

Economic Review

Influenced by turbulence in financial markets and in economies abroad, the Federal Reserve left short-term interest rates unchanged at its September meeting. Information reviewed by the Federal Open Market Committee suggests that economic activity is expanding at a moderate pace. Household spending and business fixed investment have been increasing moderately, and the housing sector has improved further; however, net exports have been soft. The labor market continues to improve, with solid job gains and declining unemployment.

Inflation is virtually non-existent, continuing to run below the Committees' longer run objectives with the Consumer Price Index increasing 0.1% in August and just 0.2% over the last 12 months according to the Bureau of Labor Statistics.

Real gross domestic product (GDP) increased at an annual rate of 3.9% in the second quarter of 2015 reflecting positive contributions from personal consumption expenditures, exports, nonresidential and residential fixed investment, and state and local government spending, that were partly offset by decelerations in private inventory investment and in federal government spending.

The Conference Board's Leading Economic Index inched up 0.1% in August, suggesting economic growth will remain moderate into the new year, with little reason to expect growth to pick up substantially.

The U.S. Bureau of Labor Statistics reported that the unemployment rate was unchanged at 5.1% in September and the number of unemployed persons stood at 7.9 million. The number of unemployed persons has dropped by 1.3 million over the past year. The civilian labor force participation rate fell to a nearly 40 year low of 62.4%.

Consumers now believe that global economic trends can directly influence their own job and wage prospects as well as indirectly via financial markets. While now small, the global economy influence is certain to rise in the future and prompt widespread adjustments by consumers and policy makers according to the September release of the University of Michigan Surveys of Consumers.

Financial Markets Review: Domestic Stock Market

The market's reaction to exogenous events, primarily the slowdown in China, has heightened volatility and sent the major averages to their biggest quarterly dive in four years. The Dow Jones Industrial Average fell for the third straight quarter, down 7.58% to 16,287.70. The S&P 500 fell 6.94% (ex-dividends) for the quarter to 1,920.03, and the NASDAQ sank 7.35% to 4,620.16.

Among the 10 sectors in the S&P 500, only utilities posted a third quarter gain, advancing 5.40%. Sectors with staggering double digit losses for the quarter included energy collapsing 17.41%, materials crashing 16.90%, and health care tumbling 10.67%.

Mid- and small-cap stocks fared worse than large-caps in the quarter, with the S&P Midcap 400 Index falling 8.50% and the S&P SmallCap 600 Index sliding 9.27%.

With respect to style, large-cap growth outperformed large-cap value while small-cap value bettered small-cap growth for the three-month period.

The top-performing stocks in the Dow Jones Industrial Average for the third quarter included Nike (+13.84%), Home Depot (+3.92%), and Visa (+3.74%). Stocks detracting from the Dow's performance with stunning losses included Caterpillar (-22.94%), DuPont (-20.52%), and United Technologies (-19.78%).

Leaders for the quarter among the Dow Jones industry groups included footwear (+6.2), tobacco (+3.4%), and defense (+2.7%). Plunging industry groups in the past quarter included forestry (-39.0%), coal (-32.9%) and Nonferrous metals (-32.3%).

The current price-earnings level of the S&P 500 at 19.46 (per Barron's) is 9.57% lower than the previous quarter and has moved closer to historical averages.

Looking forward to the fourth quarter of 2015, continued global growth concerns and Fed uncertainty will likely dominate headlines. Other factors looming large on the markets include heightened volatility, the precipitous decline in commodity prices, the strong dollar, and deflationary fears. Given a still-growing US economy, we remind investors not to overreact to short term price movements but rather to focus on their investment plan and long term goals. We believe a well-diversified portfolio, periodically rebalanced, is the best defense for these times.

Category/Style	Total Returns (9/30/15)			Annualized Returns (9/30/15)		
	3rd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	-6.44	-5.29	-0.61	12.40	13.34	6.80
Russell 1000 Large Cap	-6.83	-5.24	-0.61	12.66	13.42	6.95
Russell 1000 Growth	-5.29	-1.54	3.17	13.61	14.47	8.09
Russell 1000 Value	-8.39	-8.96	-4.42	11.59	12.29	5.71
Russell 2000 Small Cap	-11.92	-7.73	1.25	11.02	11.73	6.55
Russell 2000 Growth	-13.06	-5.47	4.04	12.85	13.26	7.67
Russell 2000 Value	-10.73	-10.06	-1.60	9.18	10.17	5.35

Source: Frank Russell Company/Standard and Poor's

International Stock Markets

Led by China's slowing growth and recessions in Russia, Brazil, Canada, and Australia, global equities experienced a brutal quarter. Emerging markets with dollar denominated debt and a slowing trade partner in China experienced an even uglier three months.

The MSCI EAFE Index of developed markets dropped 10.23% for the third quarter. Emerging markets plummeted 17.90%, as measured by the MSCI Emerging Markets Index. Frontier markets tumbled 10.57% according to the MSCI Frontier Market Index.

Major international markets were down significantly in the third quarter; with the Stoxx Europe 600 Index falling 8.82% to 347.77. Germany's DAX Index plunged 11.74% to 9,660.44, and France's CAC-40 Index declined 6.99% to 4,455.29. The UK London FTSE 100 Index closed at 6,061.61, losing 7.04%.

In Asia, the Dow Jones Asia-Pacific TSM Index tanked 14.92%, to finish the quarter at 1,296.26. Japan's Nikkei stock average rolled down 14.07% to 17,388.15, and China's Shanghai Composite Index cratered an astonishing 28.63% to 3,052.78.

In the Americas, the DJ Americas index fell 8.42%. Brazil's Sao Paulo Bovespa index toppled 15.11% to 45,059.34, Canada's S&R/TSX composite index lost 8.56% to 13,306.96, and Mexico's IPC All-Share index ended the quarter at 42,632.54 down 5.37%.

Top performing countries for the third quarter based on the S&P Dow Jones Global Indices in US dollars were Latvia (+15.1%), Iceland (+11.2%), and Bangladesh (+5.8%). Bringing up the rear were Kazakhstan (-38.5%), Brazil (-34.2%), and Greece (-26.5%).

US Dollar momentum slowed in the third quarter. The Dollar was basically flat versus the Euro at 1.1178 (EUR/USD), off a mere 0.33%. The dollar fell 2.14% against the Yen for the period, with the Yen ending the quarter at 119.88 (USD/JPY).

World Bond Markets

Bond market returns were mostly positive in the third quarter. The Barclays U.S. Aggregate Bond Index rose 1.23% and the Barclays Municipal Index gained 1.65%, while the Barclays U.S. Treasury TIPS Index dipped 1.15%. The U.S. 10-year note yield fell 28 basis points to 2.06% at the quarter's close. Yields remained paltry for money funds, with the 7-day yield on retail money funds at 0.02% according to iMoneyNet.

Yields on foreign bonds slid in the third quarter, with the 10-year bond yielding 1.80% in the United Kingdom, 1.49% in Canada, 0.60% in Germany, and 0.30% in Japan at quarter's end.

Commodities

Commodities dropped 14.47% in the third quarter as measured by the Bloomberg Commodity Index. The more energy-laden S&P Goldman Sachs Commodity Index folded 19.30% over the same period. Crude oil sank 24.18% to \$45.09/barrel, and natural gas slumped 10.88% to end the quarter at \$2.524 MMBtu. Gold fell 4.78% to 1,115.50 per troy ounce.

Mutual Funds/Exchange-Traded Funds

The average domestic stock fund lost 7.50% in the third quarter, while the average taxable bond fund moved 0.32% higher, according to Morningstar. Energy equity funds fell hardest, declining 22.07% for the period.

The latest release from the Investment Company Institute showed that the combined assets of the nation's mutual funds dipped \$247.9 billion (1.6%) over the past year to \$15.6 trillion at the end of August. The largest decrease was in equity mutual funds which dropped 3.1% to \$8.4 trillion. Exchange-traded fund assets gained \$114 billion (6.1%) to just under \$2 trillion in total. The ETF ranks increased by 140 funds to 1,531, representing an increase of 10.1%.

MUTUAL FUNDS OVERVIEW AS OF SEPTEMBER 30, 2015

Category	Total Returns			Annualized Returns		
	3rd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	1.28	1.10	2.01	2.02	3.35	3.78
Short Taxable Bond	-0.15	0.60	0.53	0.76	1.49	2.92
Intermed. Taxable Bond	0.31	0.31	1.45	1.59	3.17	4.31
Long Taxable Bond	1.74	-1.85	3.19	2.67	5.89	6.19
High Yield Bond	-4.49	-2.19	-3.64	2.89	5.21	5.87
World Bond	-1.24	-.355	-4.49	-0.93	1.21	3.81
Small-Cap Stock	-10.88	-7.71	-1.08	10.38	10.95	6.12
Mid-Cap Stock	-9.17	-6.97	-2.47	11.78	11.22	6.36
Large-Cap Stock	-7.53	-6.48	-2.47	11.28	11.69	5.98
World Stock	-8.66	-5.49	-4.95	7.97	7.37	4.85
Foreign Stock	-10.37	-5.02	-8.05	4.63	3.29	2.94
Natural Resources	-19.99	-21.89	-31.50	-8.92	-3.19	0.17
Real Estate	1.35	-4.06	8.57	8.60	11.18	6.17

Source: Morningstar, Inc.

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Index definitions and other disclosures

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). **Real Gross Domestic Product (real GDP)** is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index (S&P600)** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index (S&P400)** is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly \$750 million to \$3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Morgan Stanley Capital International Index (MSCI) EAFE** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-linked bond index (US TIPS)** measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Bloomberg LP and UBS today announced a strategic partnership that will result in Bloomberg Indexes being responsible for governance, calculation, distribution and licensing of the bank's market leading commodity indexes. The indexes will be renamed from the "Dow Jones-UBS Commodity Index Family" to the "**Bloomberg Commodity Index Family**" as of July 1. The **S&P Goldman Sachs Commodity Index (S&P GSCI)** serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. **Price-earnings ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. The **Investment Company Institute (ICI)** is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Investors cannot invest directly in an index.

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