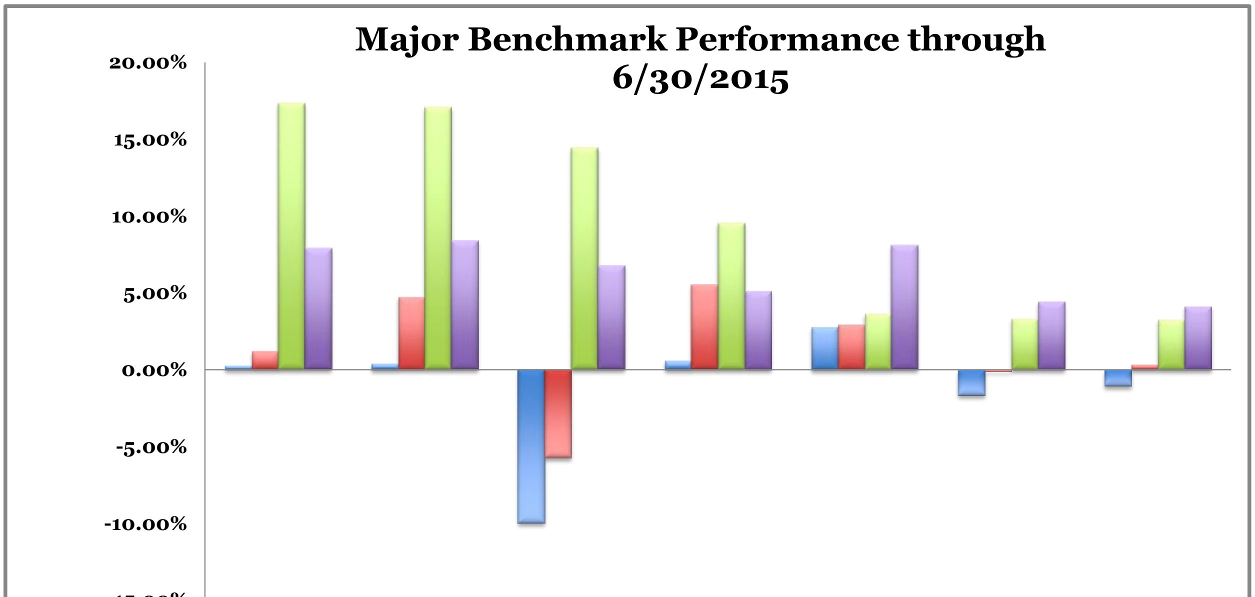
Market Summary and Outlook Second Quarter 2015

Stock and bond markets have taken a break in 2015 from their steady climb in previous years. By the end of 2014, the S&P 500 was up over 200% from its low in March 2009. However, uncertainty related to recent events in Greece and China, and the timing of the Federal Reserve raising interest rates has resulted in volatility and relatively flat performance for the second quarter and modest performance year to date.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
2Q15	0.28%	0.42%	-10.00%	0.62%	2.80%	-1.68%	-1.06%
YTD	1.23%	4.75%	-5.75%	5.52%	2.95%	-0.10%	0.34%
5 Year (ann.)	17.34%	17.08%	14.43%	9.54%	3.68%	3.35%	3.29%
10 Year (ann.)	7.89%	8.40%	6.78%	5.12%	8.11%	4.44%	4.14%

Source: DFA

US REITS

REITS are down for the second quarter and year-to-date. Although our typical client has minimal exposure to REITS, they are a great portfolio diversifier, inflation hedge, and over the last 20 years have provided a return benefit to investors and therefore are an important component of a diversified portfolio. However, REITS can be sensitive to interest rate changes, just like bonds. Therefore the uncertainty about when the Fed will increase interest rates helps to explain the current REIT decline.

International Markets

At the end of the second quarter, international markets (foreign developed and emerging markets) were up, providing a rare bright spot in 2015. However, since the end of Q2 international markets have been volatile and are now down. Although both China and Greece have played a role in dragging down the international and US markets, the current events surrounding the IMF (International Monetary Fund) debt default of Greece dominate the headlines.

Greece

Because Greece is the first developed country to ever default on an IMF loan (on June 30), it is justifiably receiving significant attention. Normally, when a country runs into financial trouble, it has the option of devaluing its currency. Greece and Europe are in uncharted waters currently because Greece's currency is the euro, meaning it can't devalue a currency shared by over a dozen other countries. If Greece and its creditors do not reach an agreement that is acceptable to all parties, Greece will most likely exit the euro. On July 5, Greek voters overwhelmingly rejected a referendum that would have imposed further austerity measures in exchange for continued bailout funds. Talks are continuing although the ECB (European Central Bank) has refused to increase emergency credit to Greek banks. This has resulted in a shortage of cash and long lines at ATM's to withdraw a daily maximum limit of 60 euros (about $66).

Default was a concern several years ago and ECB officials stated they were willing to do whatever it took to bail out Greece at that time because the concern was over other troubled countries (Portugal, Ireland, Italy, Spain) following suit with their own defaults. By 2015, these countries' economies have recovered significantly. Additionally, Greece is a small country. Its GDP is 2% of the Eurozone countries. Its stock market is less than 1% of the emerging markets benchmark (it was considered a developed market but has been demoted back to emerging markets status).

If Greece does leave the euro, it should not be as catastrophic for world markets as it would have been a few years ago. In any event, our clients' exposure to Greece is minimal. Unfortunately for the Greeks, regardless of whether or not Greece leaves the euro, the country will likely enter into a deep recession.

Despite the ongoing concern about Greece, international equity benchmarks as reflected on the chart have stood out as being positive in an otherwise flat year, and we remain confident international markets will continue to grow over the longer-term. We are also happy to see that growth in Europe is finally picking up.

China

Weighed down by a property downturn, factory overcapacity and high levels of local debt, China's economic growth in 2015 is expected to slow to around 7 percent, the weakest annual expansion in a quarter century. Simultaneously, the Shanghai composite index is down 32% since its high of about 5000 on June 12. To give a sense of the run-up, the composite started the year at 3200. To try to rescue the markets, the Chinese government is intervening with limited success so far.

Our clients do not have exposure to China's A shares which are not available to foreign investors. In part this is due the fact that China does not meet some of the basic criteria required for fully understand the opportunities and risks associated with investments in China, including a lack of transparency and following generally acceptable accounting standards. The emerging markets funds we use do have indirect exposure to China through shares traded on the Hong Kong exchange although in aggregate the percentage is relatively small.

For the US, a decline in China's economy is a double edged sword. In the short term it will definitely have a negative impact on investors. However, over the long term it could result in the US being more competitive in the global economy and help to reduce the imbalance in trade, which would help enhance our economy.

The US Economy and the Federal Reserve

Janet Yellen's Fed is closely watching international developments. If there is a messy euro exit and resulting turmoil in the global markets, they will postpone raising interest rates. If the US economy continues to grow, the financial markets expect them to start raising rates as early as September.

Here are some numbers that give an indication of the health of our own economy:

- The unemployment rate is down to 5.3% as of July 2015. While this is the lowest rate in many years, some of it is due to workers either retiring or permanently leaving the job market.
- Inflation is higher in 2015 at around 1.7% for core inflation (excluding the more volatile food and energy). Some economists attribute the increase to wage pressure since there are fewer Americans trying to fill open jobs.
- The 10 year Treasury yield is now 2.2%, relatively flat since 2014 year-end. Yields have dropped from 2.4% in the past few days because of Greece. A slow rise with a transparent Fed would be ideal because the market would not be blindsided and a slowly rising rate means the economy continues to improve.
- GDP continues at 2% - 2.5%: slow but steady.

In times of uncertainty, as you know, we do not believe in market timing and continue to recommend a diversified portfolio. We are aware of rising rates pushing down bond prices. However, we see rising rates as a short term issue unrelated to our fundamental reason of holding bonds: to protect against another 2008 scenario.

A bond bear market could result in bond prices declining by 1-2%. They are currently down year to date by 0.1%. Compare this with a stock bear market where stock prices can and have dropped 40-50%. Further, there have been several false starts with rising rates over the past five years. We do not know exactly when rates will rise and by how much. What we do know is the Fed is committed to making this process as transparent as possible to avoid nasty market swings. Most of our clients have long-time investment horizons so we continue to recommend a well-diversified portfolio and to avoid making drastic changes based on an emotional reaction to headlines.

As always, please don't hesitate to call us for a chat if you have questions or concerns you feel we have not addressed adequately.

Thank you for the ongoing opportunity to work with you.

Sincerely, Janet & Barry