
# Year-End Market Commentary

## The Markets:

As 2015 ends, we reflect on the turmoil that we witnessed throughout the year. There were many swings this year and volatility at year-end has been formidable. Despite all the ups and downs, most developed country stock markets are flat or slightly down, while many emerging markets are showing more weakness.

Thus far, U.S. stock markets are little changed. The real action this year has been in commodities, especially oil and as a result, in high yield debt. In previous commentaries this year, we noted our concern about oil and the secondary impacts of declining prices, but frankly, the depth of oil's decline has surprised even us. As an indication of the severity of the oil price decline, investors in the energy ETF "XLE" suffered a 23.9% YTD loss through December 22. There is turmoil in both the energy sector and commodities market and that is feeding a growing concern about default risk in the high-yield sector of the market. This has impacted income funds, which is especially disappointing for income oriented investors.

Recognized by:

Washington Post
as a Greater Washington DC Region Five Star Wealth Manager (2015)

Financial Times
as one of the country's Top 401 Retirement Plan Advisor (2015)

Private Wealth Magazine
as a member of their Inaugural All-Star Research Team (2012)

Washington Business Journal
as one of Washington's

At the start of the year, we were optimistic about international stocks and they had a healthy advance until May. However, they then suffered a steep decline, bottoming in September with only a partial recovery in the final quarter. As an example, through December 24, the Dow Jones Global Stock Index is down-3.39%. Global economic growth, likely to be about 3% for the year, has been disappointing in comparison to past recoveries, despite very accommodative monetary policies and easing fiscal restraint. A particularly weak third quarter and a small, 3% devaluation in China's currency spooked equity markets, but these setbacks are proving to have been a mild mid-course correction, not the precursor of an end to a recovery. As a group, the advanced economies registered relatively stable growth at about 2%, on pace with 2014's advance of 1.9%.

In contrast, emerging market economies continued to slow down from last year's pace to an estimated 4.9% rate for 2015, which will mark the sixth consecutive year in which the growth rate for the group declined. Fortunately, we have reduced exposure to this sector and continue to believe emerging market stocks will face headwinds in 2016. The iShares MSCI Emerging Markets ETF "EEM" is down 16.01% as of December 24. The weakening of emerging markets' currencies versus the strengthening US dollar was a factor in this negative performance and we don't see that trend reversing sharply any time soon.

Central bank uncertainty is also part of the reason for poor performance. One factor was the Federal Reserve's move to raise interest rates a quarter of a point. The inevitable lift-off arrived after the longest monetary policy drum roll in history. The US raised rates and is engaging in a tightening of monetary policy while the European Central Bank lowered rates and loosened monetary policy by expanding the types of securities it will purchase. Japan has engaged in an all-out effort to stimulate its economy and loosen monetary policy, going so far as having its Central Bank buy stock ETFs. One thing is becoming more clear: the U.S. has begun to tighten monetary policy while Europe and Japan are loosening, and one will need a crystal ball to foresee exactly how all this will play out.

There is an upward bias in asset prices when interest rates are persistently low for long periods. Despite the onset of Fed tightening, rates are still historically low. Asset prices have been higher since 2009 and there is little on the horizon suggesting that interest rates will do anything other than remain very low in 2016. Low interest rates are typically bullish for assets including the US stock market, real estate, and collectibles. All this would make the precipitous drop in oil prices seem inconsistent, but oil is also driven by the basic supply and demand equation.

Premier Wealth Advisors
(2011, 2012, 2013, 2014)

NABCAP
as one of the Top Wealth Managers in the Washington, DC Metropolitan Region (2011, 2012, 2013, 2014)

SmartCEO Magazine
Magazines as a Top Wealth Manager and a Money Manager Award Recipient (2012, 2015)

Consumers' Research Council of America
as one of America's Top Financial Planners (2011, 2012, 2013, 2014)

DC Magazine
as a Five Star Wealth Manager (2012, 2013)

Financial Advisor Magazine
as an All-Star Research Manager (2012)

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And the supply of oil is way up from both the success the U.S. has had with shale production and in Saudi Arabia where they are pumping at a frantic pace perhaps to squash our nascent industry.
We believe rates will remain low, even with a Fed bias towards tightening. That can be a positive for the stock market. The bond market may face some headwinds from any rate rises but we think the bigger risk for bond investors will be a prolonged slump in oil prices which could impact lower grade corporate debt and fixed income securities related to the energy sector.

**Weekly Update for the Week Ending December 24, 2015**

| Index | Last Week | | | One Month | | Year-to-Date | |
|---|---|---|---|---|---|---|---|
| | Close | Net Change | % Change | Net Change | % Change | Net Change | % Change |
| Dow Jones Global Index | 309.98 | 7.07 | 2.33% | -4.83 | -1.53% | -10.88 | -3.39% |
| Dow Jones Industrial Average | 17552.17 | 423.62 | 2.47% | -260.02 | -1.46% | -270.90 | -1.52% |
| S&P 500 Index | 2060.99 | 55.44 | 2.76% | -28.15 | -1.35% | 2.09 | 0.10% |
| Nasdaq Composite Index | 5048.49 | 125.41 | 2.55% | -54.32 | -1.06% | 312.44 | 6.60% |
| S&P Mid Cap 400 Index | 1416.10 | 40.83 | 2.97% | -42.93 | -2.94% | -36.34 | -2.50% |
| Russell 2000 Index | 1154.76 | 33.74 | 3.01% | -34.05 | -2.86% | -49.94 | -4.15% |
| MSCI EAFE Index (EFA) | 59.43 | 1.08 | 1.85% | -1.12 | -1.85% | -1.41 | -2.32% |
| MSCI Emerging Markets Index (EEM) | 33.00 | 0.35 | 1.07% | -1.97 | -5.63% | -6.29 | -16.01% |
| BAML US High Yield Master II Index | 995.55 | 6.09 | 0.62% | -27.47 | -2.69% | -52.63 | -5.02% |

Above returns exclude dividends.
Data Source: Investors FastTrack

## Quote of the Day:

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

~~~ Phillip Fisher
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Mark Avallone and the Potomac Wealth Advisors Team

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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*The ***Dow Jones Global Indexes (DJGI)*** is a family of international equity indexes, including world, region, and country indexes and economic sector, market sector, industry-group, and subgroup indexes created by Dow Jones Indexes a unit of Dow Jones & Company best known for the Dow Jones Industrial Average.

The indexes are constructed and weighted using market value-weighted index. They provide 95 percent market capitalization coverage of developed markets and emerging markets. More than 3000 DJGI indexes provide data on more than 5500 companies around the world. Market capitalization is float-adjusted

*The ***DJIA*** is a widely followed measurement of the stock market. The average is comprised of 30 stocks that represent leading companies in major industries.

* The ***Standard & Poor's 500*** (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

*The ***NASDAQ*** Composite Index is a market-valued weighted index, which measures all securities listed on the NASDAQ stock market.

*The ***S&P Mid Cap 400 Index*** This Standard & Poor's index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3 billion dollars. Stocks in this index represent household names from all major industries including energy, technology, healthcare, financial and manufacturing.

*The ***Russell 2000 Index*** is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index
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* The ***MSCI EAFE*** Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra,[1] a provider of investment decision support tools; the EAFE acronym stands for **Europe, Australasia and Far East.**

* The MSCI ***Emerging Markets Index***s a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

*The **Merrill Lynch US High Yield Master II Index** (H0A0) is a commonly used benchmark index for high yieldcorporatebonds. It is administered by Merrill Lynch . The Master II is a measure of the broad high yield market, unlike the Merrill Lynch BB/B Index\ which excludes lower-rated securities.

** Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.*

**The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*

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