Market Review and Outlook—December 3, 2015

The Boomerang Returned The stock markets fell sharply late this summer. In the last report, red losses dominated the 3 and 12-month columns. Now black is back in charge in each column. There are some nice 3 month figures, however the strongest gains were in areas with the strongest losses in the prior quarter. **A typical moderate portfolio recovered over 2% in the past quarter**, and yet still suffered a loss of almost 1% for the past year.

The quick rebound following the quick drop indicates a very emotional market. Investors panicked with weaker economic news from China in August, and Fed nervousness in September, but the same investors were snatching up stocks in October, and then investors seemed to take November off. Our **Drop and Give Me Five™** program is designed to benefit from such bipolar investor behavior.

We have already made substantial portfolio changes this year, changing our US stocks, our foreign stocks, our quality bonds, and our opportunity bonds. We are emphasizing technology, healthcare, and financial sector stocks. The financial sector change is driven by our view that these stocks should benefit from rising interest rates. We have introduced an emphasis on Japan stocks, and have increased our use of Europe stocks, while eliminating a fairly long-term position in global infrastructure stocks given the muted level of global growth for the foreseeable future.

The bond changes are tied to our view of the expected rising interest rates and economic environment. While we recognize that the Fed is poised to end zero interest rates, we expect the climb to be very slow and gradual, and we expect the impact to be much greater for short-term bonds than long-term bonds. The uncertainty, however, has caused us to establish a position in cash, to be able to rush in and purchase bonds in any area if a surprised sharp decline occur. We have streamlined the opportunity bonds, which we like in a strengthening economic, rising interest rate environment.

We want these 2015 changes to run for awhile, so **we are primarily rebalancing at this time**, rather than doing any large shifts between investment areas. As always, however, our top focus is on the overall stock/bond portfolio balance, while also paying attention to sub-level balances, replacing poor investments or those with unattractive future outlooks, and finally ensuring that we have incorporated tax-sensitive goals. **We are hopeful that 2016 will bring stronger stock results than 2015 has (thus far).**

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.00%	+0.01%	+0.01%	+0.01%	+1.36%
Intermediate Term Bond	+0.22%	+0.16%	+1.37%	+3.17%	+4.33%
Intermediate Muni Bond	+1.35%	+2.22%	+1.73%	+4.05%	+3.86%
Large-Cap Stock	+4.41%	+0.50%	+14.45%	+12.59%	+6.69%
Mid-Cap Stock	+1.71%	-0.84%	+13.66%	+11.39%	+6.86%
Small-Cap Stock	+3.43%	+1.54%	+13.41%	+10.98%	+6.80%
Foreign Large-Cap Stock	+1.12%	-3.26%	+5.55%	+4.48%	+3.53%
Foreign Small/Mid Cap Stock	+1.12%	+2.62%	+8.56%	+7.30%	+5.67%
Diversified Emerging Markets	+0.60%	-15.87%	-3.31%	-2.87%	+4.06%
Technology	+9.01%	+6.64%	+18.46%	+12.35%	+8.62%
Real Estate	+7.68%	+2.73%	+10.91%	+11.79%	+6.52%
Natural Resources	-2.39%	-18.23%	-6.09%	-4.26%	+0.96%
Moderate Allocation (60% stocks)	+2.18%	-0.84%	+8.02%	+7.85%	+5.49%

The data in this table comes from Morningstar and is as of November 30, 2015