JJ BURNS

2015: 3rd Quarter Summary

"No one goes there nowadays, it's too crowded." *Yankees' great Yogi Berra*

The third quarter was notable for a number of reasons, including the passing of former Yankees' great Yogi Berra. Berra was a 15-time All-Star and a 3-time AL MVP. His 10 World Series rings rival the 11 championships of Bill Russell of the Boston Celtics and Henri Richard of the Montreal Canadiens. Perhaps most impressive, Berra caught 'both ends' of 117 double-headers, back when they were played back-to-back (not day-night). We think 'Yogi-isms' are a great market guide.

Clearly, many markets became less crowded during the third quarter. Much of the news we've been expecting or waiting on has occurred, and the result was to take some of the wind out of China's sails, as well as commodities and emerging markets. Just about every major asset class had a rocky quarter that pulled year-to-date returns into the red:

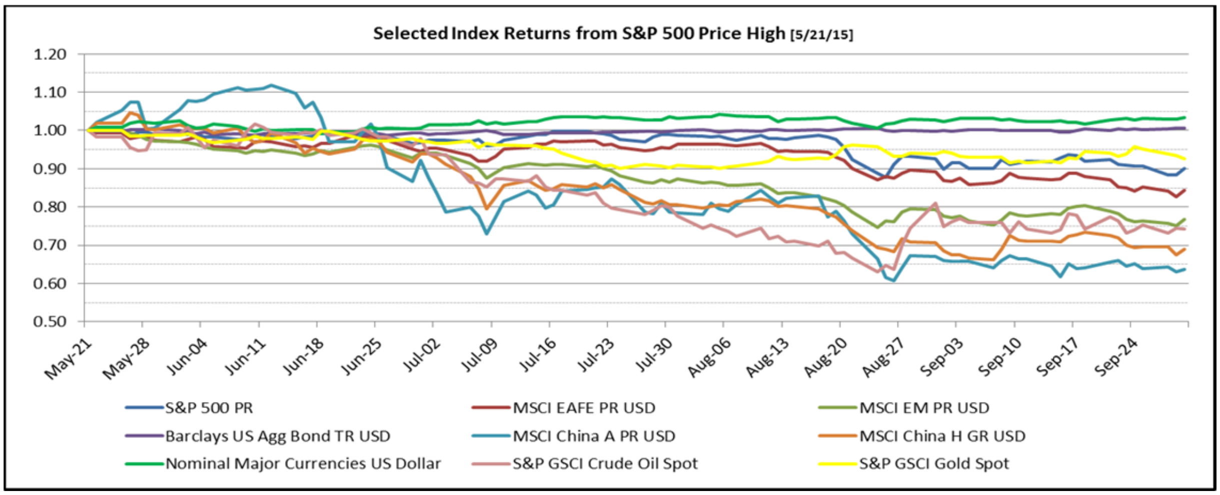
Index	Q3-2015	1st Half 2015	YTD 2015	2014
FIXED INCOME				
Barclays US Agg Bond	1.23%	<0.10%>	1.13%	5.97%
Barclays High Yield Corporate	<4.86%>	2.53%	<2.45%>	2.45%
Citi WGBI USD [Global Government Bonds]	1.71%	<4.02%>	<2.38%>	<0.48%>
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	<6.83%>	1.71%	<5.24%>	13.24%
Russell 2500 [SMID-cap Stocks]	<10.30%>	4.81%	<5.98%>	7.07%
S&P 500	<6.44%>	1.23%	<5.29%>	13.69%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	<12.17%>	4.03%	<8.63%>	<3.87%>
MSCI EAFE NR [Developed Markets]	<10.23%>	5.52%	<5.28%>	<4.90%>
MSCI EM NR [Emerging Markets]	<17.90%>	2.95%	<15.47%>	<2.19%>
REAL ASSETS				
Morningstar US Real Asset Index	<3.48%>	<1.65%>	<5.07%>	3.35%
Bloomberg Commodity	<14.47%>	<1.56%>	<15.80%>	<17.01%>
S&P Global Ex US REIT	<4.11%>	<0.64%>	<4.72%>	11.88%
S&P United States REIT	2.08%	<6.10%>	<4.15%>	30.26%

Source: Morningstar, Inc. USD data with dividends and interest; YTD data through 9/30/15

A lot is happening in the global economy right now. We're seeing the effects of divergent approaches to restructuring after the Financial Crisis as well as a speed bump in the long-term China growth story. It's often said that markets like certainty; we find this amusing, as there is little certainty in life, and none in the markets. Taking a broader interpretation of this comment helps us better decode what's going on. Our take on the market climate is summarized by these four issues:

1. China has had a rocky few months: its retail stock market went through a bubble and a crash in six months; it modestly devalued its currency; and released more data that indicate its transition to a consumer/services economy isn't progressing as smoothly as hoped.
2. The Fed has been waiting to raise short-term interest rates. The need to begin the increase is growing, but growth, employment and inflation data are keeping plans on hold.
3. A number of countries, including Switzerland, withdrew support for their currencies.
4. Spillover from the China slowdown and Middle East politics, as well as the strengthening dollar, has pushed oil and other commodity prices down. Many emerging markets are posting lower or negative growth rates, down from high single-digit levels just a few years ago.

This graph of Morningstar data provides a telling look at how various markets performed when a 'perfect storm' of news events roiled the markets in the spring and the summer. The U.S. dollar and U.S. high-quality bonds were the only areas that didn't face some form of pricing pressure. As we noted last quarter, volatility rises when news becomes disassociated from underlying fundamentals.



"When you come to a fork in the road, take it."

Two 'forks' we follow (graph below) are a slowing of the dollar's rise (blue line) and some stabilization in commodities (green). Both are positive developments for the global economy for a number of reasons, not the least of which is more independence from China with respect to policy and market changes. This should promote value in the markets as well as a 'floor' for valuations and growth.

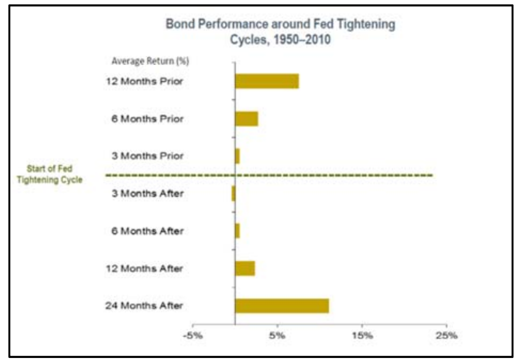
SOURCE: Federal Reserve Bank of St. Louis

So, the question we come to now is, is the dog wagging the tail, or vice versa? Is a slowing China "tanking" emerging markets, commodities and currencies? Or is the strong dollar hurting China, emerging markets, commodities and currencies? Here's what we see in three key data sets:

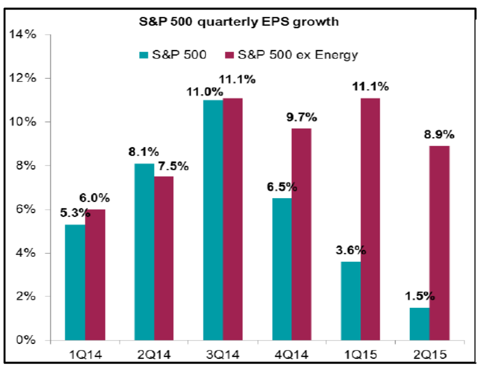
SOURCE: MFS Investment Management, Haver Analytics.
Industrial & electricity production - 8/31/15; Cargo traffic - 7/31/15; GDP - 6/30/15.

China's miracle economy is slowing, without doubt. We've long been suspicious of the quality of their 'official' data as well as their ability to manage a 'soft landing.' Their stated GDP growth has fallen from 10% to 7% a year in a short period, during which the U.S. has been stuck between 2% and 3%. Other data shown here are clearly more volatile and sharply declining, too. China's economic retooling is off-track, and the effects are far-reaching around the globe.

If — emphasize if — the Fed increases short-term interest rates, the effects may be exaggerated more than we normally expect given the current state of investor emotions. In the past, U.S. rate increases have been signs of a strong economy, and bonds and stocks did well after the program began. Despite the complexity of today's global economy, we have no reason to think this time should be much different.



SOURCE: Fidelity Investments (AART), 9/30/14



SOURCE: MFS Investment Management, Deutsche Bank and RBC 9/11/15

Energy-sector earnings are hurting the overall earnings picture. S&P 500 earnings have clearly been depressed due to issues with oil prices and earnings. Now, the effects from a strengthening dollar and lower foreign sales (about 40% of earnings) are expected to kick in for the third-quarter earnings season. Earnings growth for materials, technology and consumer stocks is expected to be negative. This is a bump, we think, not a sign of economic recession.

"It ain't over till it's over."

We agree with Yogi. The markets started the year with a strong run, got the correction we've been waiting for, and are now retrenching. Investors are looking for signs that: China is back on track; oil is bottoming and demand is growing to meet lower supply; the dollar is pausing; and U.S. tightening is delayed while foreign monetary easing continues. Emerging markets (and China) still stand to be the big drivers and beneficiaries of these changes, but most regions should see positive growth.

There aren't many areas we see as big concerns ('overweights' or 'underweights'). We're modestly bullish on stocks, think U.S. rates will rise (but not fast and not as high as in the past), and that the dollar will appreciate, but more slowly than it has been. We have exposure to many of the areas that will benefit from a global rebound, both in specific industries and regions. And, as we have often said, our bond portfolios are managed for a long-term view rather than short-term trading. Finally, we expect volatility to still be on the upswing, and more bumpiness is forecast in the coming quarter.

As always, we welcome your comments, questions and feedback.

-Your Wealth Management Team at JJ Burns & Company

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2500 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Citi World Government Bond Index (WGBI) provides a broad benchmark for the global sovereign fixed income market. It measures the performance of fixed-rate, local currency, investment grade sovereign bonds, currently includes sovereign debt from over 20 countries denominated in a variety of currencies.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The MSCI ACWI index captures large and mid-cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries. The MSCI China A Index captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The MSCI China H Index captures large and mid cap representation across Chinese companies incorporated on the mainland and traded in Hong Kong.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.

The S&P GSCI is designed to be a "tradable" index, providing investors with a reliable and publicly available benchmark for investment performance in the commodity markets. The index comprises the principal physical commodities that are traded in active, liquid futures markets. In addition to numerous related and subindices calculated on a single component and multi-currency basis, thematic baskets such as biofuel and petroleum are available.

The Nominal Currencies US Dollar index is a Trade Weighted U.S. Dollar Index calculated by the Federal Reserve of St. Louis.