BEAM Asset Management
F&IMA, INC.
Scott Bordelon, CFP®, AAMS®
President
P.O. Box 1723
Covington, LA 70434-1723
800-256-5221
FAX (985) 893-1450
sbordelon@fimadvisors.com
www.fimadvisors.com

Annual Market Review 2015

Dear Clients and Friends,

Enclosed is your 4th quarter and annual 2015 investment performance report for the period ending on December 31, 2015.

We've just entered the New Year, making it the perfect time to revisit 2015 and share some thoughts on what we see ahead as we continue down the road in 2016.

Overview

Volatility may best describe the equities markets for the majority of 2015, as they were impacted by economic stress in China and Greece, coupled with underwhelming corporate earnings reports, falling oil prices, and terrorist attacks here and abroad. While some economic sectors, such as housing and labor, offered favorable news, others, including exports and wages, showed little in the way of positive movement. Nevertheless, despite inflation running below the Fed's target rate of 2.0%, there were enough signs of overall economic growth to prompt the Federal Open Market Committee to raise interest rates in December for the first time since 2006.

Of the indexes listed here, only the NASDAQ posted a year-on-year gain. Not even a fourth quarter rally could bring the other indexes into positive territory for the year. Nevertheless, the fourth quarter saw gains in large caps as the S&P 500 finished up 6.45%, while the Dow closed the quarter up 7.0%. Even the Global Dow gained a little over 4.0% for the quarter.

U.S. Treasuries saw prices fall during the fourth quarter as the yield on 10-year Treasury bonds jumped 22 basis points for the quarter. Oil prices (WTI) continued to fall, dropping from $46.36 per barrel at the end of the third quarter to $37.07 per barrel at the end of the fourth quarter. Gold, meanwhile, also felt the effects of the global economy; finishing the fourth quarter at roughly $1,060.50 an ounce compared to $1,114.50 an ounce at the end of the prior quarter. Finally, not all falling values are necessarily bad, as the average retail price of a gallon of regular gasoline fell $0.29 to $2.034 at the end of the quarter.

Market/Index	2014 Close	As of 9/30/15	2015 Close	Month Change	Q4 Change	2015 Change
DJIA	17823.07	16284.70	17425.03	-1.66%	7.00%	**-2.23%**
Nasdaq	4736.05	4620.16	5007.41	-1.98%	8.38%	**5.73%**
S&P 500	2058.90	1920.03	2043.94	-1.75%	6.45%	**-0.73%**
Russell 2000	1204.70	1100.69	1135.89	-5.19%	3.20%	**-5.71%**
Global Dow	2501.66	2245.80	2336.45	-2.32%	4.04%	**-6.60%**
Fed. Funds	0.25%	0.25%	0.50%	25 bps	25 bps	**25 bps**
10-yr. Treas.	**2.17%**	**2.04%**	**2.26%**	**6 bps**	**22 bps**	**9 bps**

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Snapshot 2015

The Markets

- **Equities:** It was a roller coaster ride in the equities markets in 2015. After a lackluster start, domestic equities spent much of the year riding a wave of peaks and valleys, to ultimately close the year short of where they started. Anticipation of a federal interest rate hike influenced the markets, as did global economies, particularly in China and Greece. Favorable labor and unemployment figures pushed the markets higher, only to see them recede with news of poor exports, stagnant inflation, mediocre earnings reports, and falling oil prices. While the close of 2014 saw several of the major indexes listed here post double-digit returns, 2015 found only the NASDAQ finishing ahead of its 2014 close--up 5.73%. The Dow lost 2.2% (the first time it posted negative annual returns since 2008), while the S&P 500 fell 0.7% following three straight years of double-digit gains. The Russell 2000 and the Global Dow took the biggest year-on-year hits, finishing down 5.71% and 6.60%, respectively.
- **Bonds:** Long-term bond yields ticked up only moderately at the close of 2015, confounding those who expected the yield on 10-year Treasuries to rise toward 3.0% by the end of the year, especially with the interest rate increase announced by the Fed early in December. Instead, the yield on 10-year Treasuries closed 2015 at 2.26% compared to the 2014 closing yield of 2.17%. A strong dollar, continued uncertainty surrounding the global economy, and low inflation made Treasury debt an appealing investment choice, keeping bond prices up and yields down.
- **Oil:** As oil producing countries flooded the market, oil prices remained below $40 a barrel. While falling energy stocks had an effect on the stock market, the plunge in oil prices helped fatten consumers' wallets, with prices at the pump hovering around $2 a gallon for regular gasoline.
  • **Currencies:** Falling oil prices coupled, with the expectation of higher interest rates, helped boost the U.S. dollar, which continued to rise over the course of the year. The U.S. Dollar Index, a measure of the dollar relative to the currencies of most U.S. major trading partners, gained about 9% over its December 31, 2014, closing value. The dollar also benefitted from interest rates abroad, some of which were even lower than those for Treasuries. The strong dollar raised new concerns that countries and foreign corporations hurt by lower oil prices might have trouble repaying debt in currencies that were substantially weaker against the U.S. dollar.
- **Gold:** With inflation hovering below 2.0%, gold, historically seen as a hedge against inflation, saw its value drop throughout the year, posting its third consecutive annual loss. The precious metal ended the year at roughly $1,060.50--about $120 below its value at the close of 2014.

The Economy

- **Employment:** Improvement in the U.S. job market was slow but steady. The unemployment rate ended the year at 5.0%, lower than the 5.6% rate at the close of 2014. According to the Bureau of Labor Statistics, over the past 12 months the unemployment rate and the number of unemployed persons were down by 0.8% and 1.1 million, respectively. Over the prior 12 months, total nonfarm payroll employment averaged a monthly gain of 237,000, adding 2.3 million jobs. Over the year, average hourly earnings have risen by 2.3% to about $25.25 per hour.
- **GDP:** Challenging weather, a strengthening dollar, and lower oil prices slowed growth in the first quarter of 2015 to 0.6%. Economic growth in the second quarter expanded at an annual rate of 3.9% on the strength of increased personal spending. However, the latest figures for the third quarter show growth are once again slowing down to an annual rate of 2.0%, as consumer and business spending figures were revised downward.
- **Inflation:** Inflation remained below the Fed's stated target rate of 2.0%, but indications are that it is expanding, albeit at a very slow pace. The Bureau of Labor Statistics reported that the all items index rose 0.5% from November 2014 to November 2015--the largest 12-month increase since the 12-month period ended December 2014. The food index rose 1.3% over the span, while the energy index declined 14.7%. The index for all items less food and energy rose 2.0%--its largest 12-month increase since the 12 months ended May 2014. The core personal consumption expenditures price index, relied upon by the Fed as an important indicator of inflationary trends, sat at 1.3% for the year, giving no clear indication that it will approach the Fed's 2.0% target rate.
- **Housing:** The housing market had been relatively strong for much of the year. However, the latest figures from the National Association of Realtors® show that sales of existing homes fell in November by 10.5% compared to October, and the year-on-year rate of existing home sales is -3.8%--the first such decrease since September 2014. The median price for existing homes in November was $220,300, which is 6.3% above November 2014. The number of new home sales in November 2015 increased 9.1% compared to the number of sales in November 2014. The median sales price of new houses sold in November 2015 was $305,000 and the average sales price was $374,900, compared to $302,700 and $358,800, respectively, in November 2014.
- **Manufacturing:** Manufacturing and industrial production have not been consistently strong sectors this year. The Federal Reserve's monthly index of industrial production was down 1.2% from November 2014 to November 2015. In addition, the latest report from the Census Bureau shows orders for all durable goods in the first 11 months of 2015 fell 3.7% on the year.
- **Imports and exports:** For the year, the goods and services deficit increased $22.2 billion, or 5.3%, from the same period in 2014. Exports decreased $84.7 billion, or 4.3%. Imports decreased $62.5 billion, or 2.6%. Low prices for oil held down imports, while the continued strength of the dollar was a key factor in the year's sluggish exports sector leading to weak demand abroad.

  • **International markets:** For most of 2015, economic problems overseas impacted the United States and contributed to the Fed's caution with raising interest rates. Though the European Central Bank extended its program of buying bonds, cut a key interest rate to -0.2%, and passed measures intended to pressure banks to lend more, the Eurozone economy grew at an annual rate of just 1.2%, with unemployment sitting at 10.7% and inflation at an annual rate of only 0.1%. Greece began the year electing an anti-austerity prime minister, saw its economy contract to the point where its banks and stock markets were forced to shut down, then agreed to more intense austerity measures to help support its economy. China had experienced an average annual growth rate of 10%. However, 2015 saw China's economy grow at a much slower rate of about 7%, prompting several government-backed measures intended to support growth.

Eye on the Year Ahead

As the year came to a close, the Fed finally raised interest rates based on some favorable economic news, particularly on the labor front and, to a somewhat lesser extent, in the housing market. The Fed is expected to consider three to four more rate increases during 2016. However, falling oil prices, inflationary trends that have been less than robust, poor manufacturing and production numbers, and a glaring weakness in exports could impact whether additional rate hikes are in the offing for 2016.

Since 1900, only three of 23 bull markets have lasted six years or longer. The likelihood of a bear market, a correction of at least 20%, increases as the bull market grows older. But fundamental economic conditions that have accompanied bear markets in the past were not present as of the end of 2015. Restrictive Fed policy, the likelihood of slowing domestic economic growth, stock market overvaluation, and irrational exuberance, traditional important precursors of a serious market downturn, are not yet evident.

Forecast 2016

Against this backdrop, we forecast the following:

- We expect the U.S. economy will expand at a rate of 2 to 2.5% in 2016. This forecast matches the average growth rate over the past 50 years, and is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2016.
- Tempered by continued higher levels of volatility, stocks may be poised to recover from early losses and advance 5 – 9%. We believe continued economic growth, benign global monetary policy indicate that the bull market should continue. This forecast is in-line with the average stock market growth of 7 – 9%, since WWII. Supported by improving domestic economic growth and stable domestic profit margins in 2016, we expect earnings per share growth for S&P 500 companies of 5 – 10%.
- We expect flat to negative bond market returns. With sustained economic growth, slowly rising inflation, and the Fed's anticipated interest rate hike(s), bond prices are likely to decline in 2016. We believe diversification and some non-traditional fixed income allocations to portfolios can us manage this challenging bond market.

We Remain Cautiously Optimistic

The domestic economic fundamentals that have fueled equity gains in recent years remain in place. While strong domestic fundamentals remain in place, risks never disappear, even in a diversified portfolio. We can manage but not eliminate risk.

What could create volatility in 2016?

1. The year began with oil dropping to below $30 per barrel. The drop in oil prices has caused many energy projects around the globe face the axe. That means there will be winners and losers at current prices, though the net gain to the economy should be positive as lower prices at the pump will likely find its way to increased consumer spending on other items. Low oil prices could also cause geopolitical tensions as oil producing countries across the globe dependent on high oil prices may face economic stress and political unrest.
2. Then there has been the steep selloff in junk bonds tied to the energy sector. While Treasury and investment grade yields have risen only slightly over the past year, high-yield debt rose more sharply. Some of the rise can be blamed on expectations the Fed raising interest rates, which could crimp some highly-leveraged borrowers. However, the largest part of the increase can be blamed on default fears in the energy patch amid a re-pricing of risk in high-yield energy bonds. If concerns were to seep into other sectors of the junk bond market, we could see a spillover into stocks.
3. Slowing growth in China and Europe's tepid recovery could dampen growth at home. Odds are fairly low as the U.S. simply isn't dependent on overseas demand to drive its economy. Exports contribute only about 5% to Gross Domestic Product (GDP) and exports to China amount only to approximately 1% of GDP.
4. Will we get continued volatility around anticipated Fed's rate hike(s) this year? There are no guarantees when it comes to Fed policy, but if U.S. employment and economic growth continues at the current pace, the Fed has signaled rates will continue rising in 2016. Although it is doing its best to telegraph its intentions, markets could get jittery in the interim.
5. Emerging market anxieties. A stronger dollar and a Federal Reserve that is expected to continue raising rates this year could pressure developing countries that have sold bonds in greenbacks instead of their local currencies, forcing them to repay loans in more expensive dollars. Foreign reserves (akin to a rainy day fund) could minimize any pressure, but it's something that bears watching.
6. Geopolitical fears. War or geopolitical instability has historically caused short-term losses. Whether the Arab spring, Russia's incursion into Ukraine, or the rise of ISIS (ISIL) in Iraq, heightened uncertainty is not a friend of investors.

Bottom line

Global equity markets fell sharply in early 2016, with many markets posting their worst opening couple of weeks in recent history. However, we believe the health of the U.S. economy and the lack of any truly bad news in China supports improved stock prices from their recent dips. We believe now is not the time to panic or sell out of stocks, but instead is the time for planning and patience.

We've always stress the importance of being comfortable with your portfolio. As we've talked about in our meetings, our goal is to help you mitigate that risk. But you must be comfortable with the level of risk you're taking as we set out to meet your objectives. If you are not, let's talk and recalibrate.

Stick to the plan. Markets rise and markets fall, but unless there have been changes in your circumstances or you've hit milestones in your life, such as retirement, stay with the plan. By itself, a record high in stocks isn't a good reason to bail out of stocks.

Communicate and meet with us. If you believe your circumstances have changed, please contact us for a review and to assess what changes we should make to your client profile. We should plan to meet at least once a year to in person, by telephone or web meeting to review your client profile, your financial planning and review your investments. We are here to assist you in any way we can. Our mission is to help you in reaching your goals and objectives.

I hope you've found this review to be educational and helpful. Let me emphasize, it is our job to assist you! If you have any questions or would like to discuss any matters, please feel free to give us or any of our team members a call.

As always, we're honored and humbled that you have given us the opportunity to serve as your financial advisor.

We hope this finds you and your family doing well. We continue monitor your portfolio making changes where necessary and seek out attractive investment opportunities, while remaining watchful for risks.

Sincerely,

Scott E. Bordelon

Scott E. Bordelon, CFP®, AAMS®
President

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation);U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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