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FINANCIAL LP

3rd Quarter 2015

The third quarter was capped by a selloff in September which resulted in the worst quarterly stock market performance in the last four years. After six years of positive annual returns, a market correction was inevitable. For the quarter, U.S. stocks were the best horse in a weak field. The S&P 500 lost 6.44%, while the international markets were down 10.23% and 17.90%, respectively, as measured by the MSCI EAFE and MSCI Emerging Markets indices. The decline dragged both the year-to-date and trailing 12-month returns into negative territory for all three indices. We continue to see commodity price weakness, as it declined 14.47% in the quarter. One bright spot was U.S. Treasury bonds, as the yield on the 10-year U.S. Treasury rallied back to the 2% level, causing bond prices to rise. The Barclays Long-Term U.S. Treasury index was the best place to be in the quarter with a 5.08% total return. While highly anticipated, the timing and the magnitude of any correction is unknown. The third quarter answered the timing question, although the jury is still out regarding the magnitude.

On the surface, the market seemed at times irrational during this period of heightened volatility, yet there were clear linkages between the cause and effect of economic events, policy decisions and market reactions. Multiple factors aligned during the quarter to create pricing pressure on stocks, high yield bonds and commodities. Declines in commodity prices led by oil's second leg down raised concerns about emerging market economies and conditions in the energy sector itself. Continued strength in the U.S. dollar led to the forecast of weaker corporate earnings. Central banks here and abroad predictably rushed to relieve the short-term pain. In Europe, a U.S.-style quantitative earning program ran unabatedly. In China, a combination of an economic slowdown and a devaluation in their dollar-pegged currency caused big swings within their market and a rippling downward movement in global markets. In the United States, the Federal Reserve Bank decided after weeks of intense speculation to maintain their zero interest rate policy. The market interpreted this initially as a "no confidence" statement from the Fed and stock prices fell further on the decision. The drop of more than 10% in the S&P 500 index from May's all-time highs was painful. The index had not experienced a correction of that magnitude since 2011. The span of 1,326 days without a 10% correction was one of the longest on record.

It is now time to begin looking forward to 2016. Next year should be especially interesting because of the presidential election in November. The stock market tends to be higher in a presidential election year. In this environment, who can confidently predict? The only thing that we are confident about at this point is a continuation of volatility. Volatile markets test the resolve of investors. Successful investors have clear goals and objectives and the ability to remain focused on their long-term goals. It is on those goals that we intend to stay focused.