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Truth, Knowledge, Experience *4th Quarter 2015*

Market Update for the Quarter Ending September 30, 2015

Presented by Stephen A. Geremia

Hi Everyone,

As we head into the holiday season, the markets seem to have found a support level. I don't think we are out of the woods yet and expect more volatility ahead. This is a good time to ignore the "prognosticators" and stay the course.

Sincerely,
Steve Geremia

In This Issue:

U.S. markets weak

September was a weak month for U.S. markets, with the Dow Jones Industrial Average, S&P 500 Index, and Nasdaq down 1.35 percent, 2.47 percent, and 3.27 percent, respectively. All three indices also posted losses for the quarter, as the Dow, S&P 500, and Nasdaq dropped 6.98 percent, 6.44 percent, and 7.35 percent, respectively, leading to the weakest quarter since 2011.

Monthly weakness was driven by fundamental and technical factors. Per FactSet, at September's end, the estimated earnings decline rate for the third quarter was 4.5 percent—well below the expected 1-percent decline forecast as of June 30. Technical factors that led to weakness included the S&P 500's strong drop through the 2,000 level in August and its inability to recover in September.

International markets suffered much more than U.S. markets. The MSCI EAFE Index declined 5.08 percent in September on growing political stress around Europe's refugee crisis. For the quarter, the EAFE was down 10.23 percent.

Emerging markets performed worst of all, with the MSCI Emerging Markets Index down 3.26 percent for the month and down a significant 18.53 percent for the quarter. In addition to the troubles in Europe, China's growth continued to slow, damaging its markets and the economies of emerging markets dependent on its growth.

Unlike equities, core fixed income showed a small gain in September, with the Barclays Capital Aggregate Bond Index up 0.68 percent, taking the quarter to a small 1.23-percent gain. The Barclays Capital U.S. Corporate High Yield Index, however, lost 2.60 percent for the month and 4.86 percent for the quarter on weakening credit conditions in energy and materials.

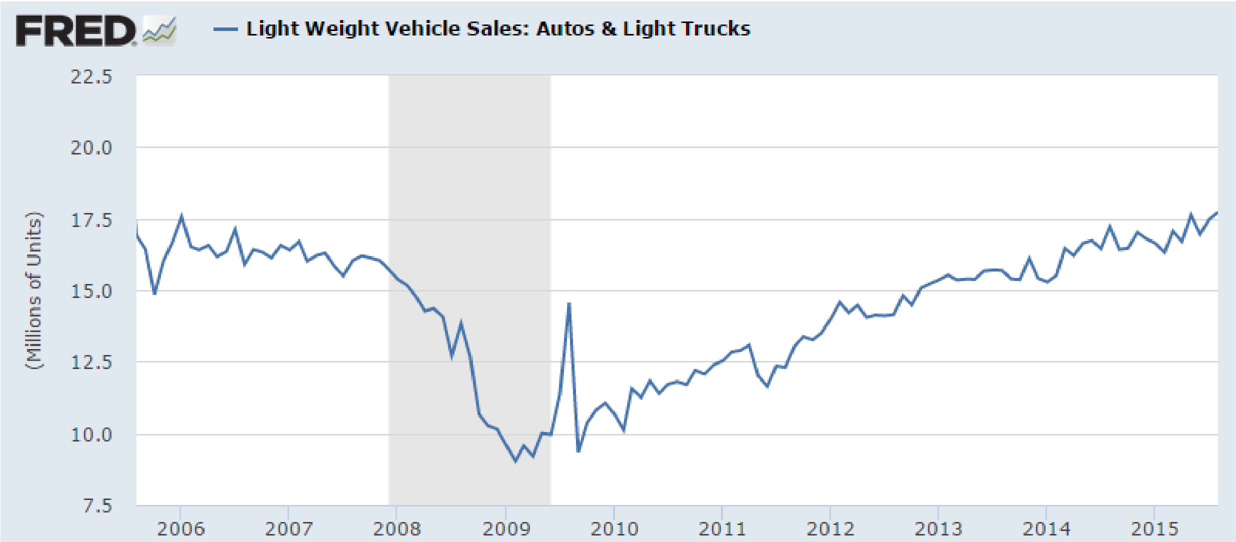
U.S. economy shows signs of slowing

Good news for the U.S. economy continued in September, but signs of slowing

"The four most dangerous words in investing are 'this time it's different.'"

- Sir John Templeton

Figure 1. Light-Weight Vehicle Sales, 2006–2015



Source: U.S. Bureau of Economic Analysis

Other news was mixed. New home sales continued to grow at a strong rate, and confidence in the homebuilding industry set a new high, but existing home sales declined. Retail sales grew less than expected.

Job gains were well below expectations, at 142,000, far less than the 200,000-plus levels of recent months. But other metrics were strong, with a record number of job openings posted and initial jobless claims remaining low.

Consumer confidence showed mixed results for September. The University of Michigan Consumer Sentiment Survey dropped from 91.9 to 85.7, though the Conference Board's Consumer Confidence Survey, released later in the month, showed an unexpected increase.

Given the signs of a slowdown and risks elsewhere, the Federal Reserve decided to postpone any rate increase—a somewhat surprising decision that rattled markets.

Investors pull back as risks rise

September is historically a difficult month, and that has been the case this year, particularly in international markets. Although the U.S. has suffered less damage so far, we have experienced declines and been exposed to growing geopolitical and economic turbulence; consequently, although the U.S. recovery will likely continue, it could be at a slower pace.

Looking ahead, we can expect markets to adjust to lower growth rates and companies to adjust their expectations. Investors with properly diversified portfolios have enjoyed the market run-up of the past few years and should be prepared to take any downturns in stride. On balance, more turbulence looks possible, but the U.S. remains well positioned for the future, and U.S. investors should continue to participate in the growth.

All information according to Bloomberg, unless stated otherwise.

Disclosure: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an*

Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Barclays Capital Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Barclays Capital U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

> Success is not final; failure is not fatal: It is the courage to continue that counts.
> - Winston S. Churchill

Your 401(k) Is Not an ATM: 6 Things to Consider Before Taking a Loan from Your Retirement Plan

Presented by Stephen A. Geremia

If you are trying to bridge a financial gap and considering taking a loan from your retirement plan, pause for a minute. This is a major decision that should not be made lightly, as there are consequences that could affect your ability to fund your future retirement. Below are six things you need to be aware of before you borrow from your 401(k) savings:

You'll incur double taxation. You will repay the loan with after-tax dollars, and because the interest you pay is not tax-deductible, you will pay tax on it again in the future when you retire and start withdrawing funds from your account.

Your take-home pay will be reduced. Most plans require you to start repaying the loan (via paycheck deductions) almost immediately after you borrow the money. Your loan payment will reduce your take-home pay, potentially impacting your ability to meet your monthly expenses.

Your taxable income may increase. Most likely, you will reduce or eliminate your normal 401(k) contributions until you have repaid the loan. Your loan repayments are not tax-deferred, and they do not reduce your taxable income like 401(k) contributions do. As a result, you could shift into a higher tax bracket until you repay the loan and begin to contribute to your retirement savings again.

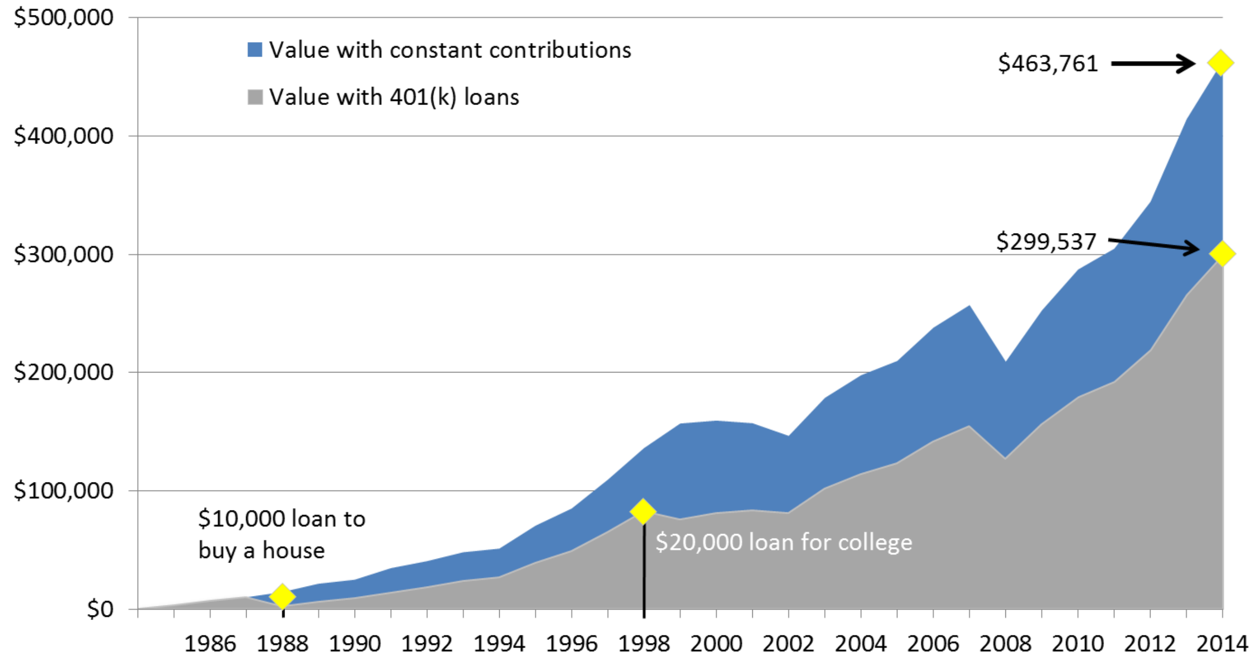
Your repayment schedule will accelerate if you leave your company. If you lose your job or leave the company, it's not uncommon for plans to require full repayment of a loan within 60 days. This could create additional unforeseen financial stress for your household.

Failure to repay by the deadline will trigger a taxable event. Most 401(k) plan loans must be repaid within five years. If you do not repay your loan based on the terms of the loan agreement, your employer will treat the loan balance as a distribution, triggering income taxes and the 10-percent early withdrawal penalty if you are younger than age 59½.

You will lose the magic of compounding. There is an opportunity cost associated with long-term compounding earnings. When you take a loan from your 401(k), you lose the ability to earn interest on that money, which can affect your total portfolio balance come retirement.

Your 401(k) plan is one of the best ways to save for retirement and help ensure your future security. Explore alternative options and consider all the implications before you take a loan or withdrawal from your employer-growth were evident. Positive data points included rising auto sales, as illustrated in Figure 1, and very strong results from the service sector. Personal income and spending also showed reasonable gains

Illustration: How 401(k) Loans Can Affect Retirement Savings



Source: Morningstar®, Commonwealth Financial Network

Assumptions: The 401(k) participant began contributing to his account at the beginning of 1985. His starting salary was $30,000, with a 2.25-percent pay raise each year, and he contributed 6 percent of his salary to the account annually. The company matched 50 percent of his annual contribution at the end of each year. The participant's investments were allocated between the S&P 500 (60 percent) and the Barclays Capital U.S. Aggregate Bond Index (40 percent). In the scenario where 401(k) loans were taken, the participant paid back both loans annually over four years, was assessed annual interest of 5 percent on the loans, and did not contribute to his 401(k) during those years. The first loan, for $10,000, was taken in January 1988 to help purchase a house and was paid back by December 1991. The second loan, for $20,000, was taken in January 1998 to help finance a child's college tuition and paid back in December 2002.

All indices are unmanaged, and investors cannot invest directly in an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Barclays Capital government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities.

> "On the other hand, investing is a unique kind of casino-one where you cannot lose in the end, so long as you play only by the rules that put the odds squarely in your favor."
> - Benjamin Graham, The Intelligent Investor