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OUTLOOK

September 2015

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CAN I BORROW YOUR TOWEL FOR A SEC? MY CAR JUST HIT A WATER BUFFALO. –IRWIN 'FLETCH' FLETCHER

There are lots of fun Chevy Chase movies. While most people refer to the "Vacation" series when they think of him, I think of *Fletch*. Who knows why, but I loved it when it came out and I still pull it out on rainy days. When *Fletch* didn't win an Oscar in 1986 (It wasn't even nominated) and then lost Best Motion Picture to *Witness* at the Edgar Awards, I knew all of these awards were "fixed" affairs. With apologies to Ms. Streep and Mr. Redford, I have no plans to own the *Out of Africa* DVD, but I might buy another copy of *Fletch* as a backup.

Almost immediately after completing the August newsletter, markets hit a water buffalo. So, I feel compelled to provide a quick update and thoughts regarding what to do when markets change direction. Look at the last 18 months of the NYSE Composite Index:

From July 2014 through October 2014, the NYSE Composite registered a -9% decline. From May 2015 through August 2015, the index registered a -14% AND made a new low. Markets that make new lows are not healthy, especially if they don't see strong recovery. It is a bit too early to determine if we will or will not see a strong recovery. It looks like it wants to try to recover, but it will take a little more time to reach a reasonable conclusion. However, it is a perfect time to ask if this represents a buying opportunity.

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REQUIRED DISCLOSURES: THEY'RE SMALL AND BORING, THAT'S WHY THEY'RE REQUIRED

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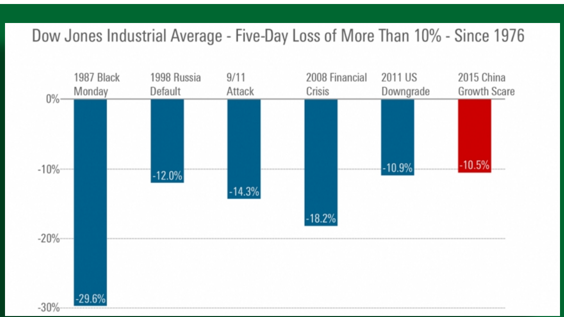
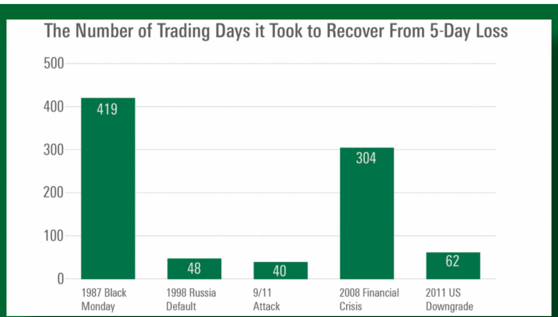


HOW FAST DO MARKETS RECOVER?



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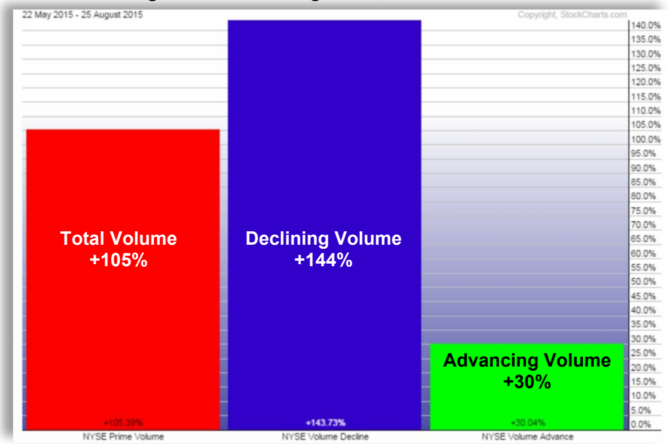
BUYING OPPORTUNITY?

At the risk of being called "late to dinner," there are some good reasons to not think of this as an immediate opportunity. Deteriorating markets often begin with weak small stocks and progress to large ones. The recent pullback was broad and brought more weakness to large companies. In addition, we see the volume of declining stocks significantly outpacing the volume of advancing stocks.

	Oct 15, '14	Aug 25, '15
% of Small Companies Down 20% or More	45%	53%
% of Large Companies Down 20% or More	20%	42%

3 Month Trading Volume as of October 15, 2014

3 Month Trading Volume as of August 25, 2015



WHAT TO DO DIFFERENTLY

Step 1: Clean out poor performers while paying attention to tax consequences.

Step 2: Diversify. Diversification DOES NOT ensure profit or guarantee against losses, but there have been some historical advantages to owning more than just US stocks.

Let's look at a few diversifying options:

Intermediate-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of 3.5 to six years. These portfolios are less sensitive to interest rates than those that have longer durations.

Market neutral portfolios seek income while maintaining low correlation to fluctuations in market conditions. Market neutral portfolios typically hold 50% of net assets in long positions and 50% of net assets in short positions in order to deliver positive returns regardless of the direction of the market.

Long-short portfolios hold stakes in both long and short positions. Long-short portfolios that are not market neutral will shift their exposure to long and short positions depending upon their outlook or the opportunities they uncover through research.

Bear-market portfolios invest in short positions and derivatives in order to profit from stocks that drop in price. Because these portfolios often have extensive holdings in shorts or puts, their returns generally move in the opposite direction of the stock market indexes.

Stock Market Alternatives - Selected Years of Returns

	2002	2008	2011	Average
S&P 500	-22.10	-37.31	1.03	-19.46
Morningstar Interm Govt/Corp	12.34	6.87	8.02	9.08
Morningstar Market Neutral	6.41	-3.41	-4.23	-0.41
Morningstar Long-Short	-3.20	-14.75	-1.24	-6.40
Morningstar Bear Market	41.58	46.71	-20.32	22.66

MORE DISCLOSURES: IF DISCLOSURES WERE SUGAR-LADEN FOODS, WE'D ALL BE DIABETICS

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