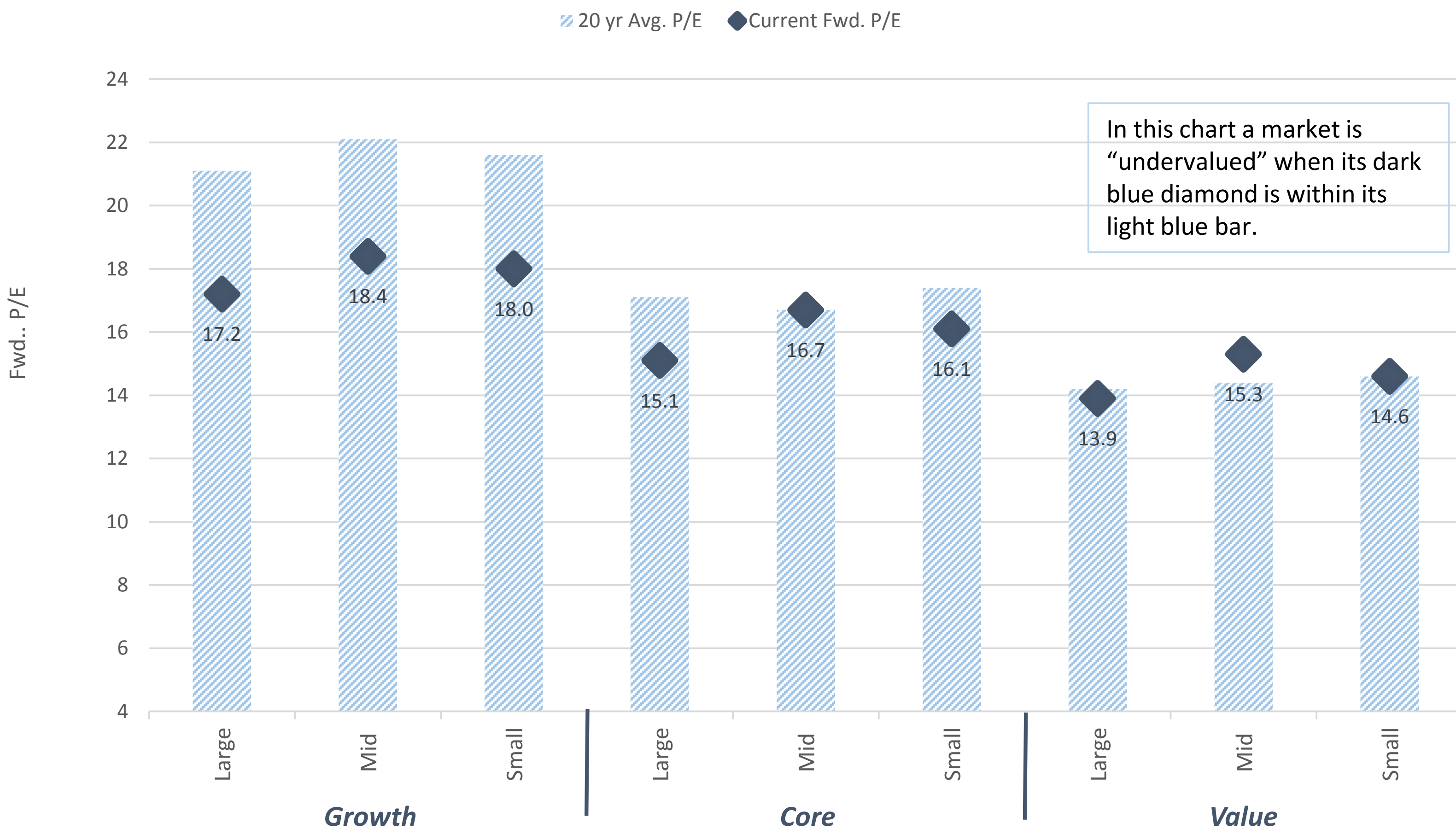


As the value of stocks fell during the quarter, valuations became more attractive. At this point, most valuation multiples show the S&P 500 to be undervalued relative to its own 20-year history. Something to look for in the near future is how much forward earnings forecasts are revised downwards.

See Disclosure and Index Definitions, Pages 48-49

Source: JP Morgan Guide to the Markets, Morningstar Direct as of 9/30/2015

US Valuations by Style



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Source: JP Morgan Guide to the Markets, as of 9/30/2015

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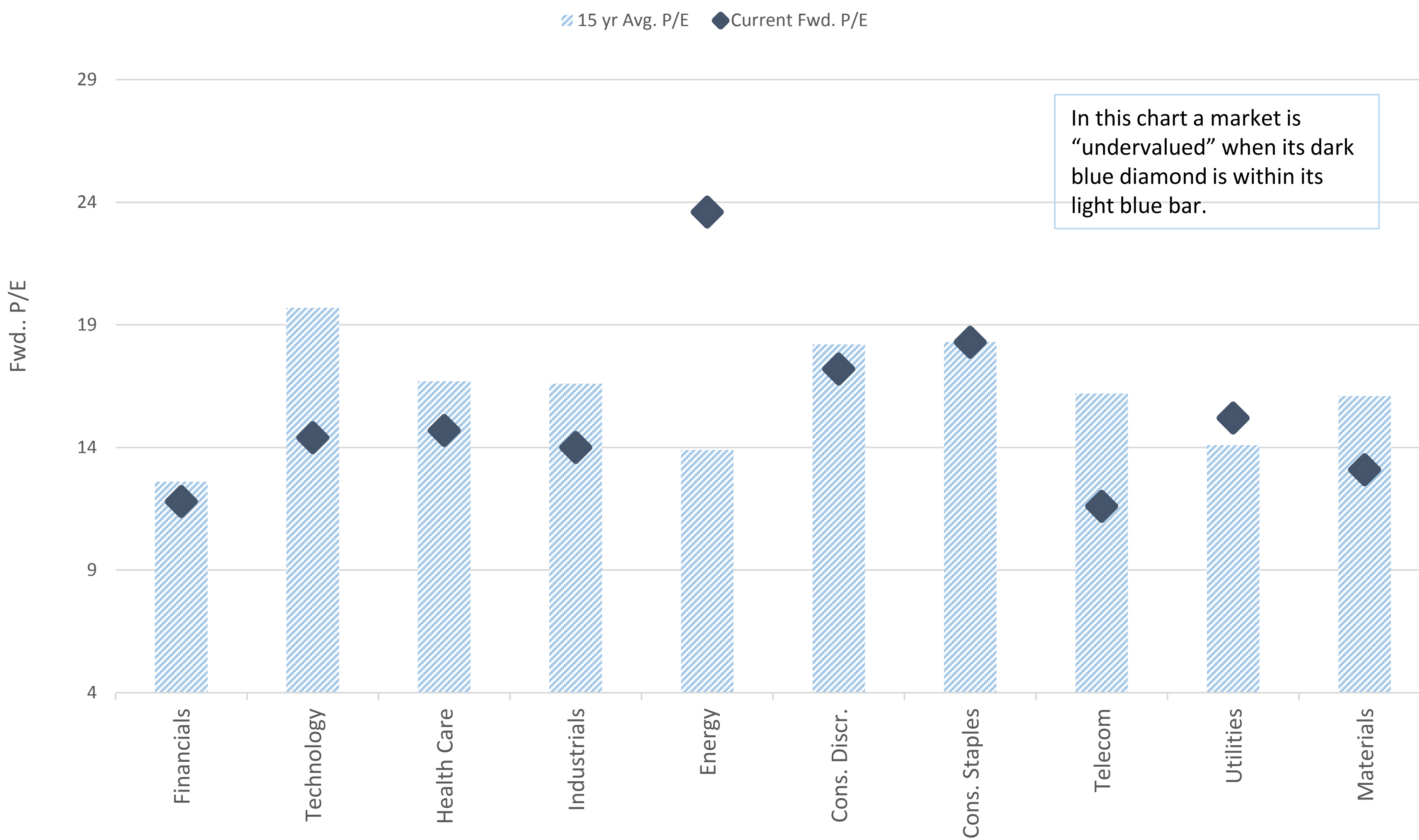
US Valuations by Sector



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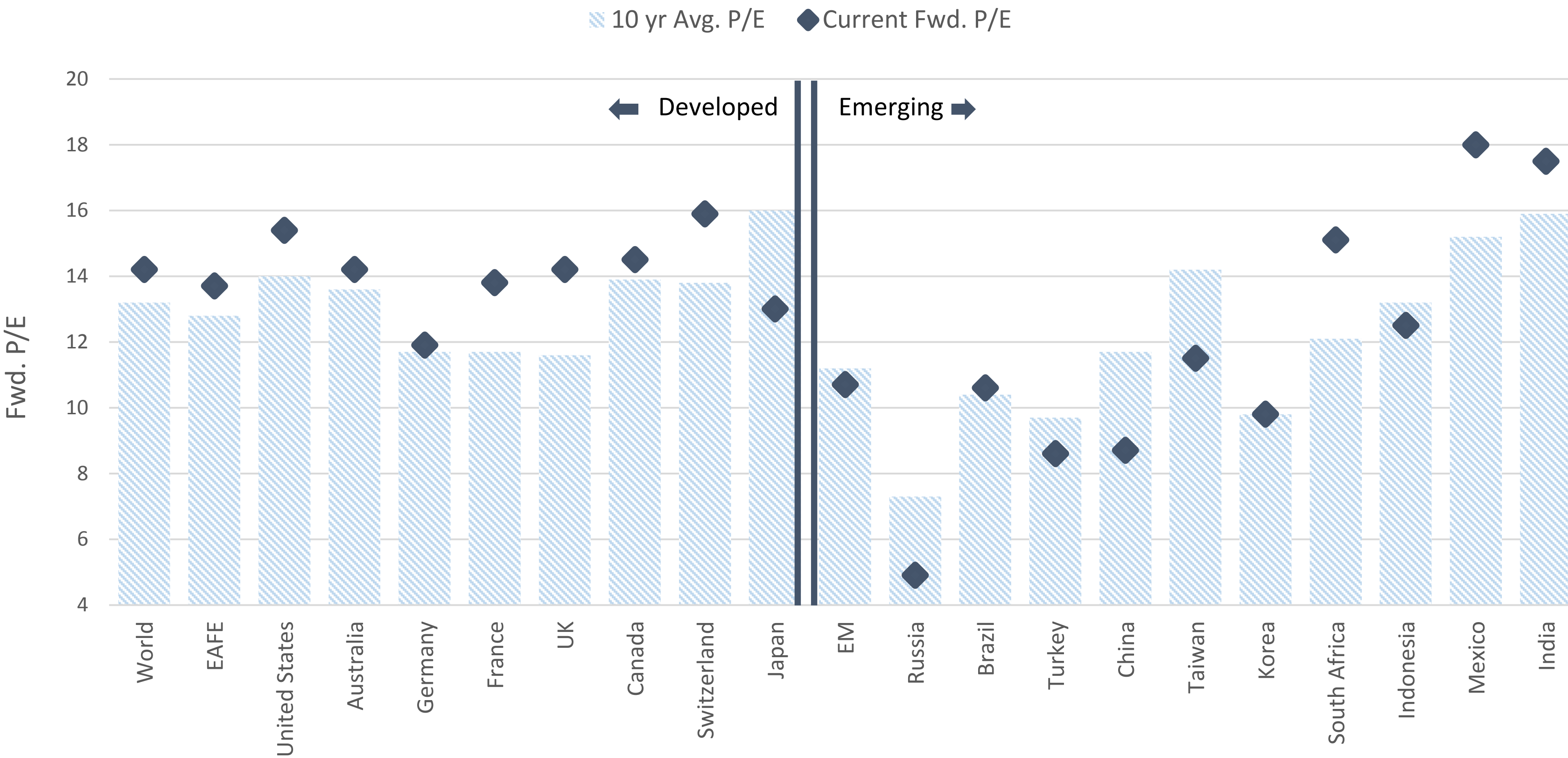
Global Equity Valuations



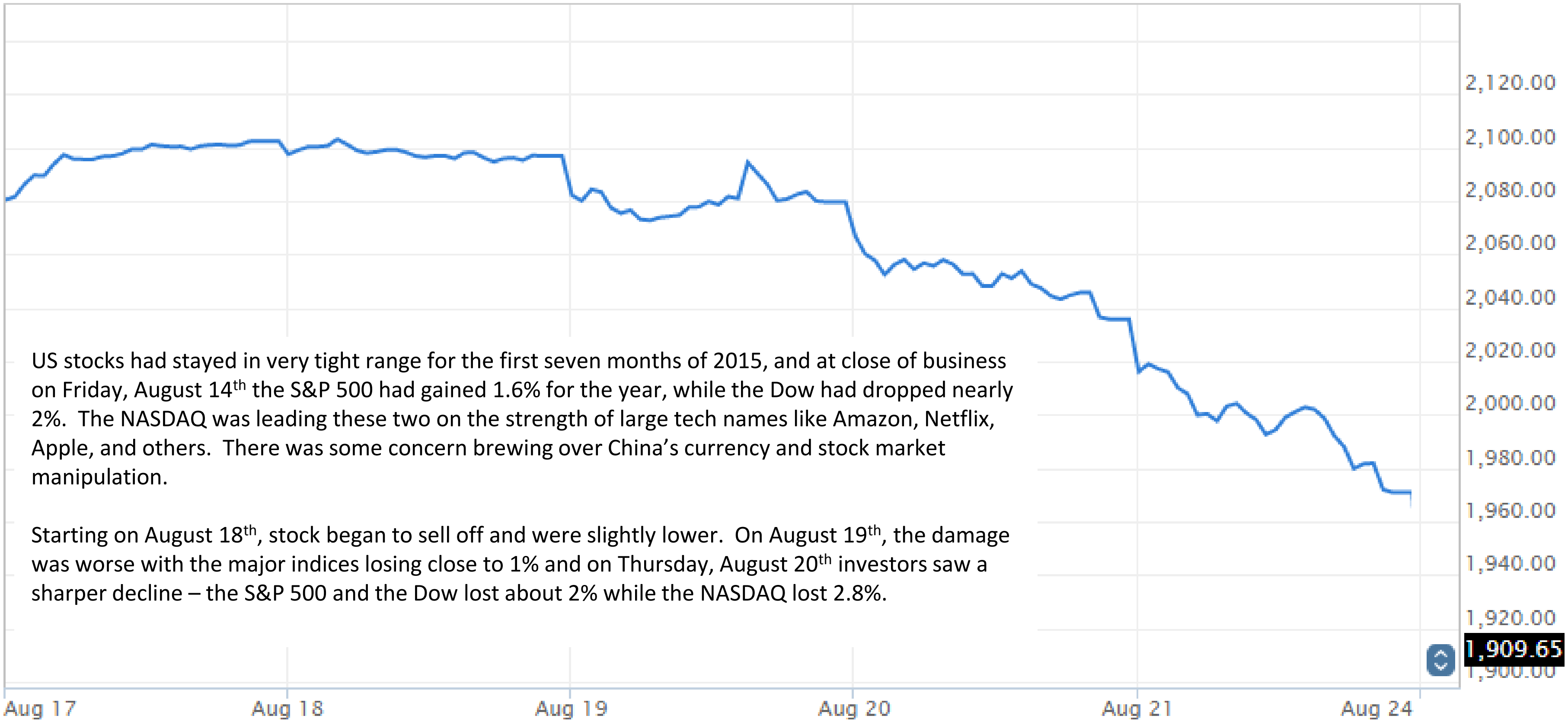
On a ten year historical basis the valuation story changed for some markets (including the US). However, some Emerging Markets economies are beginning to display attractiveness after the large decline of the past quarter,

In this chart a market is "undervalued" when its dark blue diamond is within its light blue bar (for example, Japan and Turkey)

See Disclosure and Index Definitions, Pages 48-49

Source: JP Morgan Guide to the Markets as of 9/30/2015

Week of August 17



US stocks had stayed in very tight range for the first seven months of 2015, and at close of business on Friday, August 14th the S&P 500 had gained 1.6% for the year, while the Dow had dropped nearly 2%. The NASDAQ was leading these two on the strength of large tech names like Amazon, Netflix, Apple, and others. There was some concern brewing over China's currency and stock market manipulation.

Starting on August 18th, stock began to sell off and were slightly lower. On August 19th, the damage was worse with the major indices losing close to 1% and on Thursday, August 20th investors saw a sharper decline – the S&P 500 and the Dow lost about 2% while the NASDAQ lost 2.8%.

However, on Friday, the markets opened lower and gradually continued falling. The S&P 500, Dow and NASDAQ were all lower by over 3%. The Dow and the NASDAQ entered into correction territory for the first time since 2011 on this day, dropping over 10% from their peaks. This week also saw oil prices continue to decline but stay above $40/barrel.

Collectively the S&P 500 stocks lost 5.8% during the week and set the stage for an anxious weekend ahead of Monday's open.

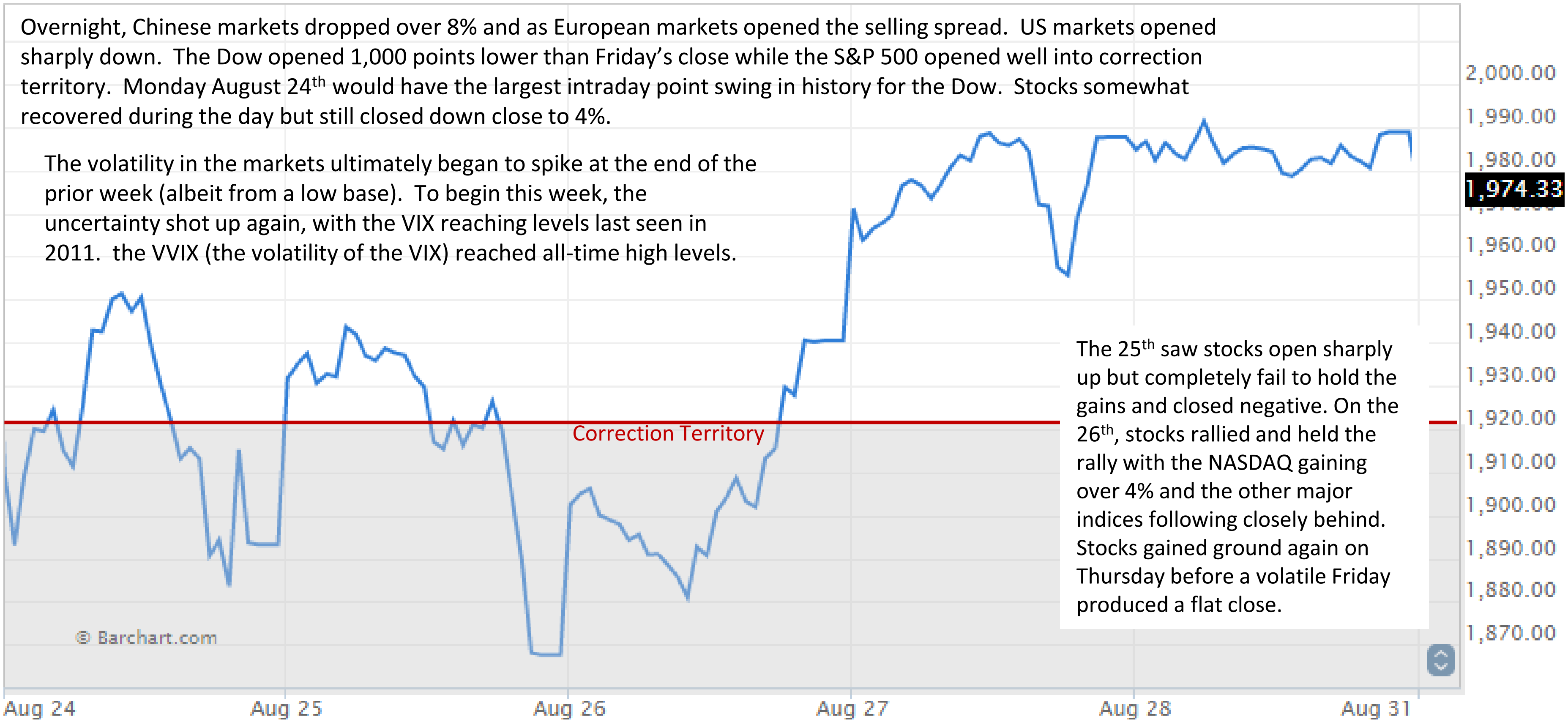
See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct and Barchart.com

Week of August 24

Overnight, Chinese markets dropped over 8% and as European markets opened the selling spread. US markets opened sharply down. The Dow opened 1,000 points lower than Friday's close while the S&P 500 opened well into correction territory. Monday August 24th would have the largest intraday point swing in history for the Dow. Stocks somewhat recovered during the day but still closed down close to 4%.

The volatility in the markets ultimately began to spike at the end of the prior week (albeit from a low base). To begin this week, the uncertainty shot up again, with the VIX reaching levels last seen in 2011. the VVIX (the volatility of the VIX) reached all-time high levels.



The 25th saw stocks open sharply up but completely fail to hold the gains and closed negative. On the 26th, stocks rallied and held the rally with the NASDAQ gaining over 4% and the other major indices following closely behind. Stocks gained ground again on Thursday before a volatile Friday produced a flat close.

For the week, stocks were able to finish positive from Monday's extreme drop. The week contained some of the largest spikes in volatility measures ever recorded. It also contained the largest intraday point drop (August 24th) in the history of the Dow as well as the largest intraday point gain that turned negative (August 25th) on back to back days. Reference to these point totals should come with caution. The levels of these indices have grown exponentially. By percentage points these swings are noteworthy but not record setting.

This was the week that oil broke though the $40/barrel level but it bounced back up and ended the week higher. Volatility in the oil markets was very pronounced at this point as oil touched $50/barrel but soon thereafter fell back to the mid-$40s ranges.

See Disclosure and Index Definitions, Pages 48-49

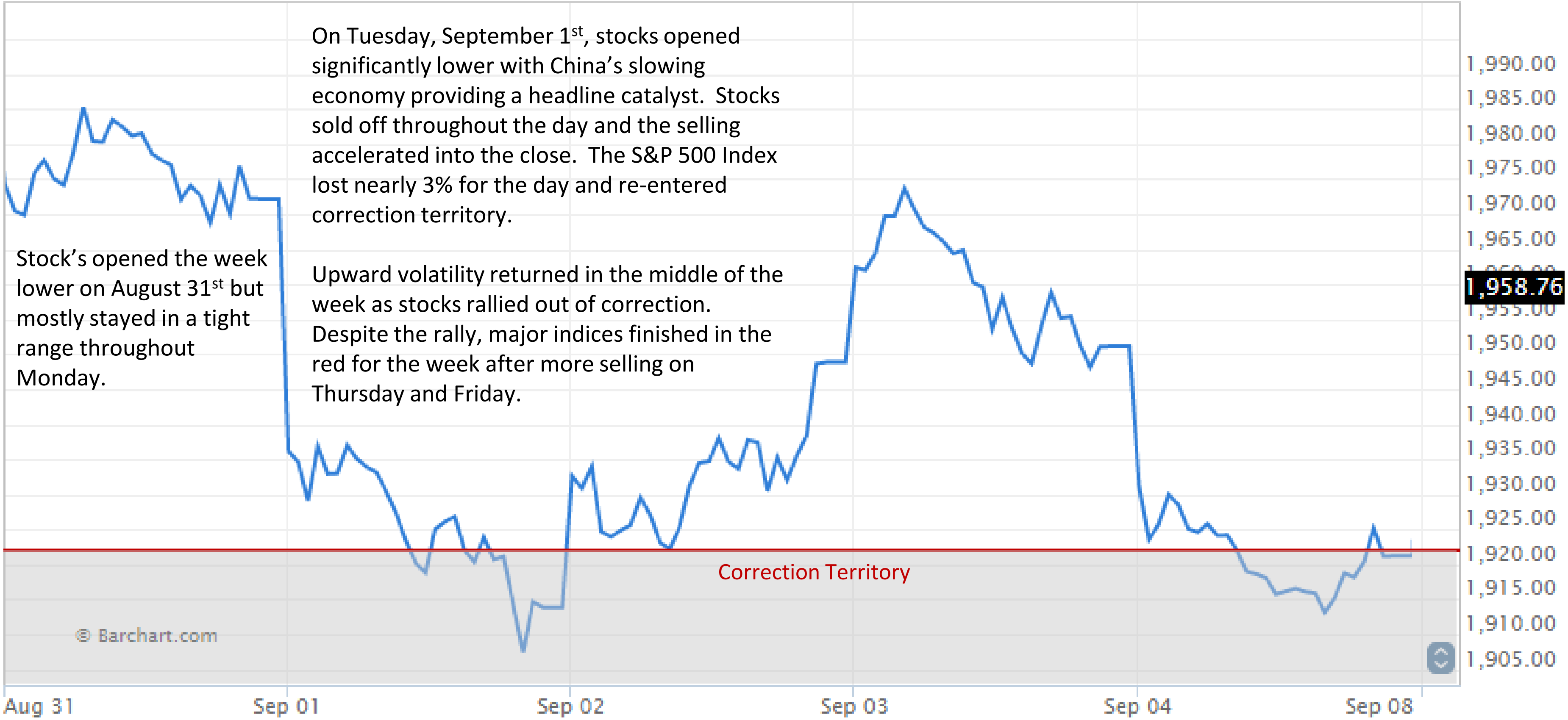
Source: Morningstar Direct and Barchart.com

Week of August 31

On Tuesday, September 1st, stocks opened significantly lower with China's slowing economy providing a headline catalyst. Stocks sold off throughout the day and the selling accelerated into the close. The S&P 500 Index lost nearly 3% for the day and re-entered correction territory.

Stock's opened the week lower on August 31st but mostly stayed in a tight range throughout Monday.

Upward volatility returned in the middle of the week as stocks rallied out of correction. Despite the rally, major indices finished in the red for the week after more selling on Thursday and Friday.



Source: Morningstar Direct and Barchart.com

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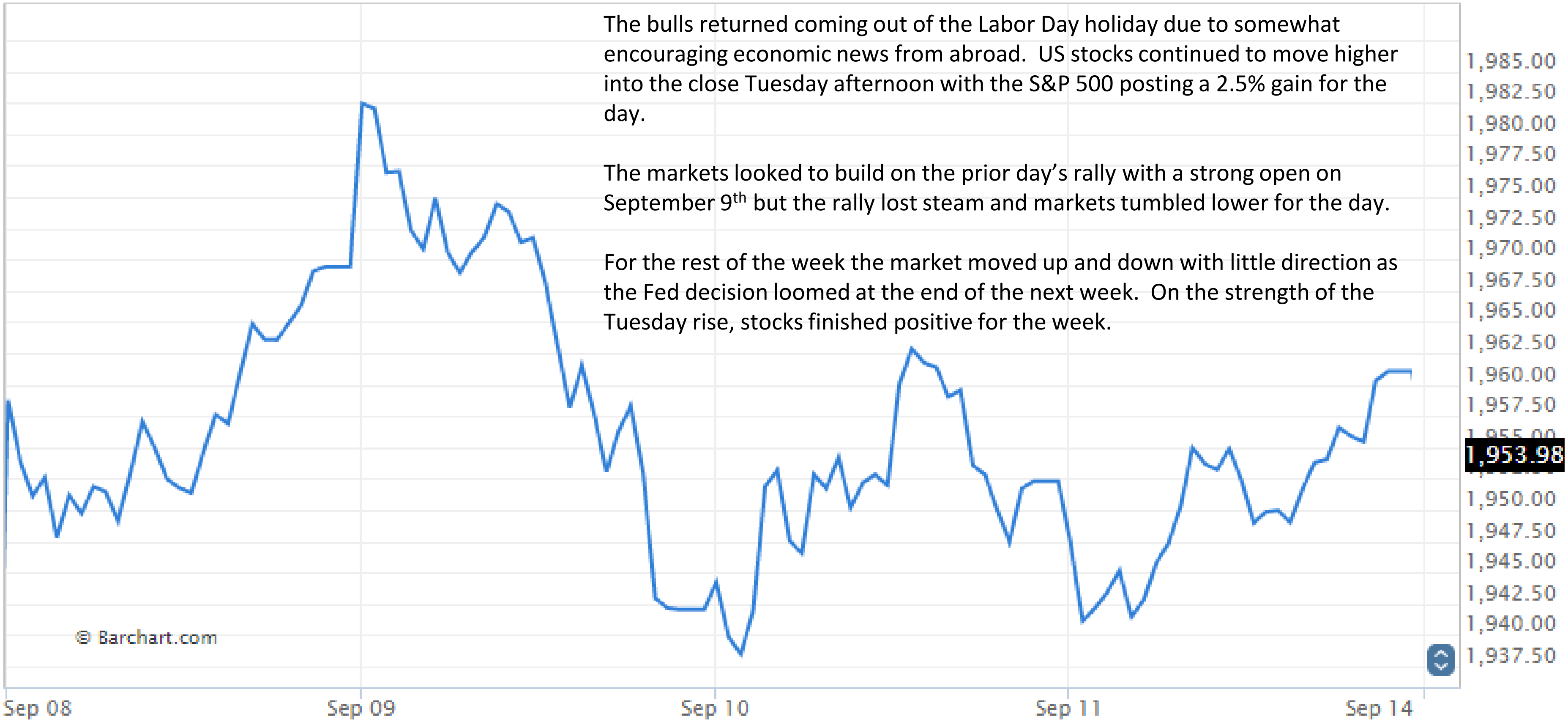
See Disclosure and Index Definitions, Pages 48-49

Week of September 7

The bulls returned coming out of the Labor Day holiday due to somewhat encouraging economic news from abroad. US stocks continued to move higher into the close Tuesday afternoon with the S&P 500 posting a 2.5% gain for the day.

The markets looked to build on the prior day's rally with a strong open on September 9th but the rally lost steam and markets tumbled lower for the day.

For the rest of the week the market moved up and down with little direction as the Fed decision loomed at the end of the next week. On the strength of the Tuesday rise, stocks finished positive for the week.



See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct and Barchart.com

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Week of September 14

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This week was all about the FOMC meeting taking place on Wednesday and Thursday with the decision on the Fed Funds target rate coming Thursday afternoon. While the Fed Funds futures market was pricing a low probability (about 30%) of an increase, many market participants and economists had targeted this meeting at the proper time to begin tightening. Monday through Wednesday was mostly uneventful with indices moving slightly upwards. Investors were focusing on Thursday's Fed decision.

The decision came Thursday to hold rates unchanged. The initial reactive trade from the market was selling but the loss was quickly recouped in a matter of minutes and stocks rallied higher as Janet Yellen spoke on the decision before falling into the close. The market struggled with how to interpret the decision – was it more stimulating for stocks to maintain ZIRP or an indictment on global growth?

Friday was more sobering, the markets opened lower and selling continued, it appeared the market interpreted the Fed decision more as uncertainty regarding the economic outlook than as fuel for stocks.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct and Barchart.com

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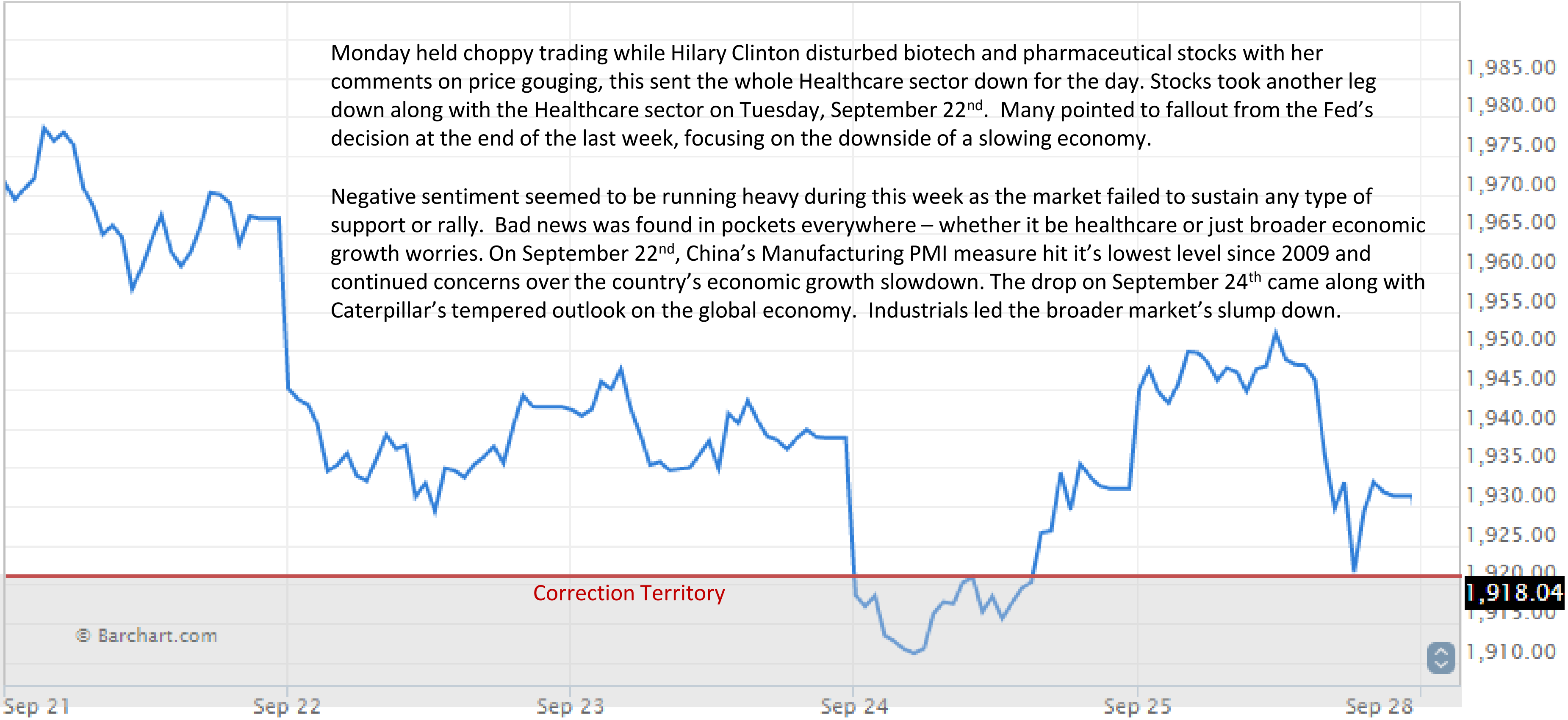
Week of September 21



Source: Morningstar Direct and Barchart.com

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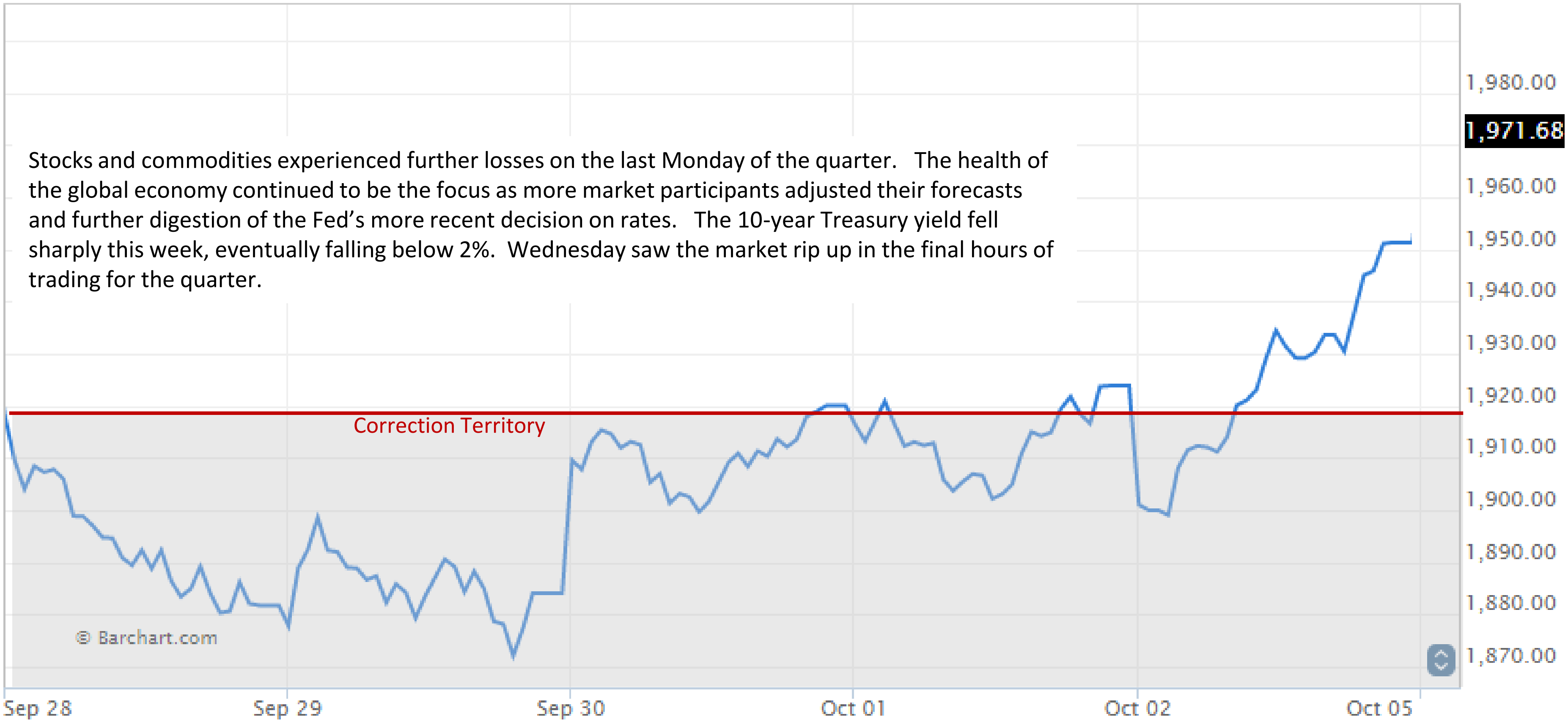
See Disclosure and Index Definitions, Pages 48-49

Week of September 28

Stocks and commodities experienced further losses on the last Monday of the quarter. The health of the global economy continued to be the focus as more market participants adjusted their forecasts and further digestion of the Fed's more recent decision on rates. The 10-year Treasury yield fell sharply this week, eventually falling below 2%. Wednesday saw the market rip up in the final hours of trading for the quarter.



See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct and Barchart.com

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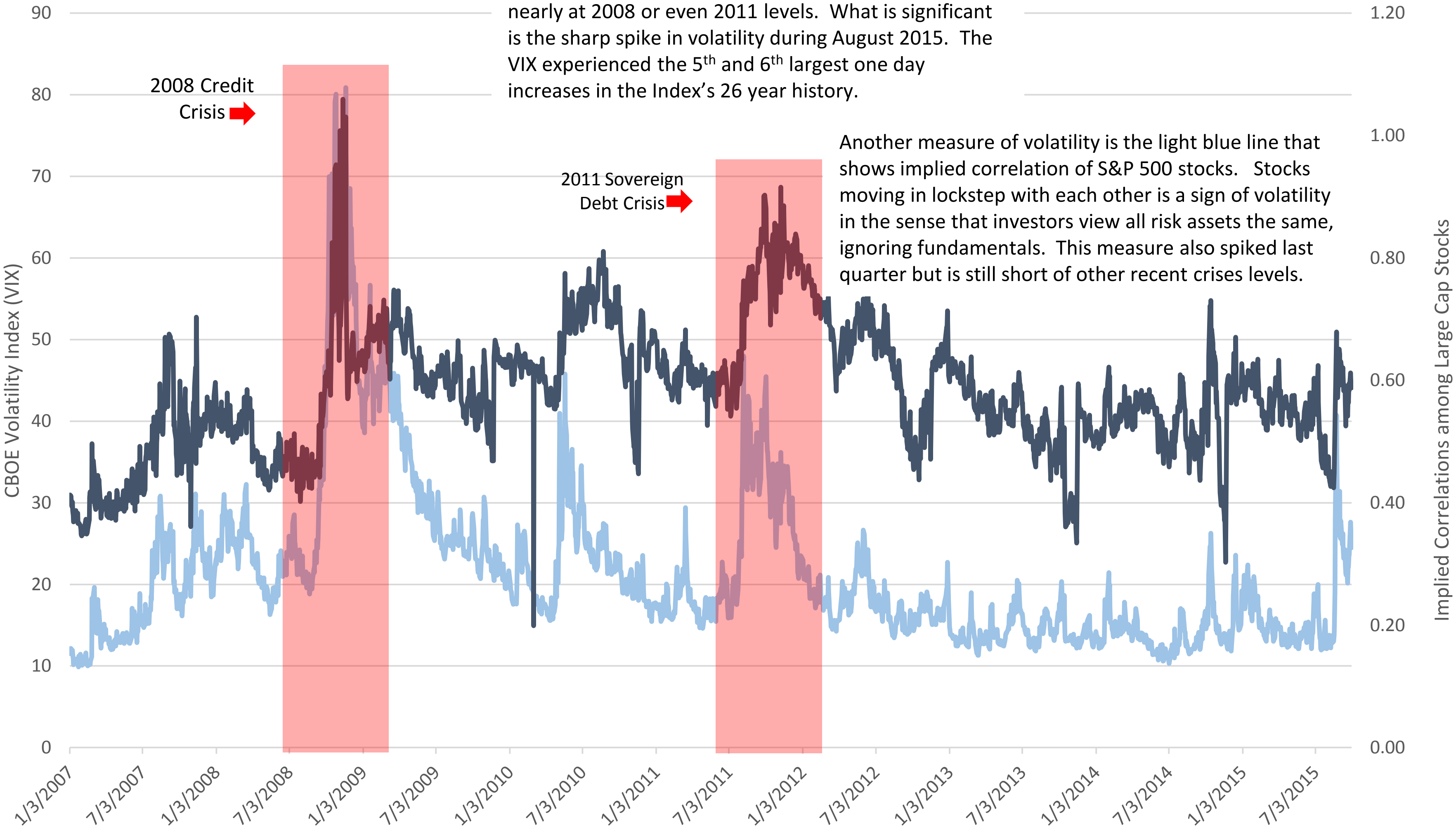
Volatility

Volatility as measured by the VIX (dark blue lines) is not nearly at 2008 or even 2011 levels. What is significant is the sharp spike in volatility during August 2015. The VIX experienced the 5th and 6th largest one day increases in the Index's 26 year history.

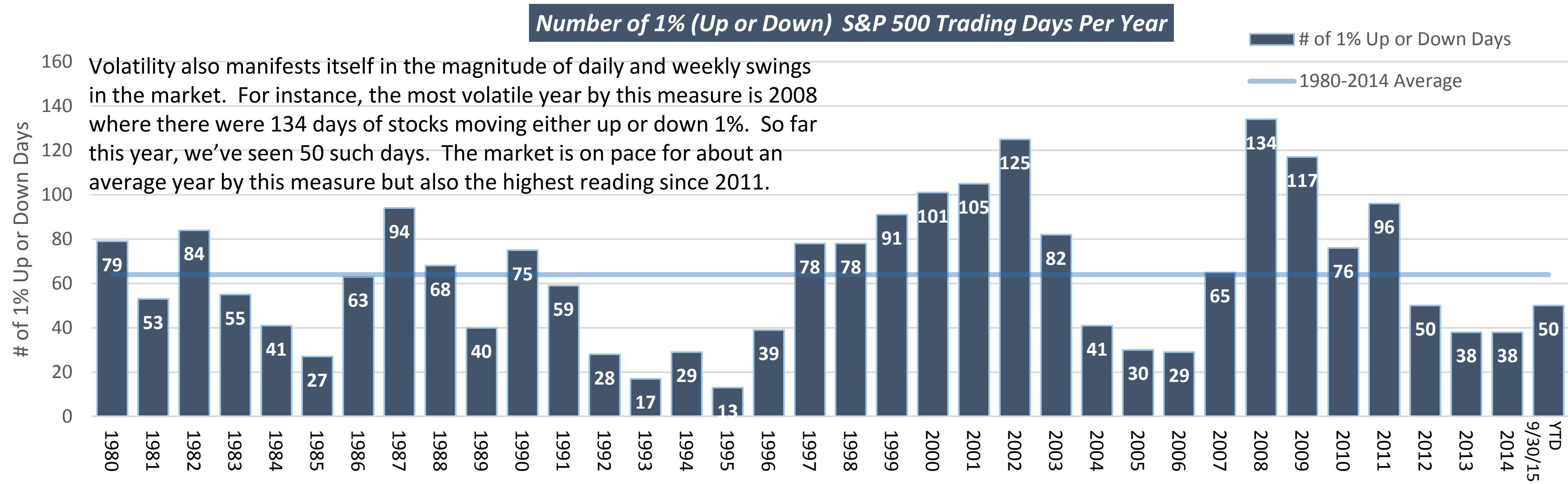
Another measure of volatility is the light blue line that shows implied correlation of S&P 500 stocks. Stocks moving in lockstep with each other is a sign of volatility in the sense that investors view all risk assets the same, ignoring fundamentals. This measure also spiked last quarter but is still short of other recent crises levels.

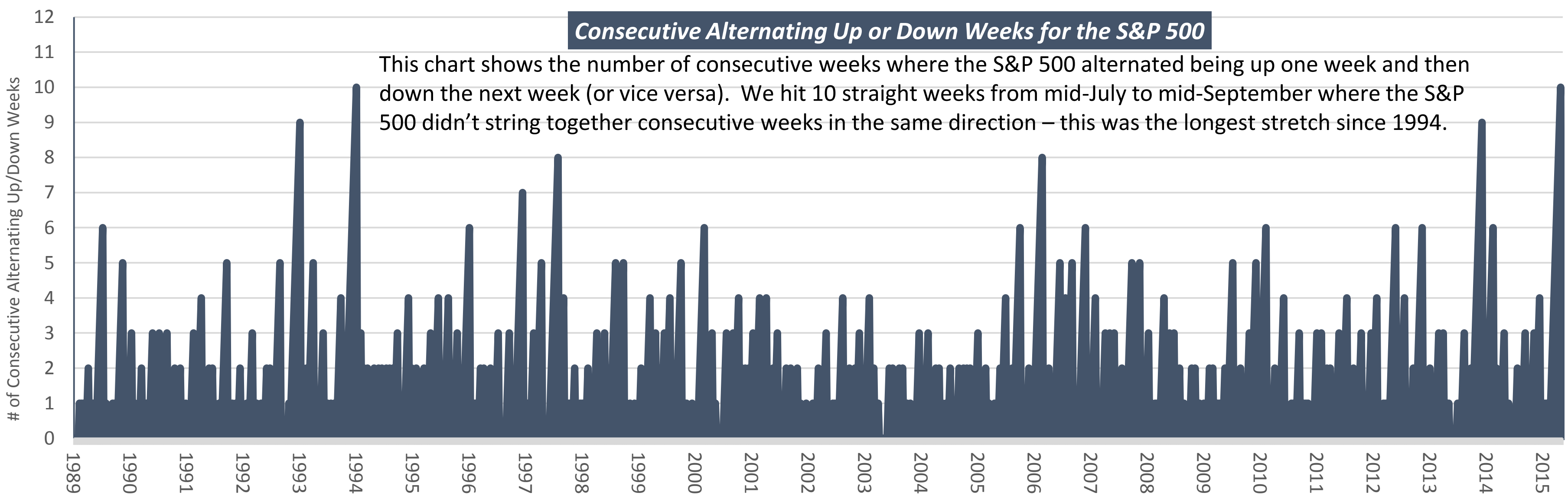


See Disclosure and Index Definitions, Pages 48-49

Source: CBOE [3]

Volatility





See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/15

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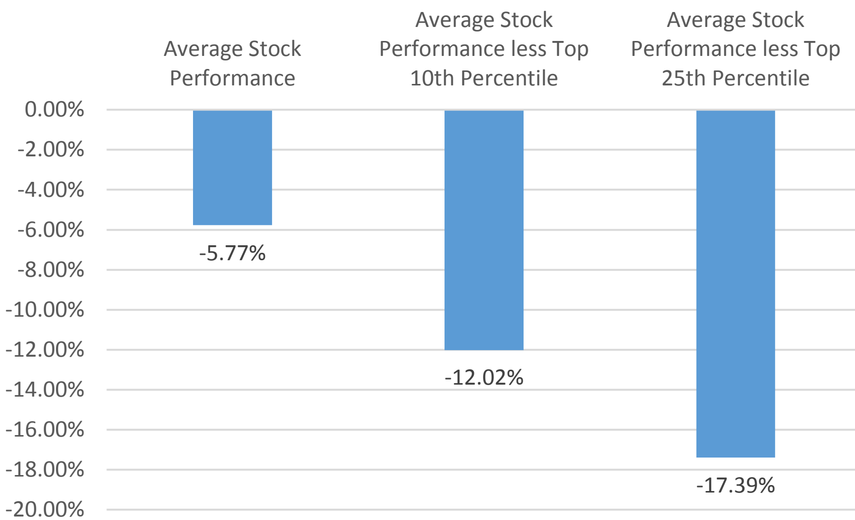
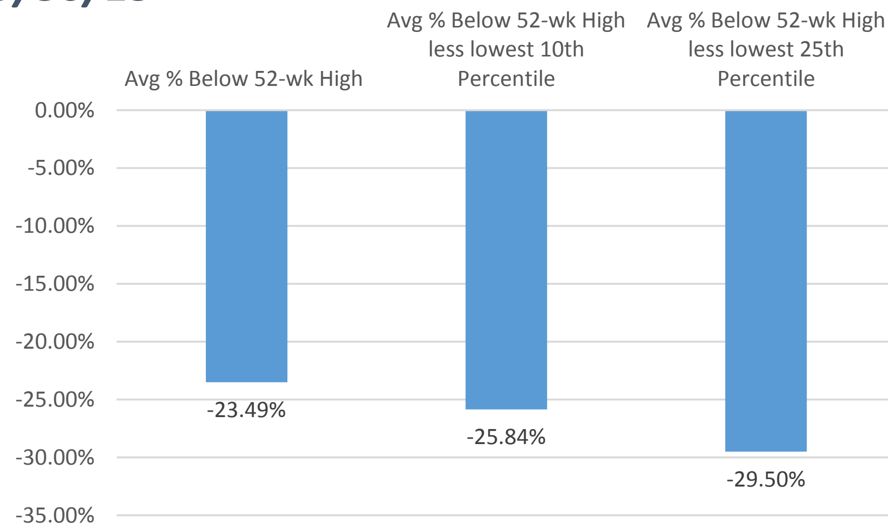
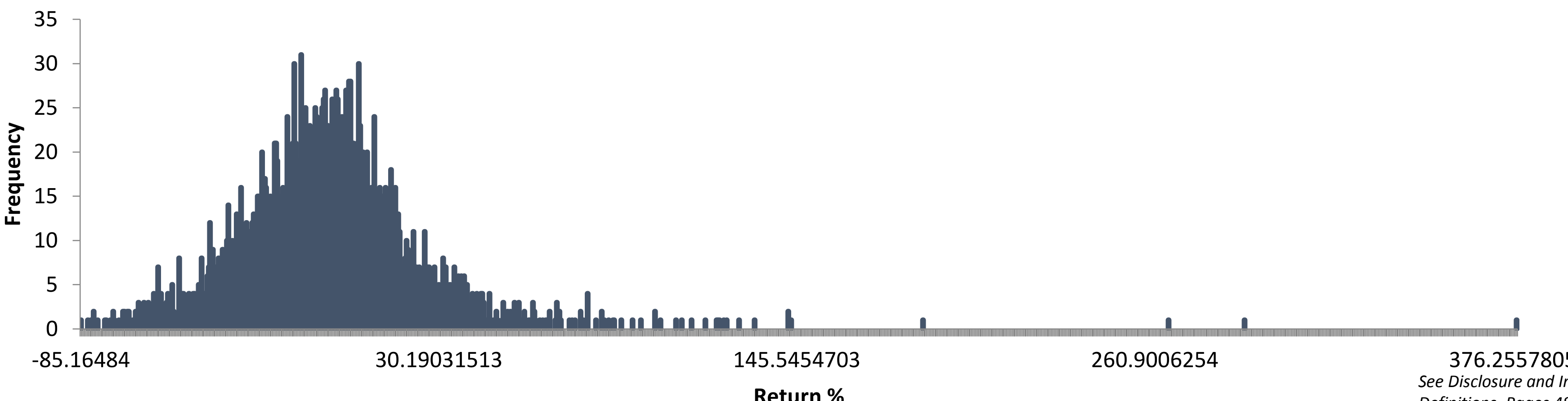
Market Internals

YTD 9/30/15





Histogram of all US Stock Returns, YTD 9/30/15



See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, see page 49 for asset class descriptions and index proxies

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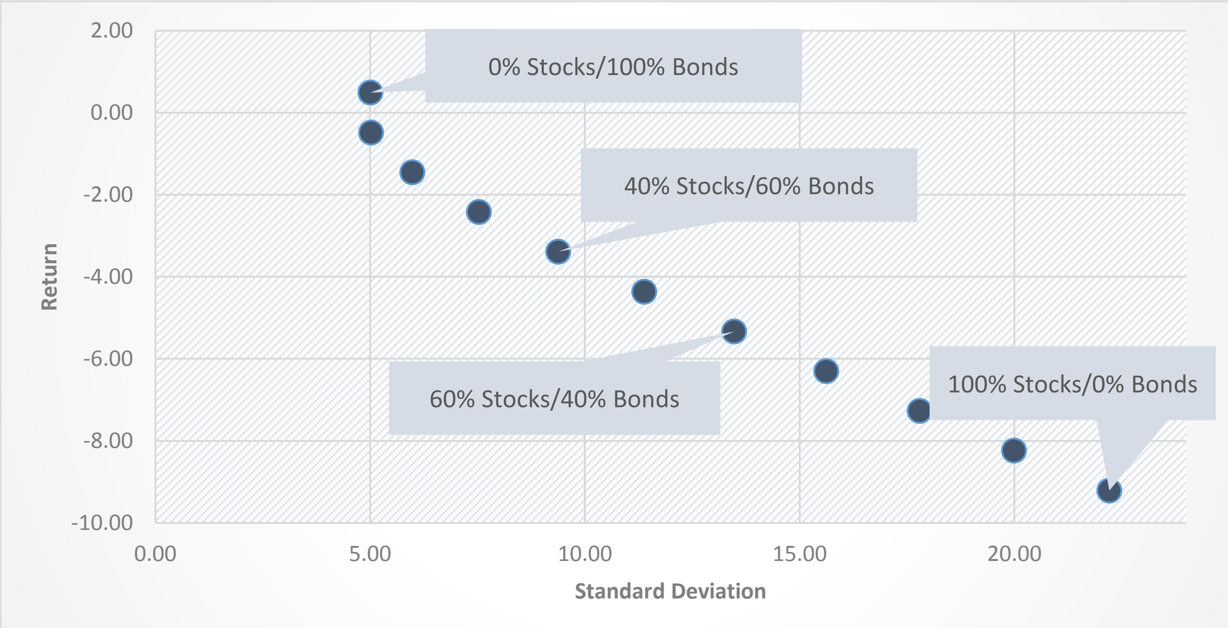
Diversification Effectiveness



5/22/15 to 9/30/15		
Portfolio	**Return**	**Std Dev**
100% Stocks/0% Bonds	-9.21	22.21
90% Stocks/10% Bonds	-8.24	20.00
80% Stocks/20% Bonds	-7.27	17.80
70% Stocks/30% Bonds	-6.30	15.62
60% Stocks/40% Bonds	-5.33	13.48
50% Stocks/50% Bonds	-4.36	11.38
40% Stocks/60% Bonds	-3.39	9.38
30% Stocks/70% Bonds	-2.42	7.53
20% Stocks/80% Bonds	-1.45	5.98
10% Stocks/90% Bonds	-0.48	5.03
0% Stocks/100% Bonds	0.49	5.01

From the time period when stocks peaked (May 22, 2015) through the end of the third quarter, the S&P 500 ETF ("Stocks") lost over 9%, however the Barclays US Aggregate Bond ETF ("Bonds") was up 0.50% during the same period. Diversification works because the correlation between the two for this period was -0.40, while stocks dropped, bonds value increased and provided some positive return while the negative correlation between the two provides an overall risk reducer for the portfolio.

In some years, owning bonds or other uncorrelated assets is a drag on portfolio returns when stocks outperform. But when stocks inevitably experience some drawdown, diversification steps in to dampen the losses, providing the low or negative correlations and lower volatility that smooth out long term returns. Investors sacrifice some returns in a periods like last year, but the effects during periods with negative equity returns is a large positive.

Diversification, albeit a simple concept, is tried and true over history.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, see page 49 for asset class descriptions and index proxies
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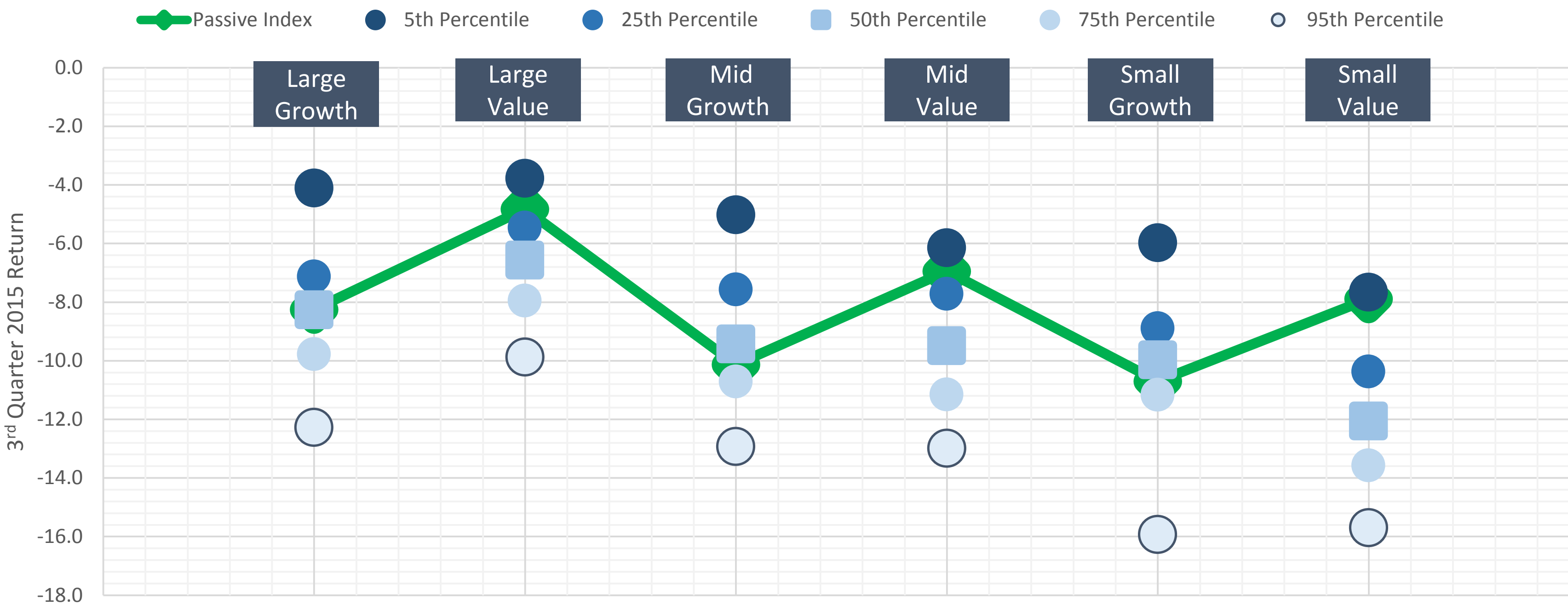
Active vs Passive Effectiveness



Active management varied amongst asset classes for US equities. The green markers emphasized with the line represent the passive index for each asset class while the blue shaded markers represent the universe of active managers within the asset class by percentile. For instance in the Large Growth space, the manager at the 5th percentile (near the best performing amongst their peers) returned -4.0% for the quarter, while the average manager (50th percentile) returned -8.0% and right in line with the passive index.

Average active management was mostly aligned with the passive index in Growth areas while it trailed the index in the Value areas. Small Value was the most difficult asset class to pick stocks in, the best managers were only able to keep pace with the index while the worst underperformed by nearly 8%.

Performance dispersion is also a good takeaway in this chart. The difference between the best, average and worst managers was wider amongst Small caps and Growth stocks than their counterparts.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, see page 49 for asset class descriptions and index proxies

Alternatives Effectiveness

3rd Quarter 2015	Return	Std Dev	S&P 500 Beta	Sharpe Ratio	Sortino Ratio
Managed Futures Index	3.18	13.30	-0.15	1.47	1.71
Long/Short Equity Index	2.40	9.66	0.34	1.49	1.80
Barclays US Agg Bonds Index	**1.23**	**4.70**	**-0.07**	**1.52**	**1.77**
Global Macro Index	-0.76	5.09	0.03	-0.85	-0.95
Merger Arbitrage Index	-1.32	4.32	0.10	-1.70	-1.75
Relative Value Index	-2.14	2.89	0.09	-4.04	-3.81
Liquid Alternatives Index	*-2.37*	*4.54*	*0.17*	*-2.83*	*-2.85*
Event Driven Index	-2.61	3.46	0.12	-4.07	-3.90
Multi-Strategy Index	-2.70	6.26	0.24	-2.32	-2.42
S&P 500 Index	**-6.44**	**25.24**	**1.00**	**-1.25**	**-1.46**
Event Driven Index	-7.47	9.84	0.31	-3.64	-3.65

Correlation: 3rd Qtr. 2015	1	2	3	4	5	6	7	8	9	10	11
1 Wilshire Liquid Alternative TR USD	1.00										
2 Credit Suisse Long/Short Liquid TR USD	0.81	1.00									
3 Credit Suisse Mgd Futures Liquid TR USD	-0.15	-0.24	1.00								
4 Credit Suisse Merg Arbtrg Liquid TR USD	0.59	0.54	-0.35	1.00							
5 Wilshire Liq Alt Event Driven TR USD	0.92	0.75	-0.34	0.65	1.00						
6 Wilshire Liq Alt Global Macro TR USD	0.34	0.22	0.79	-0.12	0.10	1.00					
7 Wilshire Liq Alt Multi-strategy TR USD	0.99	0.83	-0.18	0.59	0.91	0.31	1.00				
8 Wilshire Liq Alt Relative Value TR USD	0.90	0.63	-0.25	0.59	0.91	0.17	0.87	1.00			
9 Credit Suisse Event Driven Liquid TR USD	0.87	0.67	-0.36	0.70	0.95	0.07	0.85	0.91	1.00		
10 S&P 500 TR USD	0.94	0.89	-0.29	0.60	0.85	0.16	0.95	0.76	0.79	1.00	
11 Barclays US Agg Bond TR USD	-0.40	-0.31	0.30	-0.13	-0.43	0.21	-0.39	-0.47	-0.41	-0.39	1.00

1.00 to 0.80 · 0.80 to 0.60 · 0.60 to 0.40 · 0.40 to 0.20 · 0.20 to 0.00
0.00 to -0.20 · -0.20 to -0.40 · -0.40 to -0.60 · -0.60 to -0.80 · -0.80 to -1.00

"Liquid Alternatives" brought hedge fund strategies to the masses and after 2008's meltdown they became popular holdings in portfolios for adding diversification and reducing risk compared to a traditional stock and bond portfolio.

The past quarter was an opportunity to test these strategies as stocks fell. It's difficult to broadly assess Alternatives because of the vast differences between managers and the strategies implemented but Wilshire and Credit Suisse attempt to do so with some indices composed of Liquid Alts managers.

For the quarter, Managed Futures and Long/Short Equity provided positive returns while equities dropped. Managed futures did this alongside negative correlation to stocks and low correlation to bonds albeit higher volatility than others. On a risk-adjusted basis, Long/Short Equity was the best alternative strategy for the quarter.

Other strategies fared somewhat well at reducing downside risk and providing diversification through low correlations to stocks and bonds – mainly Global Macro and Merger Arbitrage strategies.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, see page 49 for asset class descriptions and index proxies
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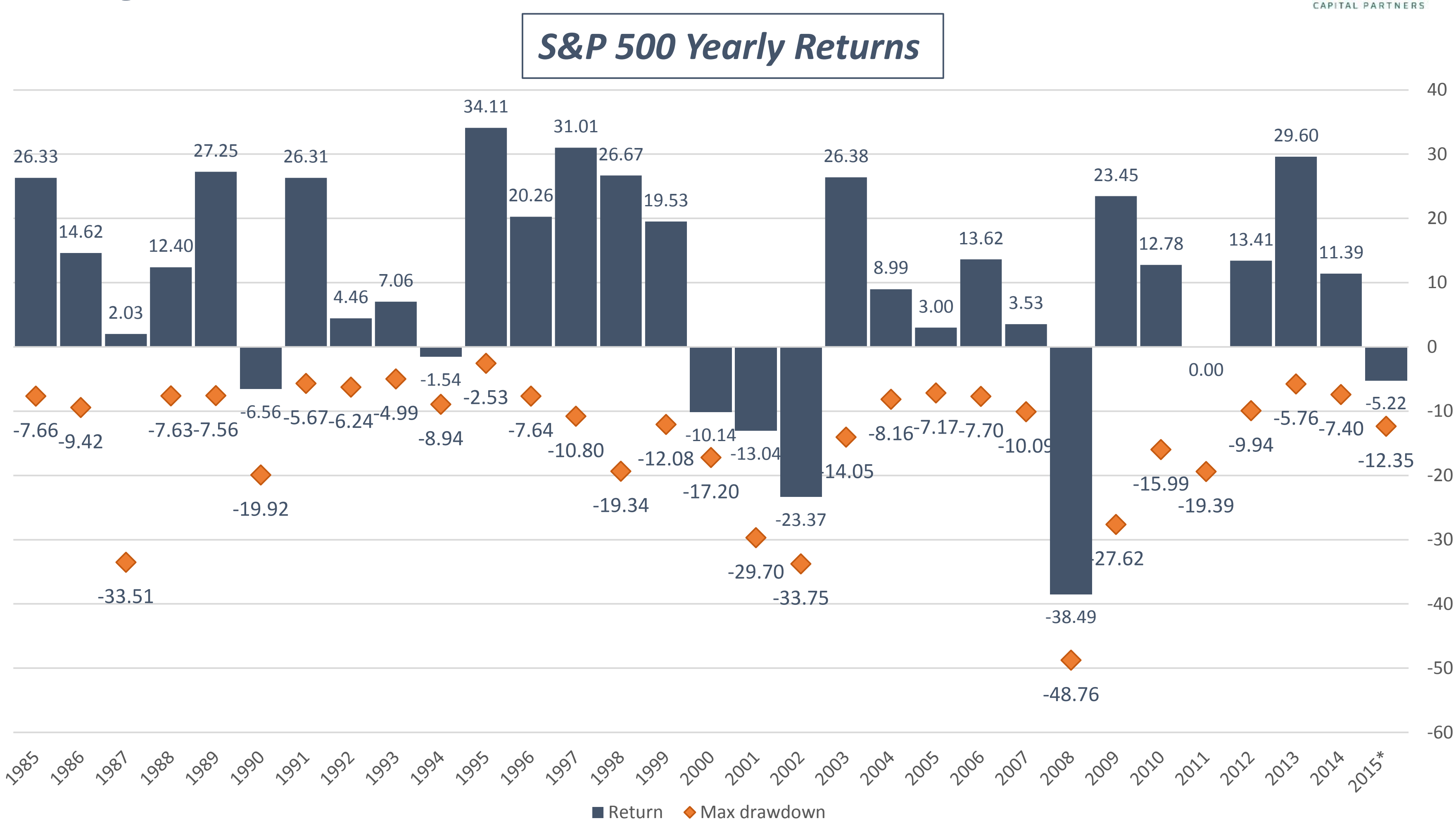
Intra-year Declines



1985-2014 average return: 10.2%
1985-2014 average intra-year drawdown: -14.2%

Drawdowns such as this year's are common for the market and more times than not stocks recover their losses before the end of the year.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015
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Historical Perspective

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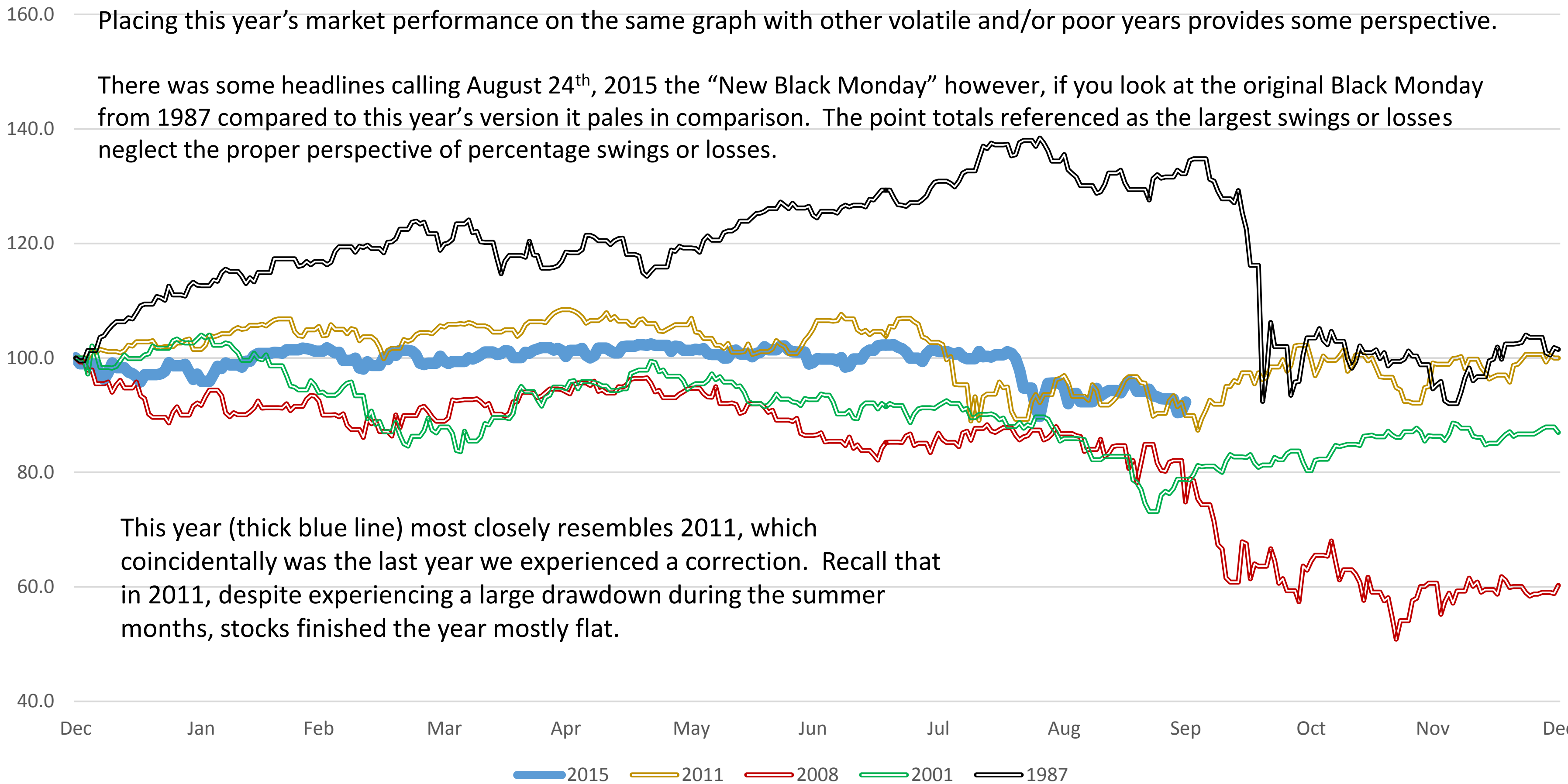
S&P 500 Index: Selected Calendar Years Price Return



See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015

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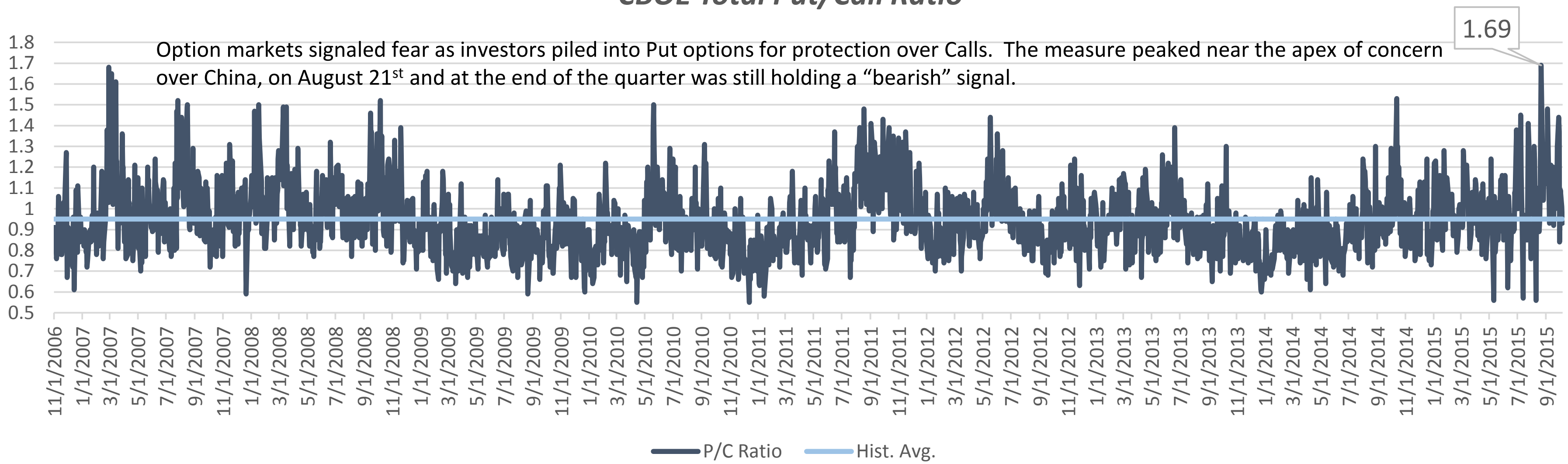
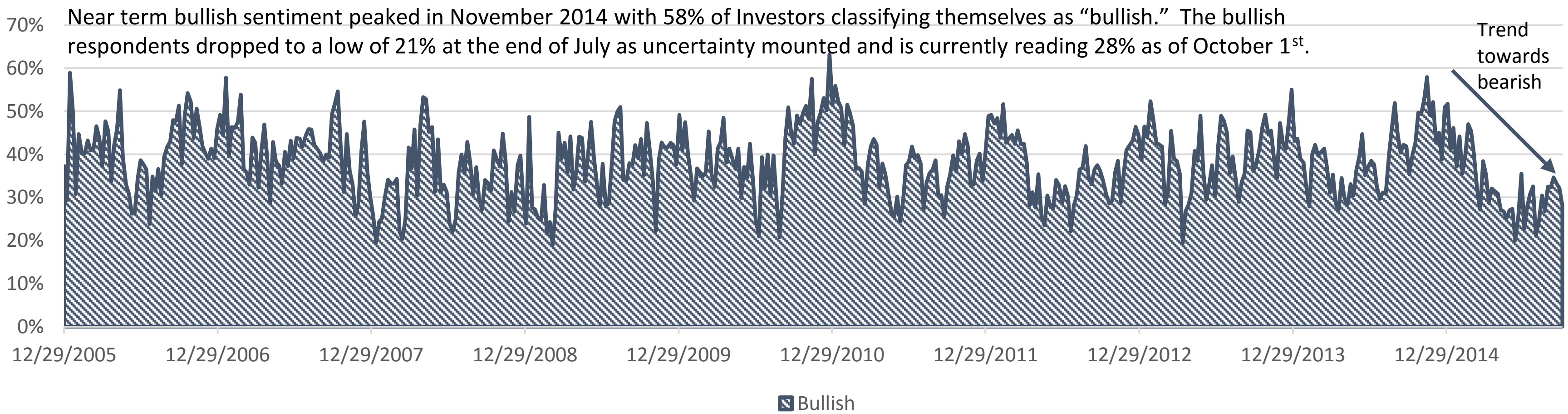
Investor Sentiment

CBOE Total Put/Call Ratio



American Association of Individual Investors Weekly Sentiment Survey



Source: CBOE (top)[4], American Association of Individual Investors (bottom)[5]

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China

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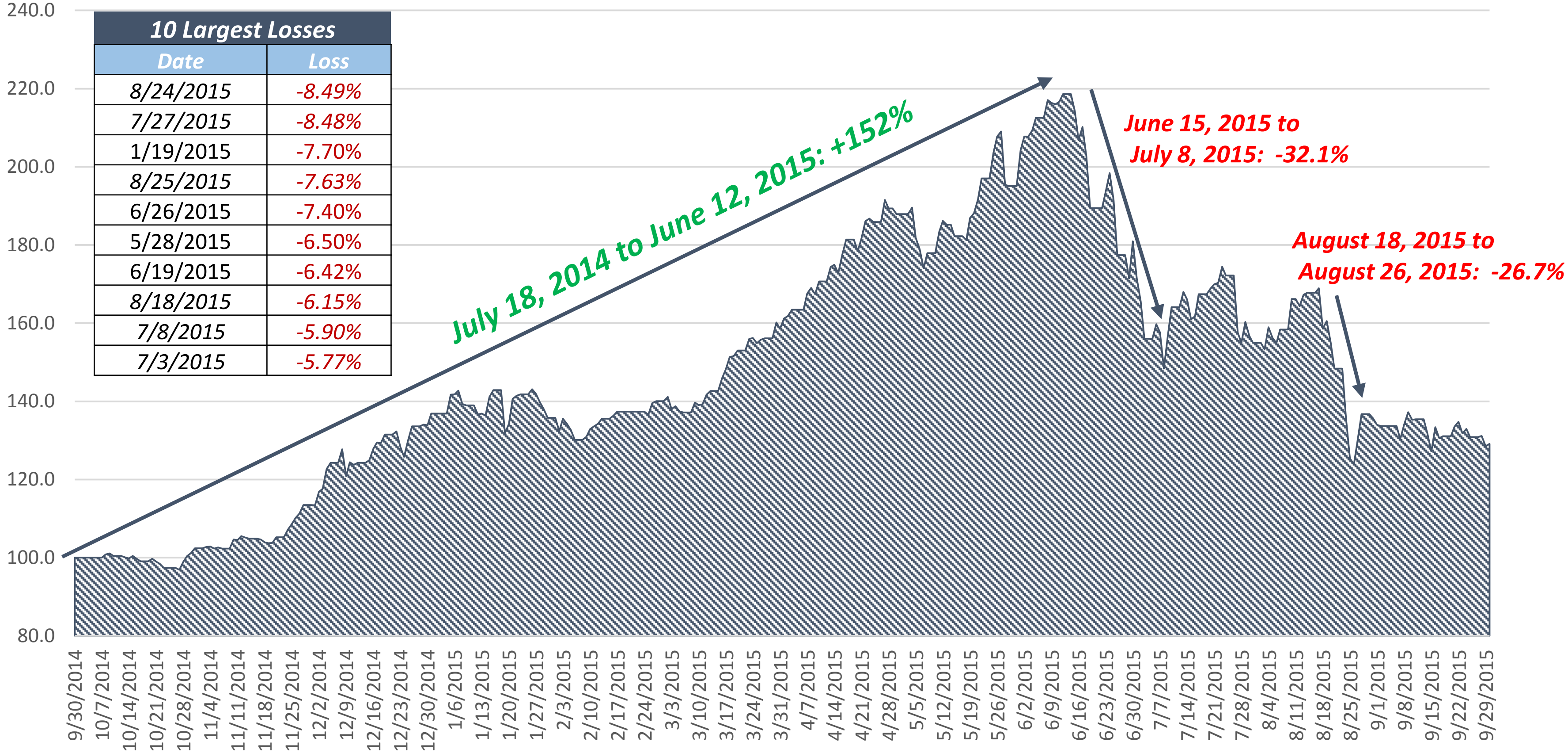
Shanghai SE Composite Total Return



10 Largest Losses

Date	Loss
8/24/2015	-8.49%
7/27/2015	-8.48%
1/19/2015	-7.70%
8/25/2015	-7.63%
6/26/2015	-7.40%
5/28/2015	-6.50%
6/19/2015	-6.42%
8/18/2015	-6.15%
7/8/2015	-5.90%
7/3/2015	-5.77%

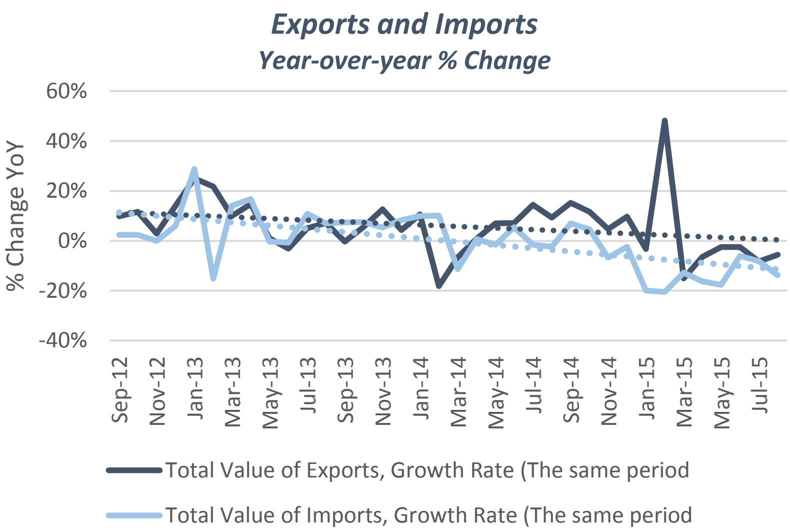
After an exuberant run up where China stocks shot up over 150% in less than a year, the crash in China equities shook markets around the world in the third quarter as the Shanghai Stock Exchange plummeted deep and swiftly. The market experienced extreme volatility. Seven trading days saw losses in excess of 5% during the three months ending 9/30/2015. The first leg down during the summer was mostly contained to China with light effects around Asia. The second leg down brought on significant selling in developed markets around the world (including US stocks) as well as intense government intervention from the Chinese – most notable in the currency markets.

See Disclosure and Index Definitions, Pages 48-49

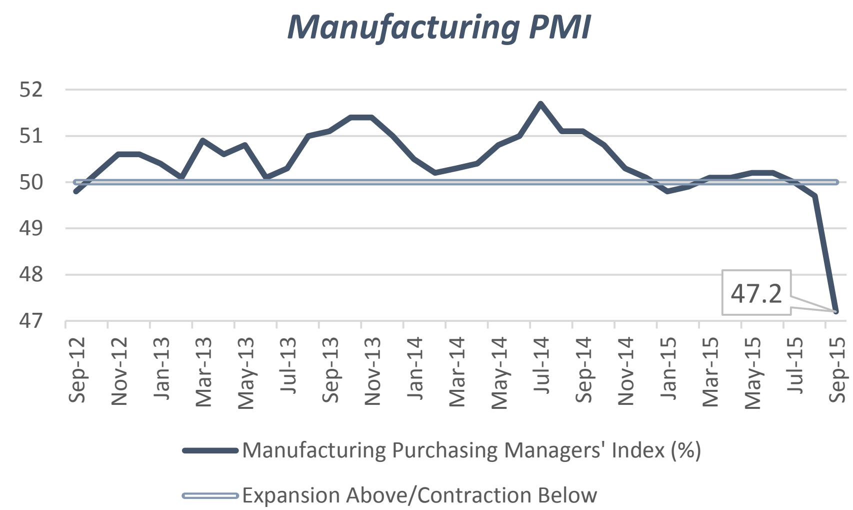
Source: Morningstar Direct as of 9/30/15

China

The concern for developed market economies was the effect of China's economic slowdown and maturation. The slowing growth has been visible for years now but the debate over whether it would be a "hard" or "soft" landing caused ambiguity. Recent economic data out of the country was considered weak, below are two measures that warranted caution:



Both demand for global Imports by the Chinese consumer and demand for Chinese exports by global consumers is significantly lower from a year ago.   August readings showed imports down nearly 14% and exports down over 5%. The Chinese government's currency manipulation is theoretically a boost to the Chinese export economy.



China is a manufacturing driven economy and as measured by the Purchasing Manager's Index (PMI) this activity contracted severely in September. This release came on September 22nd and was not only low but also below many analysts' and economists' expectations as it hit a 6 ½ year low. Developed equity markets took another leg down and retested their lows for the year after this release.

See Disclosure and Index Definitions, Pages 48-49

Source: Natural Bureau of Statistics of China[6]

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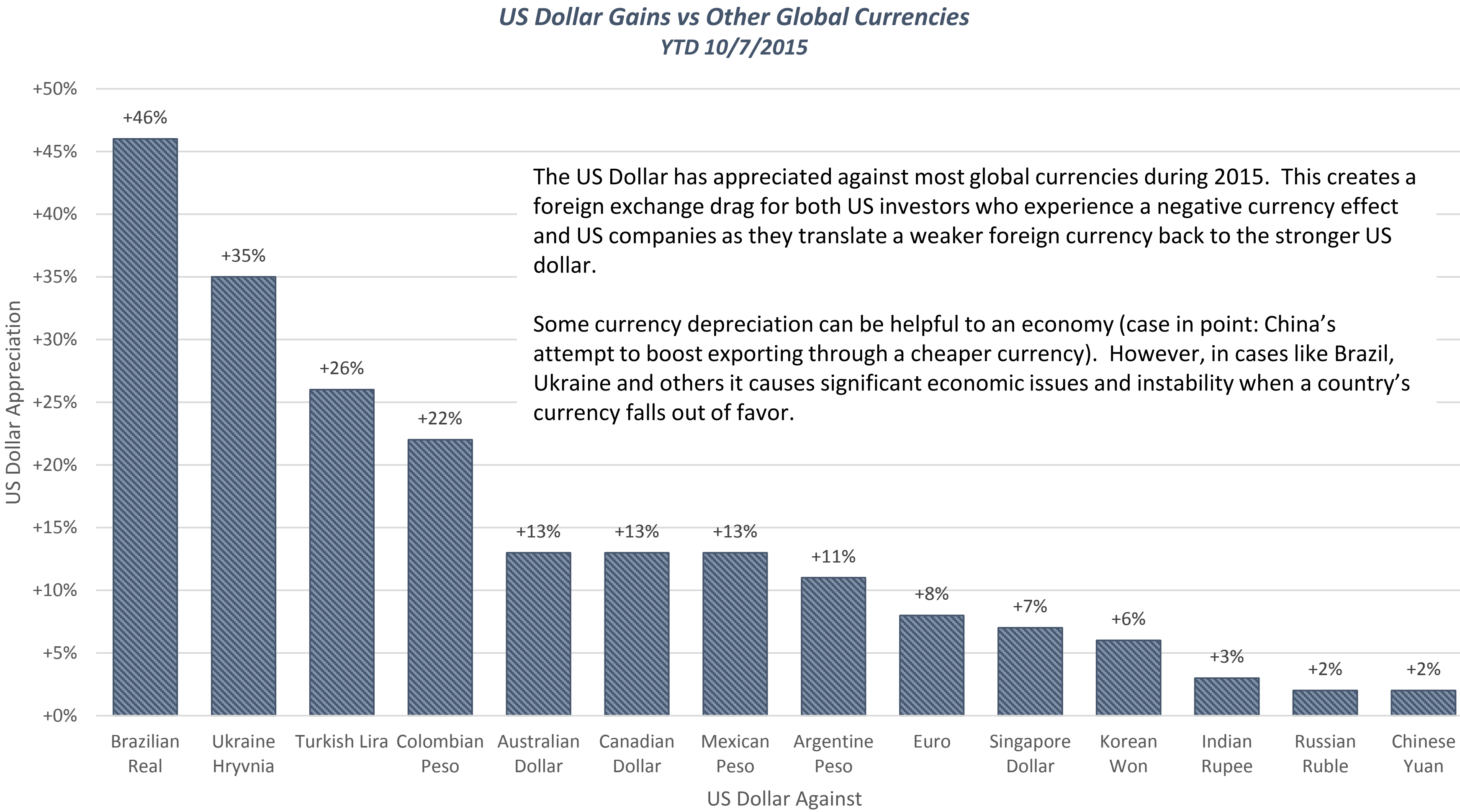
Currency Fluctuations



The US Dollar has appreciated against most global currencies during 2015. This creates a foreign exchange drag for both US investors who experience a negative currency effect and US companies as they translate a weaker foreign currency back to the stronger US dollar.

Some currency depreciation can be helpful to an economy (case in point: China's attempt to boost exporting through a cheaper currency). However, in cases like Brazil, Ukraine and others it causes significant economic issues and instability when a country's currency falls out of favor.

Source: Morningstar Direct as of 9/30/2015

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See Disclosure and Index Definitions, Pages 48-49

US Dollar Effects

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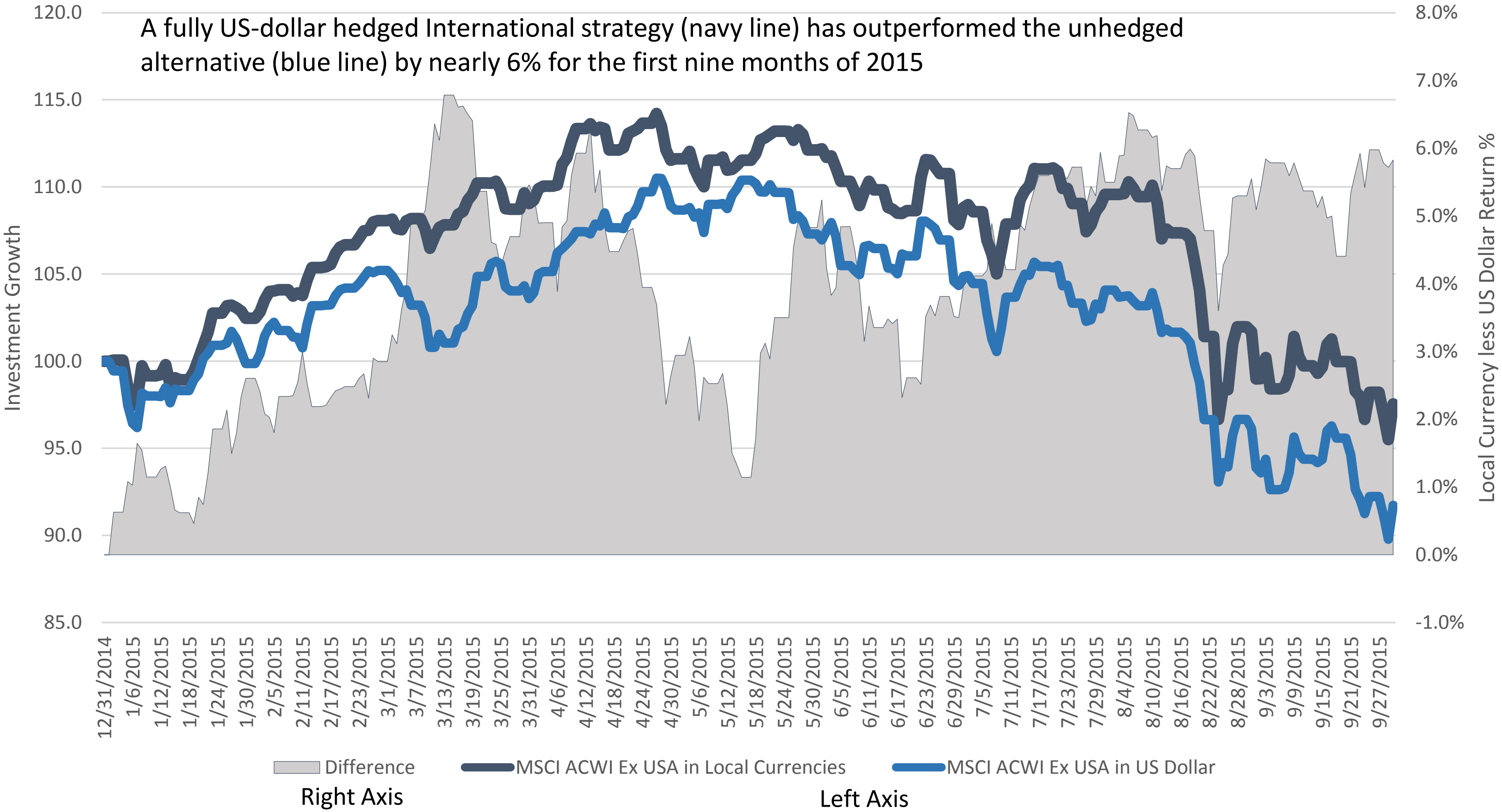
MSCI ACWI Ex USA in Local Currencies and US Dollar Terms with Performance Difference YTD 9/30/15



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Energy Sector

The drop in the Energy sector, precipitated by the price of oil collapsing among other factors, has weighed on all domestic equities.

The Energy sector currently makes up around 7% of the S&P 500 but that has deteriorated over the past few quarters as oil and other energy commodity prices have fallen. The oil drop can be partially explained as a simple supply and demand issue. In the table below, it's observed that consumption hasn't met, nor is it expected to meet, Production for the past couple years and going forward.

Earnings in the Energy sector are expected to down an amazing 66% from a year ago, according to S&P Capital IQ. The drag by the Energy sector on the total market is such that without the sector the market would grow earnings by 3%, while with the sector included, will experience negative growth of -5%.

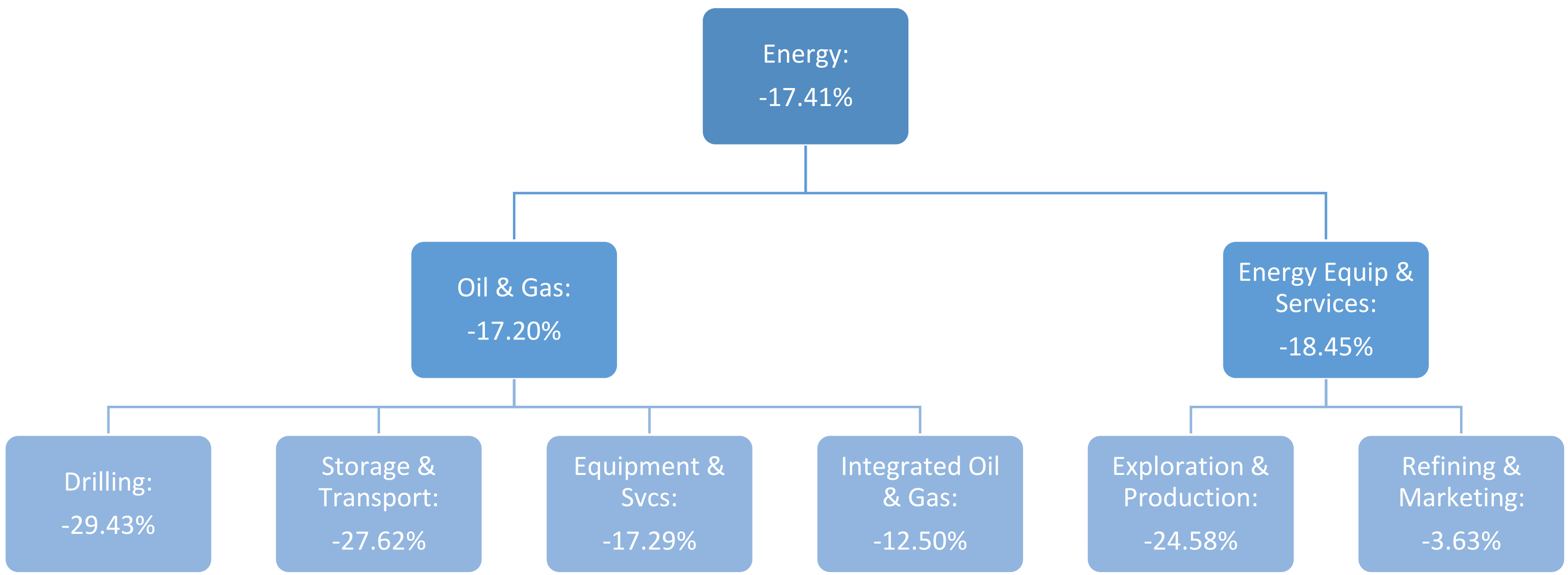
Millions of barrels per day: Production (Supply)	2013	2014	2015*	2016*	% Growth since '13
US	12.4	14.1	14.8	14.7	19.3
OPEC	36.4	36.4	37.3	37.6	3.3
Global	91.1	93.4	95.7	96.0	5.5
Consumption (Demand)	**2013**	**2014**	**2015***	**2016***	**% Growth since '13**
US	19.0	19.1	19.4	19.6	3.2
China	10.5	10.9	11.1	11.4	8.9
Global	91.3	92.5	93.6	94.9	4.0
Net Inventory Change	***-0.2***	***+0.9***	***+2.1***	***+1.1***	

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, JP Morgan Guide to the Markets as of 9/30/15, St. Louis Fed Economic Research (FRED)[7], Value Walk/S&P Capital IQ[8]

Energy Sector

3rd Quarter 2015 Total Return



The hardest hit areas of the Energy sector are the ones at the first point of contact with the commodity. Drillers have lost over half of their collective value in the twelve months ending 9/30/15 (-54.9%). Exploration & Production companies fall next in line with, with a return of -41.5% during the same period.

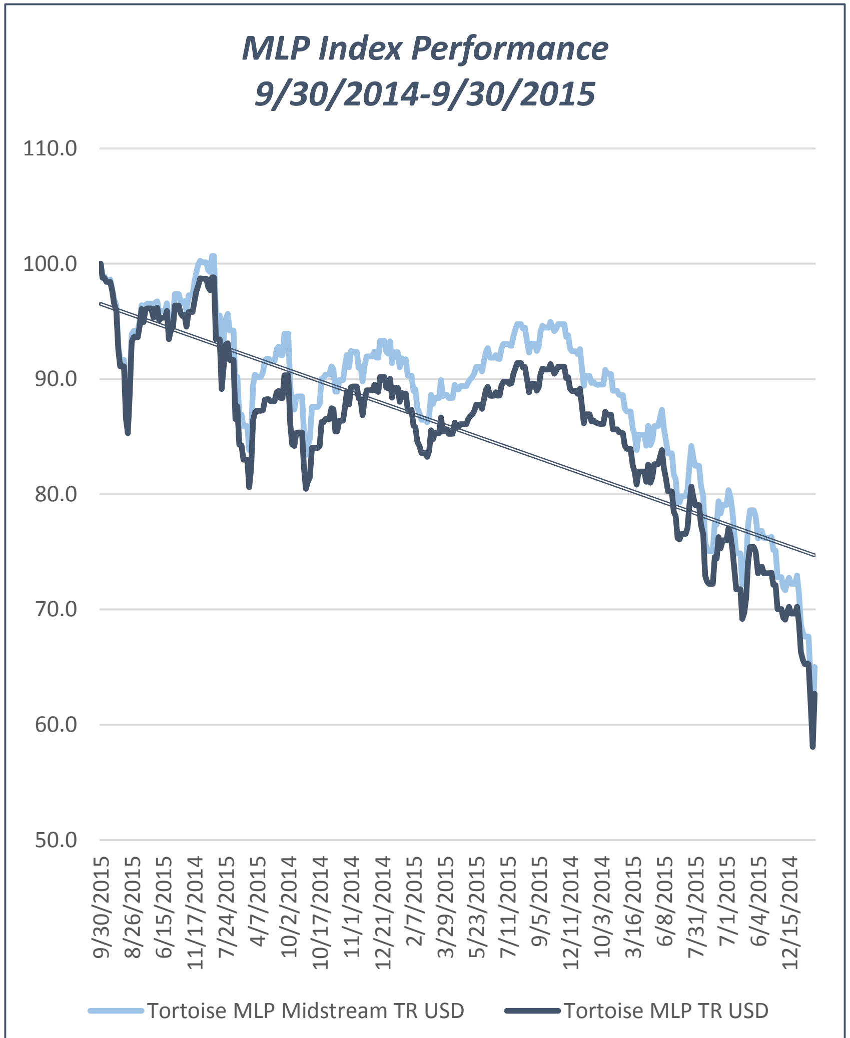
The Refining & Marketing subindustry has held up well, actually outpacing the broad market for the quarter and producing a return over +14% for the year through 9/30/15. Integrated Oil & Gas companies include the typical Energy giants like Exxon Mobil, Chevron, ConocoPhillips, etc., and are down -12.5% in just the 3rd quarter alone. They've held up better than less diversified Energy companies but operations are still weakened by low oil and gas pricing.

Source: Morningstar Direct as of 9/30/2015

Investors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees. The securities identified do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.

See Disclosure and Index Definitions, Pages 48-49

Master Limited Partnerships (MLPs)



Alerian MLP Index Total Return 9/30/2014-9/30/2015			
Five Worst Days		*Five Best Days*	
Date	*Loss*	*Date*	*Gain*
9/29/2015	**-5.81%**	**9/30/2015**	**8.79%**
9/28/2015	**-5.72%**	12/17/2014	4.73%
12/8/2014	-5.39%	10/16/2014	4.56%
11/28/2014	-5.26%	**8/27/2015**	**4.40%**
8/5/2015	**-5.11%**	10/15/2014	4.06%

After stellar performance derived from a North American Energy renaissance and high distribution yields in a low rate environment, MLPs fell out of favor as energy prices plummeted. The asset class collectively lost over 40% during the past twelve months with high volatility. Even mid-stream assets, which theoretically should be insensitive to energy prices were included in the sell off.

There appears to be an extreme disconnect between fundamentals and valuation in the MLP space.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015
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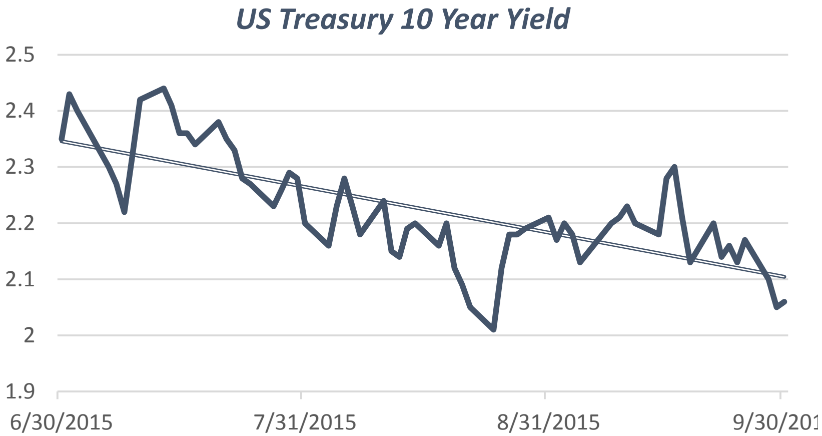
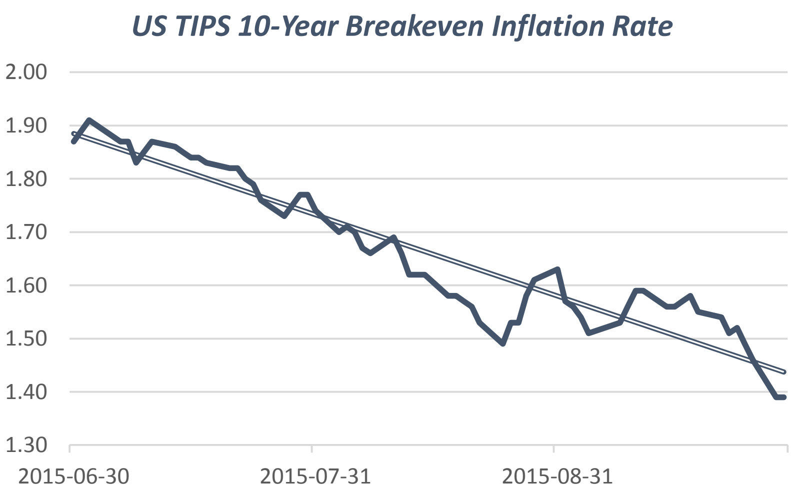
The Fed Decision



Bonds rallied after the meeting, sending the benchmark 10-year Treasury yield under 2% in October while inflation expectations sank gradually over the quarter.



After much debate and prognostication, the FOMC decided to leave the Fed Funds Target Rate unchanged at 0.00%-0.25% in September. The decision continued the easy money policies that have been in place since the credit crisis of 2008 that partially fueled the bull market in stocks.

The market is increasingly viewing the Fed's lack of movement as uncertainty for US and global economic growth. Conflicting economic data continues to trickle in and there remains downside risks for both maintaining low rates and for increasing rates into a possible slowdown alike. The markets turn to the Fed governors for guidance on macroeconomic developments to create top down views and as the Fed continues to deliver contradicting statements, volatility picks up in capital markets, which has been observed.

The Fed's Dual Mandate calls for stable pricing and maximum employment. It's also typically accepted that the Fed watches financial markets in the US and abroad when considering it's policy decisions. Beyond these mandates, the Fed also appears to care about the strength of the US Dollar (to encourage trade) and market expectations for a rate hike (they don't want to surprise the market).

While the headline unemployment rate is nearing maximum levels, there remains "slack" in the labor market regarding participation rates. There is limited growth in wages despite a falling unemployment rate.

Inflation may be main issue holding up the Fed. CPI is dropping as well as market based inflation measures from TIPS pricing. This can also be seen in the drop in commodity pricing.

Looking ahead, the Fed Funds Futures market is now pricing in the first rate increase during 2016, rather than this year.

See Disclosure and Index Definitions, Pages 48-49

Source: CME Group FedWatch[9], US Treasury[2], St. Louis Fed Economic Research (FRED)[10]

Credit Spreads

B of A Merrill Lynch US High Yield Master II Option-Adjusted Spread

Credit spreads widened to their highest levels since the Financial Crisis in 2008 during the selloff in August and September. This was particularly the case for the lowest quality debt issuers and companies exposed to the rout in oil prices.

Bloomberg estimates that Energy companies make up 15% of the high yield bond market and a total of $212 billion worth of paper. In some cases yields jumped to over 30% for the most speculative securities of oil and gas companies. Fitch Ratings commented that the default rate for the trailing 12-months ending in August hit 3% and could rise to 4% (more than double the historic average of 1.9%).

Energy companies are far and away the largest factor dragging down the high yield corporate bond index. The table below illustrates the index performance:

	3rd Qtr. 2015	YTD 9/30/15	TTM 9/30/15
Barclays High Yield Corporates	-4.86	-2.45	-3.43
Barclays High Yield Corporates: Energy	-15.90	-12.24	-21.57

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/15, Bloomberg/Fitch Ratings[11], St. Louis Fed Economic Research (FRED) [12]

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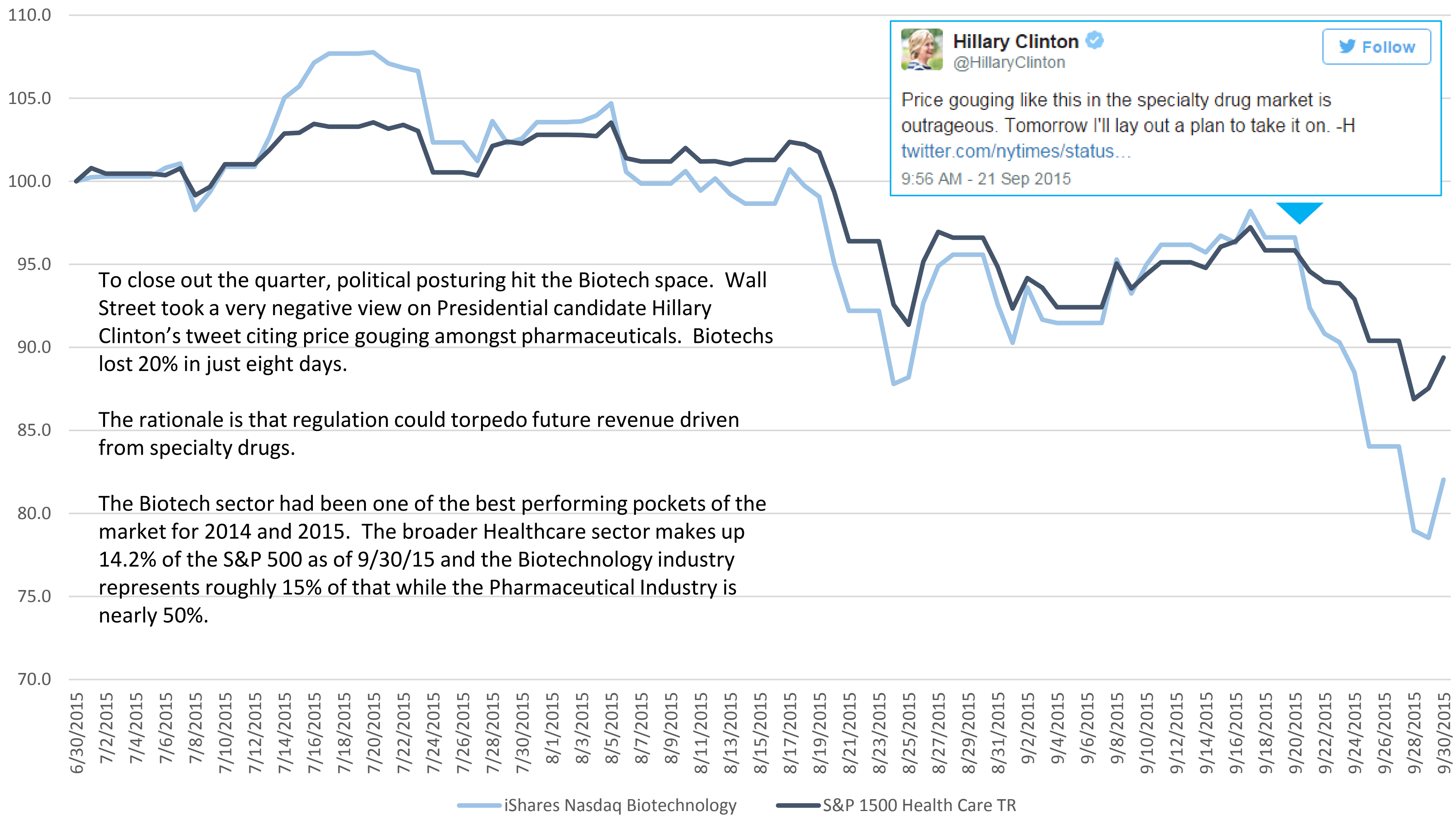
Biotech/Healthcare

3rd Quarter 2015, Biotech and Healthcare



To close out the quarter, political posturing hit the Biotech space. Wall Street took a very negative view on Presidential candidate Hillary Clinton's tweet citing price gouging amongst pharmaceuticals. Biotechs lost 20% in just eight days.

The rationale is that regulation could torpedo future revenue driven from specialty drugs.

The Biotech sector had been one of the best performing pockets of the market for 2014 and 2015. The broader Healthcare sector makes up 14.2% of the S&P 500 as of 9/30/15 and the Biotechnology industry represents roughly 15% of that while the Pharmaceutical Industry is nearly 50%.

See Disclosure and Index Definitions, Pages 48-49

Source: Morningstar Direct as of 9/30/2015, Twitter: @HillaryClinton

Important Disclosures

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Footnotes

1. http://www.bloomberg.com/news/articles/2015-09-29/bespoke-biotech-stocks-could-fall-another-10-percent
2. http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield
3. https://www.cboe.com/micro/vix/historical.aspx, https://www.cboe.com/micro/impliedcorrelation/
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8. http://www.valuewalk.com/2015/10/q3-sp-500-earnings-to-fall-for-the-first-time-since-q3-2009/
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10. https://research.stlouisfed.org/fred2/series/T10YIE
11. http://www.bloomberg.com/news/articles/2015-08-13/loomis-aims-for-bloodless-grab-at-falling-knife-in-energy-bonds
12. https://research.stlouisfed.org/fred2/series/BAMLH0A0HYM2

Index Definitions

Page	Data point	Index Used
3	US Stocks	S&P 500 TR USD
3	Developed Intl Stocks	MSCI EAFE GR USD
3	Emerging Mkts Stocks	MSCI EM NR USD
3	US Bonds	Barclays US Agg Bond TR USD
3	Intl. Bonds	Barlcays Gbl Agg Ex US TR USD
4 & 5	US Bonds	Barclays US Agg Bond TR USD
4 & 5	High Yield	Barclays High Yield Corporate
4 & 5	US Large Cap	S&P 500 TR USD
4 & 5	REITs	FTSE NAREIT All Equity REITs TR USD
4 & 5	DM Equity	MSCI EAFE GR USD
4 & 5	US Small Cap	Russell 2000 TR USD
4 & 5	EM Equity	MSCI EM NR USD
4 & 5	Commodities	Bloomberg Commodity TR USD
6	US Bonds	Barclays US Agg Bond TR USD
6	Cash	Morningstar Cash C
6	US High Yld	Barclays High Yield Corporate
6	REITs	FTSE NAREIT All Equity REITs TR USD
6	DM Equity	MSCI EAFE GR USD
6	US Lg Cap	S&P 500 TR USD
6	US Sm Cap	Russell 2000 TR USD
6	EM Equity	MSCI EM NR USD
6	Cmmdty	Bloomberg Commodity TR USD
9	Sector Returns	S&P 1500 TR USD by Sector
10	Style Returns	Russell 3000 TR USD by Style
11	Factor Returns	MSCI USA GR USD weighted by Factor

Page	Data point	Index Used
12 & 13	Country Returns	MSCI IMI NR USD by Country
15	US Municipals	Barclays Municipal TR USD
15	US MBS	Barlcays US MBS TR USD
15	US Aggregate Bonds	Barclays US Agg Bond TR USD
15	US Treasury Bills	Barclays US Treasury Bills TR USD
15	US High Yield	Barclays High Yield Corporate
15	World Bonds ex US	Barclays Gbl Agg Ex US TR USD
15	Emerging Mkts Bonds	JPM GBI-EM Diversified Composite TR USD
16	World Ex US REITs	S&P Global Ex US REIT NR USD
16	US REITs	FTSE NAREIT All Equity REITs TR USD
16	REIT Sector Returns	DJ US Select REIT TR USD by Sector
17	Commodity Returns	Bloomberg Sub TR USD by Commodity
22 - 28	Blue Stock Chart	S&P 500 Price Level
31	All Data Points	All US Stocks listed on NYSE or NASDAQ above $500 million mkt cap
32	Stocks	S&P 500 ETF (SPY)
32	Bonds	Barlcays US Aggregate Bond ETF (AGG)
33	Peer Groups	Morningstar Category Averages
34	Alternatives Indices	Correlation Matrix descriptions corresponds to top table
35	S&P 500	S&P 500 TR USD
36	S&P 500	S&P 500 TR USD
37	Shanghai SE Composite	Shanghai SE Composite TR CNY
41	MSCI ACWI Ex USA (navy)	MSCI ACW Ex USA TR LCL
41	MSCI ACWI Ex USA (blue)	MSCI ACW Ex USA TR USD
43	Energy Sector/Industry/Sub Industry Returns	S&P 500 TR USD by Sector, Industry and Sub Industry

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