Asset Class Returns

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EM 34.5%	REIT 35.1%	EM 39.8%	HG Bnd 5.2%	EM 79.0%	REIT 28.0%	REIT 8.3%	REIT 19.7%	Sm Cap 38.8%	REIT 28.0%	REIT 2.83%
Int'l Stk 14.0%	EM 32.6%	Int'l Stk 11.6%	Cash 1.4%	HY Bnd 57.5%	Sm Cap 26.9%	HG Bnd 7.8%	EM 18.6%	Wil 5000 33.1%	Lg Cap 13.7%	Lg Cap 1.38%
REIT 12.2%	Int'l Stk 26.9%	HG Bnd 7.0%	HY Bnd -26.4%	Int'l Stk 32.5%	EM 19.2%	HY Bnd 4.4%	Int'l Stk 17.9%	Lg Cap 32.4%	Wil 5000 12.7%	Wil 5000 0.7%
Wil 5000 6.4%	Sm Cap 18.4%	Wil 5000 5.6%	Sm Cap -33.8%	Wil 5000 28.3%	Wil 5000 17.2%	Lg Cap 2.1%	Sm Cap 16.4%	Int'l Stk 23.3%	HG Bnd 6.0%	HG Bond 0.6%
Lg Cap 4.9%	Wil 5000 15.8%	Lg Cap 5.5%	Lg Cap -37%	REIT 28.0%	HY Bnd 15.2%	Wil 5000 1.0%	Wil 5000 16.1%	HY Bnd 7.4%	Sm Cap 4.9%	Cash 0.1%
Sm Cap 4.6%	Lg Cap 15.8%	Cash 4.4%	Wil 5000 -37.2%	Sm Cap 27.2%	Lg Cap 15.1%	Cash 0.1%	Lg Cap 16.0%	REIT 2.9%	HY Bnd 2.5%	Int'l Stk -0.8%
Cash 3.2%	HY Bnd 11.8%	HY Bnd 2.2%	REIT -37.7%	Lg Cap 26.5%	Int'l Stk 8.2%	Sm Cap -4.2%	HY Bnd 15.6%	Cash 0.1%	Cash 0.0%	Sm Cap -4.4%
HY Bnd 2.7%	Cash 4.7%	Sm Cap -1.6%	Int'l Stk -43.1%	HG Bnd 5.9%	HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	EM -1.8%	HY Bond -4.6%
HG Bnd 2.4%	HG Bnd 4.3%	REIT -15.7%	EM -53.2%	Cash 0.2%	Cash 0.2%	EM -18.2%	Cash 0.1%	EM -2.3%	Int'l Stk -4.5%	EM -14.9%

Risks to Consider

Headwinds *Not* Priced In:

- The Commodity Crash Becomes a Systemic Issue
- Are we entering a period of deflation caused by a lack of aggregate demand.
- The ongoing geopolitical risk

Each of these are remote possibilities, but they cannot be ruled out.

Potential Market Influence: Very Negative on the short term. These remain risks to monitor. Expect continued volatility throughout the year.

HT Partners Suggested Asset Class Positioning

Asset Class Winners & Losers – Based on Asset Class Trends

- Positive - Passive vs Active, Equal Weight vs Cap Weight, Small Cap Growth, Mid Cap
- Neutral - Fixed Income, International, Real Estate, Cash
- Negative - Currency, Commodities, Large Cap, Emerging Market

Investor Strategy & Broken Record Themes

- Stay Fully Invested & Diversified
- Maintain 6 to 9 months of Liquid Cash Reserves to Meet Expenses
- Rebalance Portfolios Semi-annually (more frequently if asset class sub sectors become overvalued or undervalued)

Economy

- Finally, the Federal Reserve has begun to raise interest rates. The Fed is expected to gradually increase interest rates by 25 basis points every other policy meeting. However, actions will be driven by data in order to minimize risk.
- Many global economies are experiencing similar weakness in manufacturing and commodities while being balanced out by a strong consumer services sector. Investors should stick with long term allocations and not be overly aggressive or defensive right now.
- Inflation remained tame in 2015 as low commodity prices and anemic global growth kept consumer prices at bay along with minimal wage growth. The Fed is forecasting a gradual elevation in inflation, thus substantiating the case for its rate increase trajectory.

Equities

- Slow rate hiking cycles have typically been positive for stocks. The pace at which the Fed will raise rates is likely to center around the U.S. dollar. The stronger the dollar becomes, the slower the pace of the rate hiking cycle.
- The S&P 500 may have gone up 1.38% in 2015, however there was a narrowing in the market which was driven by a small number of strong performing Large Cap stocks (Facebook, Amazon, Netflix, Google, Nike, Starbucks, Home Depot).
- U.S. corporate earnings were hindered by the strength of the U.S. dollar. A stronger dollar diminishes U.S. company earnings that are derived overseas. Equity analysts estimate that the strong dollar shaved over $90 billion from S&P 500 companies. If it wasn't for the dollar dilemma, U.S. corporate earnings would have grown about 8% in 2015 alone. Since roughly 50% of S&P 500 earnings are based from overseas, any decrease in the dollar's value will bode well for U.S. company earnings.

Bonds

- Credit spreads continued to widen between U.S. government bonds and corporate high yield bonds. Questionable corporate earnings tend to pull corporate bonds down, while indirectly increasing stock fluctuation and price uncertainty.
- Puerto Rico’s governor has lobbied for the ability to allow the country access to Chapter 9 bankruptcy, which allowed large debtors such as Michigan and Detroit to restructure their debt with creditors. The island nation of Puerto Rico, which is a U.S. territory and uses the U.S. dollar as its currency, is intertwined with the massive municipal bond market in the United States. With over $70 billion in outstanding debt, the country’s bonds trade alongside bonds from nearly every state in the union.
- The high-yield corporate bond market saw considerable turmoil throughout 2015 as energy sector debt weighed on the entire high-yield market. Even though only 15% of the high-yield market is made up of the dreaded energy sector, all other industry sectors were affected as well. Analysts believe that the sell off in high-yield debt now implies an expected default rate of 10%. That would be a sharp rise in defaults from the current 3% level should it come to fruition. Many believe that the odds of defaults rising to 10% are unrealistic and that the markets have already priced in worst case scenarios.

Commodities

- Inflation remained tame in 2015 as low commodity prices and anemic global growth kept consumer prices at bay along with minimal wage growth. The Fed is forecasting a gradual elevation in inflation, thus substantiating the case for its rate increase trajectory.
- The latest OPEC meeting in early December ended with no new production agreement intact, thus maintaining current production levels. International Energy Agency (IEA) estimates show that production is more than 2 million barrels a day in excess of what the world market is demanding. These surplus levels of oil continue to drive oil prices further down, thus inhibiting the finances of smaller oil producing countries.

IMPORTANT DISCLOSURES

This Special Client Market Update may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. Past performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Any information provided by Adviser regarding historical market performance is for illustrative and education purposes only. Clients or prospective clients should not assume that their performance will equal or exceed historical market results and/or averages. While the Adviser believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warranty the accuracy of any third-party sources or information.

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