FUQUA FINANCIAL

Quarterly Economic Update

Fourth Quarter 2015

Douglas L Fuqua Jr.

When the final day of trading closed on New Year's Eve, the U.S. stock market finished a disappointing year for investors. Despite all the optimism that 2015 began with, there was limited, if any, joy by year end. The Dow Jones Industrial Average lost 2.2% for the year and the Standard and Poor's 500 index was down 0.7%. This annual drop was the first since 2008. The NASDAQ was one of the only bright spots, gaining nearly 6% for 2015 despite the small-cap Russell 2000 index falling 5.7% and down 12.3% from its peak.

(Source: Barron's 1/4/16, USA Today 12/31/15)

Starting the year 2015, market strategists were looking for a 10% or higher rise in stocks. The final results of 2015 concluded a roller coaster year. Four factors that contributed to the weakness of stocks this year were: a further and unexpected decline in commodity prices, particularly oil; continued strength in the dollar; soft economic growth and a currency devaluation in China; and a Federal Reserve that only in December felt confident enough about the U.S. economy to begin raising interest rates. A year ago, many analysts expected that to happen as early as the first quarter of 2015.

"Most people thought it would be a better year," says Kate Warne, investment strategist at Edward Jones. After all, the S&P 500 index hit an all-time high of 2,131 in May. However, since August investors have been subject to heavy volatility.

(Source: Barron's 12/19/15)

Moving into 2016, caution still remains the top priority for most investors. Many analysts are still staying positive about the prospects for U.S. stocks in 2016, however, most reports conclude they are bullish, but cautious.

(Source: Barron's 12/14/2015)

Equities are not intended as an investment vehicle for investors with time horizons of one year, so any one-year projection can easily be wrong. The analysts Barron's surveyed in 2015 were incorrect, therefore before we look at 2016, it might be helpful to review some key highlights from 2015.

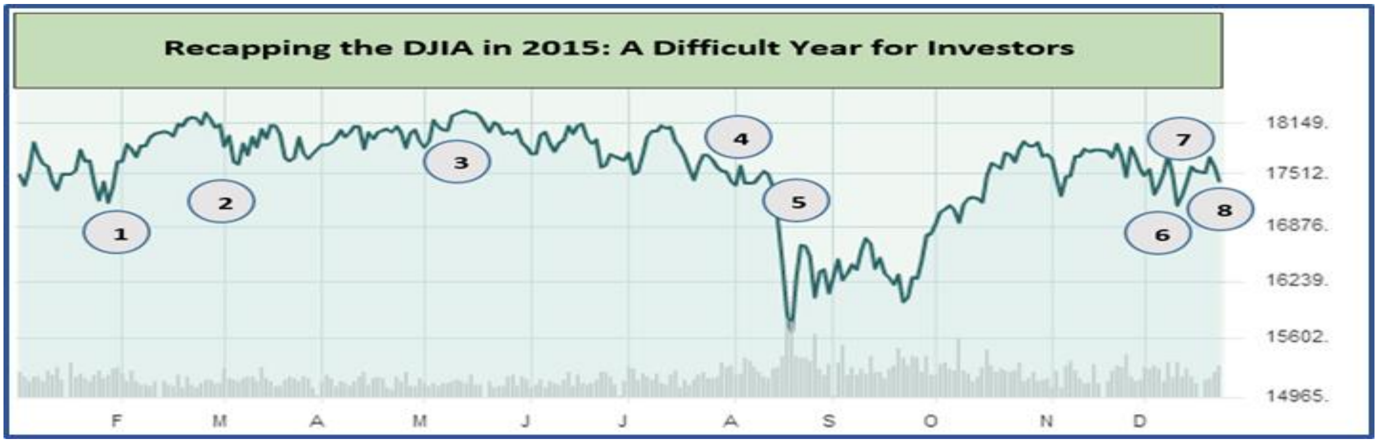
A Review of 2015

The year 2015 was a difficult one for investors. A brief review of some interesting events are spotlighted on the chart of the Dow Jones Industrial Average's (DJIA) course during the year. Interest rates were a major story all year and on February 2nd, the 10-year Treasury yield made a low for the year at 1.67% **(data point 1 on the chart).**

Most investors enjoyed the first part of the year and during that period on March 13th, the U.S. dollar surged to a new high **(data point 2 on the chart)** which was later eclipsed. **(Source: Barron's 12/14/2015)**

In May, the Dow Jones Industrial average reached an all-time peak of 18,321 **(data point 3 on the chart)** and investors were still enjoying market gains. As the chart shows, the first half of 2015 was a mild one and

Investor Update: Shortly after this economic report was written, equity markets experienced an unusually turbulent start to 2016. Experts feel that this recent market volatility is in reaction to a slowdown of growth and further currency devaluation in China combined with continued oil price weakness. Our goal is to continue to carefully monitor the markets for our clients and keep a regular line of communication. If your current advisor is not reviewing your individual situation or if you are interested in a second opinion, please call our offices for a Complimentary Check-Up immediately!



many investors entered the summer in an encouraging mode.

China stunned the world's financial markets on August 11th and 12th by devaluing its currency, triggering fears its economy was in worse shape than investors believed **(data point 4 on the chart)**. As a result, the Yuan hit a 4-year low. China's economic growth has had a noted drop off from years of double-digit growth. This measure was taken as a way to stimulate the Chinese economy which was still growing, but not at the pace that was previously anticipated.
(Source: The Guardian 8/12/2015)

August 2015 was a challenging month for investors. For the first time in over 6 years, equity investors experienced a correction. On August 25th (**data point 5 on the chart),** U.S. stocks bottomed out for the year after a 12% correction. Fears of slowing global growth fueled the downturn and volatility had returned to the markets in a considerable way.
(**Source: Barron's 12/14/2015)**

On December 11th **(data point 6 on the chart),** WTI crude oil hit a six-year low of $35.62 a barrel. This meant a 33% price plunge for 2015. The drop in oil prices rewarded consumers at the pump, but punished energy stocks and investors as oil and energy related company share prices were hit hard.

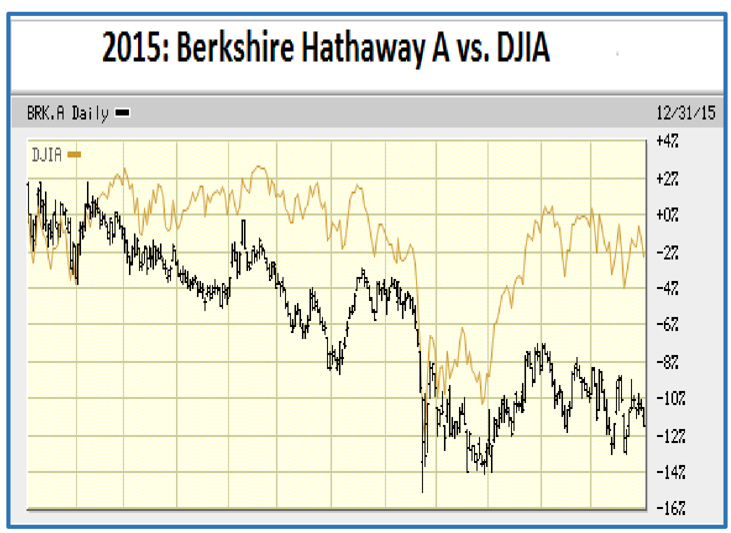
On December 16th **(data point 7 on the chart),** Janet Yellen ended all of the debates that dominated investor discussions since December of 2008 when the central bank set its Federal funds target rate at 0% to 0.25% by raising that range by 25 basis points to 0.25% to 0.50%. This long awaited and much predicted rate increase was the first increase in interest rates and marked the end of an era of near 0% rates. **(Source: Barron's 12/21/2015)**

Finally, by year end **(data point 8 on the chart),** the Dow Jones Industrial Average finished the year down 2.2%, disappointing most analysts and investors.

How did legendary investor Warren Buffet perform in 2015?

Many investors suffered losses and had a rough year in 2015. Legendary investor Warren Buffet, through his holding company Berkshire Hathaway, has mightily underperformed the S&P 500 in 2015. His flagship BRK.A shares were down 11.47% compared with a 2.2% decrease in the DJIA. The media noticed as the Financial Times trumpeted "Buffett's Worst Year Since 2009" in a headline Wednesday, December 30th. **(Source: Forbes 12/31/2015)**

Investorplace.com reminded investors that Warren Buffett is a long-term investor. They accurately report that the review of his one-year performance is more noise than signal because the data sample is far



too short. They challenge investors to review his 5 year or longer term results. **(Source: Investorplace.com)**

Buffett seeks out businesses that exhibit favorable long-term prospects. His timeframe is longer than one year, so like most good investors, no one year dictates his success or lack thereof. Buffett says, “If you don't feel comfortable owning a stock for 10 years, you shouldn't own it for 10 minutes.” Buffet feels that the stock market will swing up and down, but in good times and bad, he stays focused on his goals. This is a great lesson for all investors. ***(Source: Investopia.com)***

2016 Outlook

A big question on the mind of all investors: where is the currently erratic U.S. stock market headed in 2016? Brian Belski, Chief Investment Strategist at BMO Capital Markets in his 2016 Outlook, warns that "2016 could likely be bumpy." **(Source: USA Today 12/31/2015)**

Areas investors should watch in 2016 include:

Interest Rates: The Fed has increased rates for the first time in seven years, and it is anyone’s guess when the Fed will raise interest rates and by how much. In December, Federal Reserve Chairperson Janet Yellen stated that, “The committee expects economic conditions will evolve in a manner that will warrant only gradual increases in the federal-funds rate.”

Barron’s writes that “investors should not look for money market yields to rise enough to be discernable without a magnifying glass.” For 2016, interest rates are an issue that investors need to keep a watchful eye on. **(Source: Barron’s 12/21/2015)**

China: China is still one of the world’s largest and strongest economies. Experts have known for a long time that China's growth would slow as Beijing made reforms designed to shift the country away from building roads, railways and housing to generate growth to an economy powered by consumer spending. Slowdowns in China can have impacts on investors worldwide and investors need to pay attention. **(Source: CNN Money 1/5/2016)**

Key Points

1. 2015 was a difficult year for investors.
2. Legendary investor Warren Buffet through his holding company Berkshire Hathaway, greatly underperformed the S&P 500 in 2015.
3. Strategists are predicting a bumpy ride for investors in 2016.
4. The Fed has increased interest rates for the first time in seven years.
5. China, oil prices and Price-to-earning (P/E) ratios need to be watched.
6. **Volatility has returned to the equity markets and investors need to proceed with caution.**

Oil: Oil prices were at highs of $100 per barrel in June 2014. Since then they have retreated to a new multi-year low of about $35 per barrel in December. While this rewarded consumers at the pump, according to *Bloomberg,* more than 250,000 energy workers from around the world have lost their jobs since the start of the downturn. The fluctuation of oil prices is another subject that investors need to monitor this year. **(Source: Houston Press 12/30/2015)**

Corporate Earnings: Price-to-earnings (P/E) ratios are still a key factor in the valuation of equities for many analysts. Some analysts feel valuations seem reasonable, with the forward price-to-earnings ratio at 16 times earnings for the S&P 500 Index. Jurrien Timmer, Director of Global Macro at Fidelity Investments, believes valuations should remain reasonable even if yields do rise—provided such an increase is accompanied by an acceleration in earnings growth. Although valuations can be considered high by some measures, Timmer does not think they represent heavy danger. **(Source: Fidelity 12/18/2015)**

CONCLUSION

Volatility should continue in the equity markets and investors need to proceed with caution. For many analysts there is a growing uncertainty about the sustainability of the path the global economy and markets have been on for the last seven years. At a minimum, this confluence of factors signals a considerable level of volatility in 2016.

Investors need to prepare for 2016 with a sense of caution. Individual investors still have to look at their

own situations first. It is important to be cautious, but it is just as important to determine your own personal risk. That's where we can help.

Now is a good time to ask yourself:

1. ***Has my risk tolerance changed?***

2. ***What are my investment cash flow needs for the next few years?***

3. ***What is a realistic return expectation for my portfolio?***

Your answers to these questions will govern how we recommend investment vehicles for you to consider. Investments needs are not one size fits all, so we continually review economic, tax and investment issues and draw on that knowledge to offer specific direction and strategies to our clients.

We pride ourselves in offering:

- **consistent and strong communication,**
- **a schedule of regular client meetings, and**
- **continuing education for our team on the issues that affect our clients.**

A good financial advisor can help make your journey more comfortable. Our goal is to understand our clients' needs and then try to create a plan to address those needs. We continually monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the emotions out of investing for our clients. We can discuss your specific situation at your next review meeting, or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.

Has your advisor reviewed your individual situation recently?
If not, or for a second opinion, please call us at 281-207-1300.

Sources: *Barron's, Forbes.com, Investorplace.com, Investopedia.com, USA Today, Fortune, CNN Money, Houston Press, The Guardian, Fidelity*
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