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# Q4 2015 – Market Overview Newsletter

## Economic Update

If there was one word to describe 2015 it would be volatile, though the year ended pretty much right where it began. The first quarter experienced broad swings but ended slightly down. During the second quarter, the market hit new highs but backed off amid news of Greece and China to end flat. In the third quarter China became more of a concern and markets reacted, plunging down into correction territory. Headline news of China faded in the fourth quarter and losses from the third quarter were recovered.

The broad-based S&P 500 index closed 2015 slightly lower than the start of the year, but including dividends achieved a total return of 1.4 percent. Had the year ended on December 30th rather than the 31st, the S&P 500 would've closed in positive territory. The Dow Jones Industrial Average, which represents just 30 U.S. stocks, fell -2.2 percent for the year (ex-dividends). The Nasdaq Composite Index gained 5.7 percent for 2015 (ex-dividends), powered by strong returns from a small number of large, high profile technology and media firms. Sharp declines in oil and metal prices affected the energy and materials sectors of our economy quite dramatically, as would be expected, and impacted manufacturing to a lesser extent. Other sectors of the economy actually benefitted from lower energy and material costs either directly or through increased consumer purchasing power. There was a huge disparity in performance among industry groups, with more industry differentiation than we've seen since the tech bubble in 2000.

Lower gas prices and declining unemployment have boosted consumer sentiment to its highest level in 10 years. Since consumer spending accounts for 70% of our economy, low oil prices may be good in the long run even though they did create havoc in 2015. Our economy continues to grow at a steady 2% clip, inflation remains low, employment is strong and interest rates are still very low. It seems there is nothing domestically pointing to a recession in the near future.

Worldwide markets acted similarly to the U.S. in 2015 as evidenced by the MSCI All Country World Index (-2.3%). As always, some areas performed better and some worse with the overall impact being roughly the same as the U.S. Low oil and metal prices had varying impact around the world depending on whether one was a supplier or a consumer. After scuttling market expectations throughout the year, the Federal Reserve (Fed) finally raised their target rate by a quarter-point on December 16. The widely anticipated change had little impact on fixed income which had largely prepared for the increase. By that time, the Fed's decision was a foregone conclusion and financial markets barely blinked following the announcement. Positive reports from the job market gave the Federal Reserve enough justification to end seven years of accommodative monetary policy. Through November, U.S. job growth for 2015 averaged more than 210,000 jobs per month. The unemployment rate declined to 5% and there were signs of more vigorous wage growth for U.S. workers.

As we end 2015 and begin 2016 concerns about the slowdown in China, collapsing commodity prices and increased tensions in the Middle East between Iran and Saudi Arabia have led to extremely nervous markets both in the U.S. and abroad. The U.S. exports less than 1% of our Gross Domestic Product (GDP) to China, so the impact domestically of a Chinese slowdown is likely minimal, certainly in our opinion not deserving the 5+% decline experienced in our stock market. The escalated tension between Iran and Saudi Arabia has already impacted U.S. oil companies in a big way through declining oil prices. The Saudi's are flooding the market with cheap oil mainly to put pressure on Iran. China's slowing economy and a declining world demand for oil has further dampened oil prices.

Given all that happened in 2015, the year could have been worse, and would have been without a strong 4$^{th}$ quarter. 2016 is off to a bad start. Cheap oil prices should have a positive impact in 2016 in places like Japan and Europe where most energy is imported. Impact in the U.S. will remain mixed, but should improve as the oil industry sorts through its problems and our economy otherwise remains stable and is growing. Keep in mind we had a roughly break even stock market in 2015 with a dramatic decline in energy and materials. China has been slowing for some time now and should have minimal impact on the U.S.

Stock and bond markets do not like uncertainty. The only certainty we seem to have at the moment is uncertainty but in our view this creates opportunity. Isn't it ironic that at one point in time markets are squeamish because oil prices are too high which will stifle consumer spending and increase manufacturing costs, but at a different point in time these same markets can be nervous that oil prices are too low? Which is it? We'll side with lower oil prices having a positive impact longer term.

As Warren Buffett has been quoted as saying, "Be fearful when others are greedy and greedy when others are fearful." It seems now is a time that many are fearful…

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For more market details from the third quarter, see the "Capital Analysts Q4 2015 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries.

## Timely Reminders

### - Tax Information

Tax season is here once again. Keep an eye out for 1099's and other tax documents over the next couple of months.

### - IRA Contributions

You still have time to make IRA contributions for 2015. Contributions can be made until the earlier of April 15th or upon filing your return.

### - College Choice 529 Indiana State Tax Credit

It's a new year. Consider making your 529 contributions for 2016 to maximize the potential opportunity for tax free growth and secure your 2016 Indiana tax credit!

DISCLOSURE INFORMATION

The material presented is provided for informational purposes only. Nothing contained herein should be construed as a recommendation to buy or sell any securities. The views and opinions expressed herein may or may not represent the views of Capital Analysts or Lincoln Investment. All investments are subject to risk, including the risk of principal loss. Diversification does not guarantee a profit or protect against a loss. The 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. Investors cannot invest directly in an index. No person or system can predict the market. Past performance is no guarantee of future performance.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.

A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

MSCI ACWI - A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.
International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. Emerging markets are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging markets come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities (many large companies may still be "state-run" or private). Also, local stock exchanges may not offer liquid markets for outside investors.

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 U.S. companies in foreign markets.

An individual retirement account (IRA) allows individuals to direct pretax income, up to specific annual limits, toward investments that can grow tax-deferred (no capital gains or dividend income is taxed). Individual taxpayers are allowed to contribute 100% of compensation up to a specified maximum dollar amount to their Traditional IRA. Contributions to the Traditional IRA may be tax-deductible depending on the taxpayer's income, tax-filing status and other factors. Taxes must be paid upon withdrawal of any deducted contributions plus earnings and on the earnings from your non-deducted contributions. Prior to age 59½, distributions may be taken for certain reasons without incurring a 10 percent penalty on earnings. None of the information in this document should be considered tax or legal advice. Please consult with your legal or tax advisor for more information concerning your individual situation.

Participation in a 529 College Savings Plan (529 Plan) does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals.

Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan.
For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.
None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.