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FINANCIAL GROUP, LLC
SECURITY FOR YOUR FUTURE

A MESSAGE FROM YOUR FINANCIAL TEAM
August 24, 2015

Dear Clients,

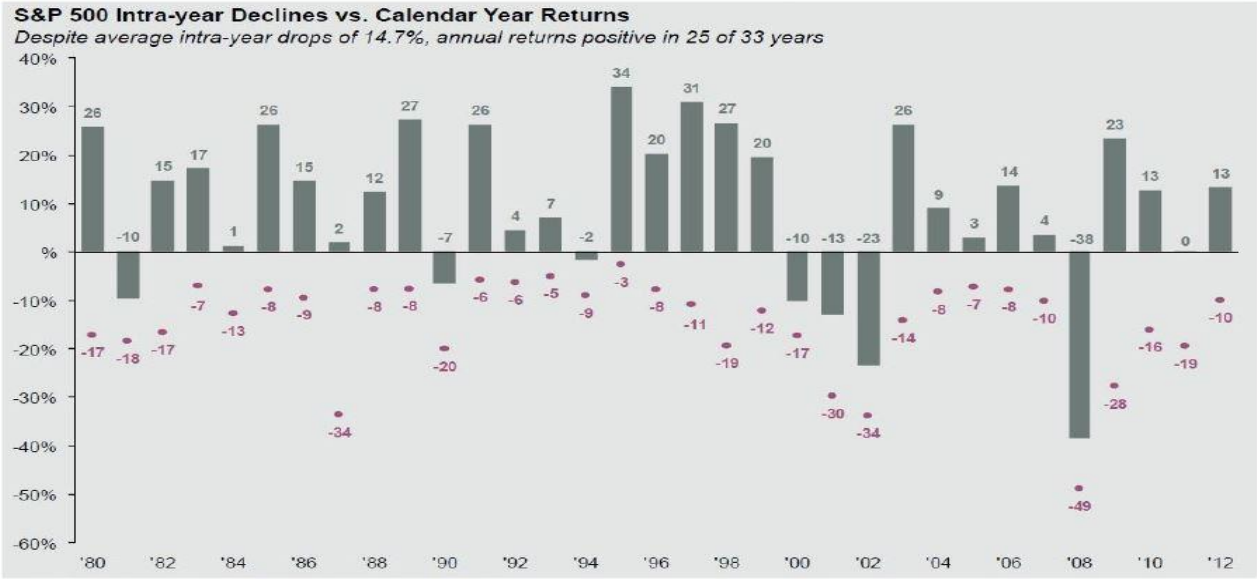
After a decent start to the year, most asset classes are now sharply negative, with the exception of some bond categories. In light of recent market volatility we wanted to revisit some key lessons, rather than inundate you with news you are likely hearing too much about already. News which we know is probably being presented with the mandatory “this time is different” flair.

For a moment let’s take a step back in time to a portion of our letter from April 2013.

The Inevitability of Declines

Just as night follows day, market declines follow market rallies. Unfortunately, while we have watches and calendars to guide us regarding the timing of night and day, no such foolproof timing method exists for the markets! Although, we must admit there has been an uncanny pattern the last three years.

In fact, in each of the last three years the S&P 500 reached a temporary peak sometime in April before experiencing double digit declines ranging from 10% to 19%. However, these declines not only varied in magnitude but also in length. Even if someone were to correctly time a market top, it does little good unless they also correctly time when to get back in. As the chart below illustrates, many very good years included significant temporary pullbacks. (The gray bar represents the annual return for the year while the red dot represents the largest market pullback experienced that year)



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2012.
Data are as of 3/31/13.

J.P.Morgan
Asset Management

Regret

The market has an uncanny ability of playing with investor's emotions, and often one of the most damaging emotions it stirs up is regret. In a rapidly rising market, it is regret that you are not more aggressively invested or more heavily invested in that which appears to be performing the best. In a market which seems to only keep declining, it is regret that you are invested at all!

Some investors respond more strongly to the feeling of regret and some only respond to certain types of regret. However, it is not the feeling itself which can be damaging, it is responding to that feeling by making changes to your long-term plan which can be damaging. Since regret is a response to something that already happened, changes are inevitably influenced in a backward looking fashion and usually result in buying high and selling low; and therefore, ultimately more regret.

Never Lose Sight of the Big Picture

While it is easy to get wrapped up in the daily, weekly or monthly trends of the market, it is important not to lose sight of the big picture -- Your goals. While the market may swing wildly from month-to-month or year-to-year, your goals and objectives are much more concrete (if not, that might be a discussion for our next meeting!). We have met with each of you to discuss your goals and developed a plan and asset allocation strategy to help accomplish those objectives with a priority of minimizing the effects of market volatility on your portfolio.

We highlight that letter because while the news of the day will always change, the keys to successful investing do not.

Sticking to the Plan

"Everyone has a plan 'til they get punched in the mouth" -- Mike Tyson

We are finally seeing some volatility in the markets that has been absent for some time. 2012 is the last time we saw a pullback of at least 10 percent despite the fact that such moves are historically quite common, even in years that wind up strongly positive. Will this just be a quick temporary pullback or something bigger? Only time will tell, but we do know that your portfolios were designed with the understanding that bear markets are just as inevitable as bull markets. In setting up your plan we paid special attention to determining your risk tolerance. However, we know that talking about how you might react to theoretical market drops is different from how you might react to real ones.

We know that sometimes sharp market drops can emotionally feel like getting punched in the mouth. However, the key to a winning strategy is staying with the original plan and not letting your opponent (the market) dictate your next move.

Despite not focusing on the news of the day in this letter, you can be sure we are constantly monitoring economic developments and their implications in the world of investments.

As always, we are dedicated to assisting you in meeting your long-term goals and objectives. We encourage your calls and emails should you have any questions.

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