

QUARTERLY PORTFOLIO REVIEW

December 31 2015

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.  
Winston Churchill

**Quarter in Review**

Interest rates were increased for the first time in many years in December by 0.25%. Investors should not expect an equal increase in their savings accounts or money markets but a lower increase by their banks as the banks may use this increase as an opportunity to help their balance sheets/loan book.

Hedge funds had a down year as well. According to the Economist 1.2.16, date ending 12.29.15 the Hedge fund index (HFRX) was down -3.7%.

US Dollar index on 1.6.15 was 91.75 and reached a high of 100.20 before settling at 98.69 on 12.31.15, an increase of almost 7.5% in 2015. This is on top of a 2014 increase from the 1.10.14 price of 80.66 to 91.16 on 1.2.15 which equals an increase of 13%. This two year increase in the dollar has had an impact on foreign market returns in both 2014 and 2015. There is a great debate as to whether the value of the dollar is too strong.

The Chinese economy and markets were in the news a great deal in 2015 and especially affected equity markets in the latter half of 2015. Their stock market had a significant decline as well as there is evidence of their economy slowing significantly.

**BENCHMARK CENTRAL 2015 YEAR END**

Citi World Gov't Bond Index 3-7 Yr. Hedged	1.54%
Russell 2000 (US Small Cap index)	-5.71%
S&P 500 (US Large Cap index)	-0.73%
Wilshire 5000 (US Total Market index)	-2.32%
MSCI EAFE (International Stock index)	-3.30%

**OIL, DOLLAR, AND UNCERTAINTY**

2015 will stand as a very difficult year for most of all the assets classes available to investors. The pressure on equity returns was exacerbated by the impact of declining oil prices, the unexpected rise of the US dollar - especially the rise of the US dollar vs. the Euro - and a general level of uncertainty regarding Fed interest rate discussions.

According to the last issue of the Economist dated 1.2.16, the FTSE Euro 100 index ending 12.29.15 had a +7.0% in local currency (Euro) but when the US dollar is factored in it resulted in a -3.6% loss through that date. Essentially the rise of the US dollar took the steam out of the European equity rally in 2015. We discussed the US Dollar effect on foreign markets in our August 2015 conference call. This issue also carried an even greater effect on the Emerging Markets. As the US dollar rises, it not only affects the foreign equity returns but also has a muting impact on US Corporate profits.

Oil was a lead story throughout 2015. The battle between OPEC and other oil producers continues with an over supply of oil thereby driving down prices. While it helps the US consumer at the pump, low oil prices can be a significant issue for oil companies' ability to drive profit not to mention other governments' ability to raise revenues. Additionally, virtually all commodities suffered losses in 2015.

In conclusion: Market fluctuations are normal. Continue to hold your positions and add to them, if possible, during downturns. Accounts will be rebalanced to maintain your portfolio allocation, taking advantage of lower prices where available. Ignore the media hysteria and know you are doing precisely what you should be doing.

**QUARTERLY CLIENT WEBINAR**

Date: Thursday, January 28th, Starting time: 12:30 pm, Eastern Daylight Time

Meeting Number: 192 144 091

Website link: <https://meetings.webex.com/collabs/#/meetings/detail?uuid=MBCYDL4HLQUN0WKP8X4VV3P163-5MWV&ucs=email>

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 192 144 091

If you cannot join us for this important webinar, we will post a recording of the entire presentation on our website at [www.afadvisors.com](http://www.afadvisors.com).