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Dear Valued Investor:

While a new year means new beginnings—changing to a new calendar, signing up for a new gym membership, and struggling to remember to write 2016 on our checks—markets are starting 2016 off with the same growth concerns and heightened volatility that made the second half of last year a challenging one for investors. In fact, the calendar year 2015 was highlighted by essentially flat returns across stocks (S&P 500 advanced 1.4%), bonds (Barclays Aggregate Bond Index advanced 0.6%), and cash (which returned 0.2%). Notably, this was the first time in over 60 years that all three major investment categories were simultaneously unchanged—plus or minus 2%—over a full calendar year.

With the Federal Reserve (Fed) raising rates for the first time in nine years, the arrival of the presidential election campaign season, and moving another year closer to the end of the current economic expansion, we expected more volatility in 2016, but we didn't expect it so soon in the year. Normally, the first few trading days of the year are buoyant as investors look optimistically ahead. Instead, 2016 has started off on a sour note, as a rise in geopolitical tensions stemming from North Korea's possible nuclear test, discord between two of the most powerful Middle Eastern countries, and the ongoing fear of terror attacks at home and abroad have all weighed on investor sentiment. Continued concerns arising from the slowdown of the Chinese economy have brought about volatile movements in global currencies and have driven down the price of oil to levels even lower than in the depths of the Great Recession.

While some investor confidence has been rattled by the recent volatility, overall consumer and corporate optimism remain constructive. To date, there are only limited signs that the market's global growth concerns have begun to negatively affect U.S. economic activity. The labor market continues to showcase strength, with an average of 212,000 jobs created per month over the last six months. In addition, layoff announcements remain near all-time lows and new claims for unemployment insurance continue to hover near the lowest level in 42 years. Importantly, the Institute for Supply Management (ISM) services reading for December 2015 came in near all-time highs and indicates that the services sector, which represents over 80% of the U.S. economy, remains strong and has not been hindered by the global weakness in energy prices or manufacturing.

Risks remain, however, as continued declines in energy prices have delayed vital capital investment by a major segment of the U.S. economy, corporate earnings remain muted, and manufacturing remains weighed down by tepid global demand and a stronger dollar. Although the turmoil in the oil markets remains a top concern, the lower prices should help speed up the painful supply adjustment process and may bring about greater stability as the year unfolds. Should the supply-demand imbalance in energy stabilize as we expect, this could be a potential catalyst for additional capital spending and accelerated profit growth as 2016 progresses.

Overseas, the Chinese economy continues to struggle as it embarks on what will be a lengthy transition from a manufacturing-based, export-led economy to a more consumer-led, domestic economy. Perhaps more importantly, the market seems to be losing confidence in the Chinese government's ability to manage this transition as well as it managed its economy over the past 15 years. However, other emerging markets are still adding to global growth, and central bank actions in the Eurozone and Japan should help to boost growth in those countries. In addition, we continue to expect China's growth to stabilize, as it has the resources to do more to stimulate its economy.

It is important to remember that investing is a marathon, not a sprint. It is about endurance. Volatility has always been a part of investing and always will be. In fact, over the last 15 years, every calendar year has seen at least one pullback of at least 6% and a median correction of 14%. So while volatility is normal (and even expected), it is always nerve-wracking. These short-term market flare-ups are often quick and severe, but fueled by feelings of fear and concern over perceived risks that may not be actual threats.

Volatility is expected to remain heightened for the remainder of 2016, which is common as the business cycle ages, and in turn, makes sticking to your long-term investment plans even more important to avoid locking in losses and missing out on opportunities. This current pullback, which is now approximately 5% year to date and 7% from the November 2015 highs, could continue over the short term as fear and concern trump much of the good news coming from the U.S. economy. What remains as the key to weathering these short-term bouts of volatility is a commitment to a well-formulated plan, a long-term focus, and good headphones to tune out the noise of short-term negativity.

While a new year often brings about new resolutions, it is important to maintain these time-tested investment habits and a long-term perspective. As always, if you have questions, I encourage you to contact me.

Sincerely,

Michael W. Jowdy, CFP®