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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 4th Quarter of 2015.

The Markets

The equity and most other markets were hit hard in the 3rd quarter. The table shows the details for September, Q3 and year-to-date. Every asset class is down for the year except for investment grade U.S. bonds which have returned about 1%. Normally when risky assets go down a lot investment grade bonds rally and helps cushion the blow considerably. Interest rates are just so low it is hard for them to go a lot lower and offset the losses in the equity markets as much as they have in the past. So while diversification has not helped a lot to reduce portfolio volatility this year, over the long run we know it does.

September Benchmark Returns (Preliminary)

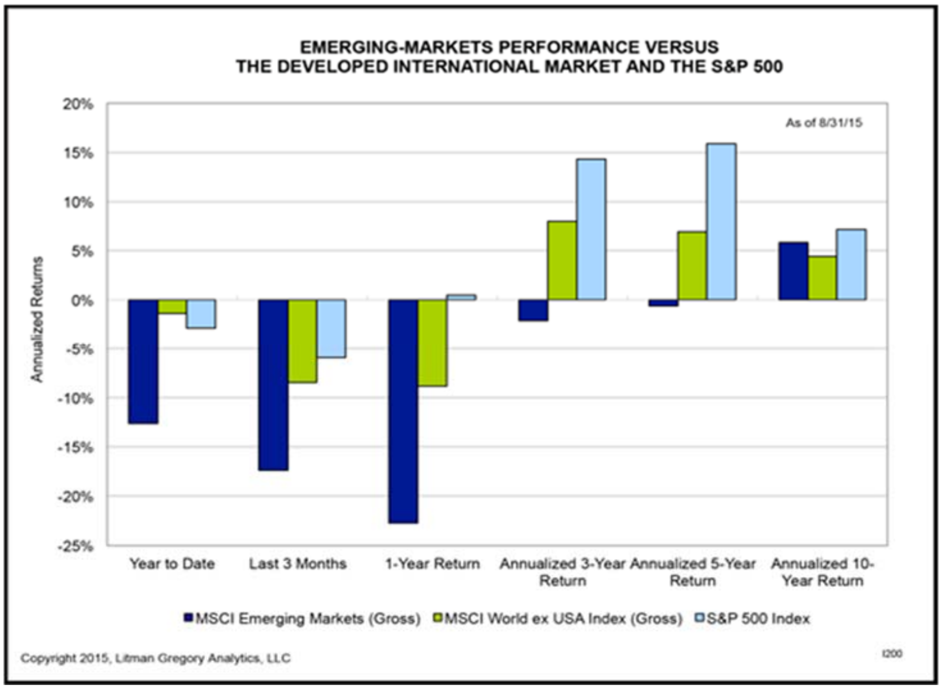
Large Cap Benchmarks	Sep	3Q	YTD
Vanguard 500 Index	-2.5%	-6.5%	-5.4%
iShares Russell 1000	-2.8%	-6.9%	-5.3%
iShares Russell 1000 Growth	-2.6%	-5.4%	-1.7%
iShares Russell 1000 Value	-3.1%	-8.4%	-9.1%
Mid-Cap Benchmarks			
iShares Russell Midcap	-3.6%	-8.0%	-5.9%
iShares Russell Midcap Growth	-3.9%	-8.1%	-4.3%
iShares Russell Midcap Value	-3.4%	-8.2%	-7.8%
Small-Cap Benchmarks			
iShares Russell 2000	-4.9%	-11.9%	-7.8%
iShares Russell 2000 Growth	-6.3%	-13.0%	-5.4%
iShares Russell 2000 Value	-3.5%	-10.8%	-10.2%
Other Benchmarks			
Vanguard FTSE Developed Markets ETF	-4.1%	-9.7%	-3.9%
MSCI World ex USA Index	-5.0%	-10.5%	-6.3%
Vanguard FTSE Europe ETF	-4.1%	-8.5%	-3.7%
Vanguard FTSE Emerging Markets ETF	-2.9%	-17.9%	-15.2%
Vanguard REIT Index	3.0%	2.0%	-4.5%
Vanguard Total Bond Market Index	0.8%	1.2%	0.9%
BofA Merrill Lynch U.S. High Yield Cash Pay	-2.6%	-4.9%	-2.5%
Vanguard Int. Term Tax-Exempt Fund	0.7%	1.6%	1.5%
S&P/LSTA Leveraged Loan Index	-0.6%	-1.4%	1.4%
Citigroup World Gov't Bond Index	0.8%	1.7%	-2.4%

For the first time in many years there are some good opportunities in select asset classes and we will detail these below.

The Case for Investing in Emerging Markets

The graphic below details the performance of the emerging (dark blue), the foreign (green) and the U.S. stock markets (light blue) over various time periods. Please note the chart time period ends at the end of August. Note: just to make sure all understand; the foreign developed markets are primarily Western Europe, England and Japan while the emerging markets include most notably China, Eastern Europe, Brazil, Mexico, South Korea, Russia, India, South Africa, among others.

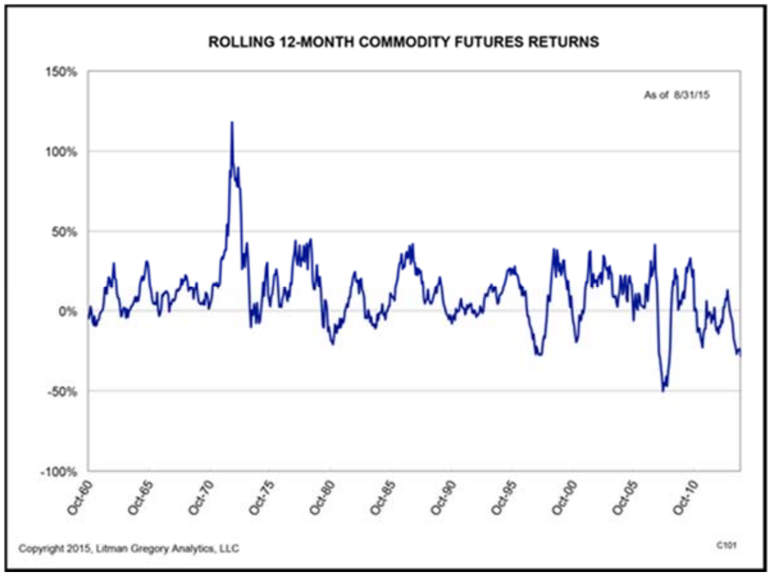
The last year has been particularly bad for all the foreign markets. However, over the last 10 years, despite the huge divergence in returns, the foreign markets annual returns are only a percent or two lower per year than the U.S. markets.



We have seen this story before. Every time a particular region goes out of favor with investors for several years, the tables are turned and they outperform for several years. Current relative valuations based on fundamental measures have rarely been wider in favor of the emerging world. Over the 12 years I have been in business we have slowly been investing more in the emerging markets and will continue to do so as the opportunities grow.

Most problems in the emerging world have come from fear over China and their slowing economy. By some measures China has the largest economy in the world and will be the largest by all measures in a few years. This would have been unthinkable ten years ago. The facts are this: China is slowing but still growing 5% annually, much faster than the U.S. and other developed markets. While the emerging world is far from homogeneous, compared to the developed world, as a whole, the emerging world has higher growth, a younger population which will translate to higher growth in the future, and over time their financial, political and legal institutions are enabling more democratic and open markets. This is why they are called developing markets.

The Case for Investing in Commodities and Natural Resource Equities
In late January we added a commodity index fund (DBC) to our portfolios. The reasons we initiated the investment are two-fold. First it is a great diversifier for a portfolio. Recall our July 2014 newsletter where we showed the long-term benefits of adding commodities and other asset classes to a stock and bond portfolio. Second we see them having attractive prices. In January when we initiated our investment the fund had dropped over 40% from the high reached in April of 2011. The price in January was as low as the all-time low of for the fund in March of 2009 during the peak of the financial crisis.



You can see the ups and downs in the commodity market in the graphic. Whenever prices drop this much they always come back. Only one time in the last 55 years have returns over one year been lower in the commodity market.

Since our purchase in January the fund is down another 13%. Clearly the commodity market is suffering from years of overinvestment. However, over time supply and demand will come back to balance as it always has in the past. One big factor in the energy market has been the big comeback in U.S. energy production over the last few years. The rig count for all rigs operating in the U.S. has dropped over 50% (lowest since 2002). U.S. production has been dropping for several months and will continue to do so. We've seen this boom to bust cycle before and it is providing us a great opportunity to buy cheap assets.

We also bought Fidelity Natural Resources Fund (FNARX) in January and it has suffered similar to DBC. It buys stocks of energy and other natural resource companies. It dropped about 25% from June of 2014 to January of this year when we bought it. It has dropped another 22% since our investment. Again we may have been early but at the time it represented good long-term value and is even more so now.

The College Funding Challenge
It has been nine years since I have written about how we help families save for and reduce the cost of college. Recently we have helped several clients set up and fund accounts for their kids. The most common types of accounts are UTMA or Custodial accounts and College 529 plans.

There are numerous opportunities to help pay for the cost of college by reducing your taxes and qualifying for financial aid. Keeping up with all of the opportunities and the traps one can fall into is a big challenge. Recently I have teamed up with a couple of resources to help our clients. Barb McLachlan at Durango College Consulting is a resource I have referred clients to. She is an expert in helping students with finding the right college, getting thru the application process and finding and qualifying for financial aid and scholarships.

Another service I have just started using included an online EFC calculator. EFC stands for Expected Family Contribution and it determines if you can get needs-based financial aid. Parents can use this before the kids hit the campus to see if there is a chance you can qualify for aid and to explore the many planning opportunities. If you are interested let me know and I can help you thru the process. One point all the experts agree on: no matter what you think about your chances for qualifying for needs-based aid, <u>everyone</u> should fill out the FAFSA form and explore your EFC.

Thanks for reading and call me to discuss any issues you may have.

Sincerely,

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Registered Investment Advisor
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