

GDP (lagging indicator)



Q1, 2015 (Third Estimate)

Decreased by a rate of 0.2% due to downturn in exports, nonresidential fixed investment, and reduction in state and local government spending.

EXISTING HOME SALES



Thru May 2015

Up 5.1%: the highest pace rise in six years, fueled by increase in sales to first-time home buyers.

UNEMPLOYMENT RATE



Thru June 2015

Declined to 5.3% (seasonally adjusted).

CONSUMER PRICE INDEX



May 2015

Up 0.4% (seasonally adjusted) due to increased price of gasoline and energy commodities.



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Economic News

Volatility of the US stock market continued during the second quarter of 2015, much like it has for the rolling year. Major indices ended the quarter with slight gains, with the S&P 500, NASDAQ, and Russell 2000 (US Small Cap Stocks) higher by 0.28%, 2.03%, and 0.42% respectively.

Investors continued to be concerned by the Federal Reserve's monetary policy and plans for future interest rate hikes. Even though the US economy was hampered by disappointing GDP data—which showed the US economy decreasing by 0.2% during the first quarter—the Fed communicated during its June meeting that the first rate hike would take place sometime this year. As a result of the Fed's communication, bond prices sank, with yields of the benchmark 10 year treasury spiking to a high of 2.49%, after having plunged to a low of 1.68% earlier in the year. Yields ended the quarter at 2.35%.

In addition to anxieties about the Federal Reserve, the market remained on edge due to continued trouble in Greece. Global market indices experienced volatility as investors wavered between pessimism and optimism regarding Greece's ability to repay its debts, and whether it will remain a member of the European Union.

Sector performance varied widely during Q2, with the best performing sectors being Communication Services and Financial Services, experiencing a return of 4.9% and 4.3% respectively, while Utilities and Industrials were the worst performing sectors returning losses of 6.3% and 2.4% respectively. Oil prices rebounded in the second quarter, with Brent Crude jumping by 15%. While this was the single biggest percentage gain since the first quarter of 2011, oil still remains well below the highs of the previous few years.

Index	1st Qtr	1 Year	5 Year	10 Year
Barclays U.S. Aggregate Index	-1.68%	1.86%	3.35%	4.44%
MSCI AC World Ex US Net Total Return	0.53%	-5.26%	7.76%	5.54%
Russell 2000 Total Return	0.42%	6.49%	17.08%	8.40%
S&P 500 Composite Total Return	0.28%	7.42%	17.34%	7.89%

Tools of the Trade

In the world of top-down investing, capital market assumptions (CMAs) are the basis of constructing strategic asset class allocations. CMAs provide the baseline methodology for determining portfolio risk through estimates of expected returns, standard deviations, and correlation between asset classes. Once a set of CMAs is outlined, Modern Portfolio Theory can be applied in a variety of ways to implement tactical adjustments to optimize
(continued)



“Investing is the intersection of economics and psychology.”

Seth Klarman

the portfolios based on the investment methodology, ie. growth or value. This two-step approach allows a portfolio manager to combine assets that theoretically yield the maximum amount of return for any given level of risk.

Using long-term historical averages to determine the appropriate price and growth for various asset classes is a common technique when building initial CMAs. Once an appropriate benchmark is selected for a particular asset class, a strategic allocation can utilize a measure such as the price to earnings ratio (P/E) to estimate future returns. For example, the long-term historical average P/E of the benchmark can be compared to the spot P/E of the particular asset class to determine if it is overpriced or underpriced relative to its historical position. Dividend yields, forecasted inflation, and forecasting of economic conditions can all contribute to a richer assumption of risk and return estimates. Once CMAs have been established for the asset classes utilized in portfolio building, tactical rebalancing can be applied in response to near-term trends or analysis, such as actions by the Federal Reserve, that represent significant variations away from historical price levels.

For 2015, interest rates continue to remain depressed, keeping the fixed income projections lower, particularly at longer durations. Additionally, domestic equities outperformed in 2014, meaning they are broadly overpriced compared to historical averages for 2015, pushing their CMA expected return lower.

Retirement Advice and the Fiduciary Standard

Currently, there are two standards to which advisers and financial planners are held— the suitability standard and the fiduciary standard. In April 2015, the Department Of Labor proposed changes to the definition of “fiduciary” under ERISA and the Internal Revenue Code expanding it to require a fiduciary standard —or best interest standard— across a broader range of retirement advice to protect more investors. Many industry experts fear that expanding the definition of fiduciary could significantly impact financial services firms that serve or support retirement plan business.

Reactions to the proposal have varied and have highlighted the controversial nature of such a sweeping change. The financial services industry has widely opposed the proposed changes, as increased operational costs could impair financial services firms’ ability to continue in the retirement plan business in general, and cut out certain client bases specifically. Congress has had mixed reactions as well, and it is worth noting that the divide has been distinguishable from the typical partisan split that is often seen in other areas. The White House has publicly supported the proposed changes. In the coming months we are likely to see this matter develop further and ultimately have a better idea of just how much the qualified plan landscape will change.

The Barclays US Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The MSCI All Country World Exclude US Net Total Return is a commonly used measure of common stock total return performance of 22 of 23 Developed Markets countries excluding the US. The Russell 2000 Total Return Index is a commonly used measure of small capitalization stocks, The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results. The information and opinions expressed herein are for general and educational purposes only. Nothing contained in this newsletter is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third party sources are believed to be reliable but not guaranteed. M Holdings Securities, Inc. makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

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