Economic Review

In a much anticipated move, the Federal Open Market Committee (FOMC) moved off of its zero interest rate policy increasing the federal funds rate by one quarter percent. This marks the first change since December 2008 and the first increase since June 2006. In making the move, the Committee judged that there has been considerable improvement in labor market conditions and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective. The Committee stated that economic activity has been expanding at a moderate pace, household spending and business fixed investment have been increasing at solid rates in recent months, and the housing sector has improved further. Ongoing job gains and declining unemployment also show further improvement.

Real gross domestic product (GDP) slowed to an annual rate of 2.0% in the third quarter of 2015. In the second quarter, real GDP increased 3.9%. The increase primarily reflected positive contributions from personal consumption expenditures (PCE), residential and nonresidential fixed investment, state and local government spending, and exports.

Economic activity in the manufacturing sector contracted in December for the second consecutive month, while the overall economy grew for the 79th consecutive month according to the nation's supply executives in the latest Manufacturing ISM Report On Business. Factory activity is now at its lowest level since June 2009.

In a separate report, the Commerce Department also said construction spending slipped 0.4% in November, the first drop since June 2014.

The U.S. Bureau of Labor Statistics reported that the unemployment rate was unchanged at 5.0% in November and the number of unemployed persons at 7.9 million, was essentially unchanged. The civilian labor force participation rate, at 62.5% has shown little movement since October 2014.

Consumer confidence rose to its highest level since July largely due to lower inflation, which bolstered real incomes and brightened buying plans for household durables according to the December release of the University of Michigan Surveys of Consumers.

Financial Markets Review: Domestic Stock Market

The Dow Jones Industrial Average advanced 7.00% in the fourth quarter but ended the year down 2.23% at 17,425.03. The S&P 500 gained 6.45% for the quarter to 2,043.94, excluding dividends, but essentially went nowhere for the year slipping 0.73%. The NASDAQ gained 8.38% for the quarter and 5.73% for the year to 5,007.41 on the strength of its technology weighting.

All 10 sectors in the S&P 500 posted positive returns in the fourth quarter. The top performers were materials climbing 9.69%, health care increasing 9.22%, and information technology gaining 9.17%. Laggards included energy up a mere 0.20%, utilities rising 1.07%, and consumer discretionary returning 5.79%.

Mid- and small-cap stocks advanced less than large-caps in the quarter, with the S&P Midcap 400 Index rising 2.60% and the S&P SmallCap 600 Index ahead 3.72%.

With respect to style and market cap, growth outperformed value and large capitalization beat small capitalization for the three-month period.

The top-performing stocks in the Dow Jones Industrial Average for the fourth quarter included DuPont (+38.17%), Microsoft (+25.35%), and General Electric (+23.51%). Stocks detracting from the Dow's performance included American Express (-6.18%), Wal-Mart Stores (-5.46%), and IBM (-5.07%). Leaders for the year were Nike (+30.01%), McDonalds (+26.08%) and Home Depot (+25.99%).

Top performers for all of 2015 among the Dow Jones industry groups were toys (+35.71%), distillers & vintners (+31.00%), and internet (+27.14%). Exorbitant losses for the year included coal (-80.92%), nonferrous metals (-68.35%), and pipelines (-51.53%).

Starting 2016, the price-earnings level of the S&P 500 is above historical valuation averages at 21.54 (per Barron's) and is 7.9% higher than a year ago.

Looking forward to the first quarter of 2016, continued global growth concerns (particularly China), collapsing commodity prices, the strong dollar, geopolitical threats, and the upcoming presidential election will likely dominate the headlines.

Given a still-growing US economy, we remind investors that timeless lessons - keep invested, don't try to time the market, periodically rebalance and diversify broadly - remain the best guide for investors.

	Total Returns (12/31/15)			Annualized Returns (12/31/15)		
Category/Style	4th Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	7.04	1.38	1.38	15.13	12.57	7.31
Russell 1000 Large Cap	6.50	0.92	0.92	15.01	12.44	7.40
Russell 1000 Growth	7.32	5.67	5.67	16.83	13.53	8.53
Russell 1000 Value	5.64	-3.83	-3.83	13.08	11.27	6.16
Russell 2000 Small Cap	3.59	-4.41	-4.41	11.65	9.19	6.80
Russell 2000 Growth	4.32	-1.38	-1.38	14.28	10.67	7.95
Russell 2000 Value	2.88	-7.47	-7.47	9.06	7.67	5.57

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

Accommodative central bank policies in the Eurozone, Japan, and China aided a rebound in international equity market returns in the fourth quarter of 2015 after a brutal third quarter.

The MSCI EAFE Index of developed markets gained 4.71% for the fourth quarter but fell 0.81% for the year. Emerging markets meagerly advanced 0.66% for the quarter but plummeted 14.92% for the year as measured by the MSCI Emerging Markets Index. Emerging market stocks have underperformed developed markets for five years now. Frontier markets lost 1.23% for the quarter and 14.46% for the year according to the MSCI Frontier Market Index.

Major international markets were up in the fourth quarter. The Stoxx Europe 600 Index gained 5.19% to 365.81. Germany's DAX Index rose 11.21% to 10,743.01, and France's CAC-40 Index increased 4.8% to 4,637.06. The UK London FTSE 100 Index closed at 6,242.32, advancing 2.98%.

In Asia, the Dow Jones Asia-Pacific TSM Index improved 7.21%, to finish the quarter at 1,389.75. Japan's Nikkei stock average gained 9.46% to 19,033.71, and China's Shanghai Composite Index recovered 15.93% to 3,539.18.

In the Americas, the DJ Americas index gained 4.98% to 487.23. Brazil's Sao Paulo Bovespa index fell 3.79% to 43,349.96, Canada's S&R/TSX composite index lost 2.23% to 13,009.95, and Mexico's IPC All-Share index ended the quarter at 42,977.50 down 0.81%.

The top performing S&P Dow Jones World Industry Group for 2015 was internet, jumping 21.55%. The worst performing group for the year was coal, cratering 49.36%.

US Dollar momentum slowed in the fourth quarter. The Dollar was down 2.84% versus the Euro at 1.0861 (EUR/USD), off a mere 0.33%. The dollar also fell 0.35% against the Yen for the period, with the Yen ending the quarter at 120.30 (USD/JPY).

World Bond Markets

Bond market returns were mixed in the fourth quarter. The Barclays U.S. Aggregate Bond Index lost 0.57% while the Barclays Municipal Index gained 1.50%. The Barclays U.S. Treasury TIPS Index was basically flat for the period returning 0.01%. The U.S. 10-year note yield gained 19 basis points to 2.27% at the quarter's close. Yields for money funds moved off of zero, with the 7-day yield on retail money funds at 0.06% according to iMoneyNet.

Yields on foreign bonds moved little in the fourth quarter, with the 10-year bond yielding 1.97% in the United Kingdom, 1.42% in Canada, 0.63% in Germany, and 0.27% in Japan at quarter's end.

Commodities

Commodities continued their precipitous decline crashing 10.52% in the fourth quarter and 24.66% for the year as measured by the Bloomberg Commodity Index. The more energy-laden S&P Goldman Sachs Commodity Index experienced even more extreme losses plunging 16.63% for the quarter and 32.86% for the year. Crude oil sank 17.85% to $37.04/barrel, and natural gas dropped 7.41% to end the quarter at $2.337 MMBtu. Gold fell 5.80% to 1,060.30 per troy ounce.

Mutual Funds/Exchange-Traded Funds

The average domestic stock fund gained 3.91% in the fourth quarter and lost 2.08% for the year, according to Lipper Inc., while the average fixed income fund fell 0.87% for the quarter and 1.21% for the year.

The latest release from the Investment Company Institute showed that the combined assets of the nation's mutual funds barely changed over the last twelve months at $15.9 trillion. The number of funds increased by 235 to 8,137. Exchange-traded fund assets, on the other hand, gained $168 billion (8.6%) to $2.1 trillion in total. The ETF ranks increased by 163 funds over the past year to 1,574, representing an increase of 11.6%.

Mutual Funds Overview As of December 31, 2015

	Total Returns			Annualized Returns		
Category	4th Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	1.37	2.49	2.49	2.36	4.54	3.85
Short Taxable Bond	-0.44	0.16	0.16	0.53	1.48	2.86
Intermed. Taxable Bond	-0.66	-0.32	-0.32	1.15	3.23	4.21
Long Taxable Bond	-0.83	-2.66	-2.66	2.04	6.64	6.00
High Yield Bond	-2.01	-4.06	-4.06	1.27	4.10	5.58
World Bond	-0.61	-4.08	-4.08	-1.55	1.28	3.91
Small-Cap Stock	2.67	-5.35	-5.35	10.36	8.24	6.28
Mid-Cap Stock	2.36	-4.87	-4.87	11.48	9.10	6.52
Large-Cap Stock	5.55	-1.09	-1.09	13.23	10.76	6.45
World Stock	4.12	-1.72	-1.72	8.25	6.51	4.95
Foreign Stock	3.58	-1.57	-1.57	3.67	2.60	2.82
Natural Resources	-1.12	-22.11	-22.11	-8.58	-6.82	-0.34
Real Estate	6.55	2.36	2.36	10.12	11.09	6.61

Source: Morningstar Category Returns, Morningstar, Inc.

Important definitions and disclosures

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index** (S&P600) covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index** (S&P400) is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Price-earnings (P/E) ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. **Morgan Stanley Capital International Index** (MSCI) EAFE is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-Linked Bond Index** (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. The **S&P Goldman Sachs Commodity Index** (S&P GSCI) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The **Investment Company Institute** (ICI) is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category, but have since changed to another category.

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