WEEKLY MARKET COMMENTARY

A Candid Look into the Current State of the Markets

January 2016

Our roads to success may have twists and turns and ups and downs; together we can navigate a course and enjoy the scenery along the way.

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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.

Weekly Market Commentary | Week of January 18, 2016

KEY TAKEAWAYS

- As difficult as it is during periods of heightened volatility, we encourage investors to stick with their plan.
- Key sentiment indicators that assess bullishness and bearishness suggest selling may be near an end.
- We haven't seen full panic, but the upside opportunity for stocks may outweigh the downside.

ANY BULLS LEFT?

The number of bulls is dwindling. In periods of extreme market volatility such as we have experienced in recent weeks--and Friday, January 15, 2016, in particular, when the Dow was down over 500 points at one point before paring losses--we find it helpful to try to take some of the emotion out of our investment decisions. As difficult as that can be at times, this approach can help us reduce the chances of selling at the bottom, even though the natural reaction for many is to panic and hit the sell button.

One way to help measure how close to the bottom stocks may be is to use sentiment indicators to identify extremes in bullishness and bearishness. When the bulls are all washed out, in theory, there are few sells left to put more pressure on stocks. In this case, extreme bearishness can be viewed as a contrarian indicator and may signal that selling could be near an end.

Technical analysis can also help identify key price levels that may signal breaks in either direction. These tools can give us an idea of when the selling might stop and a reversal might ensue. An objective look at some data can be reassuring and help us make better investment decisions.

A closer look at sentiment indicators suggests most of the selling may be behind us. We haven't seen full panic--or capitulation--but we have gained some confidence that the upside opportunity for stocks may outweigh the downside.

FEW BULLS LEFT

The latest American Association of Individual Investors (AAII) survey indicates an extreme scarcity of bullish investors, even more extreme than was observed in the summer of 2015. In fact, based on the latest AAII survey, bulls are as scarce as they were in 2009 and 2003, the last two major market bottoms. The reading of bulls during the latest week came in at 18%, the lowest level since April 2005. Bears have spiked as well, up to more than 45%, the most since April 2013.

Using weekly data, the eight-week moving average of the bulls is below 26% [Figure 1]. For comparison, this was the lowest since March 2009 during the depths of the financial crisis. The only other time it was less than 26% over the past 20 years was March 2003. This extreme level of bearish sentiment may suggest a lack of new sellers and that stocks may be nearing a bottom.

Click here for Figure 1, Few Bulls Left...And That Could Be a Good Thing.

DERIVATIVES POSITIONING

Another way to assess investor sentiment is by looking at the ratio of bullish to bearish positioning in the derivatives market. Recently, positioning in the derivatives markets has become much more bearish, according to data from the Chicago Board Options Exchange (CBOE). Coupled with the action in the AAII sentiment poll, this shows how dour most view the stock market currently. From a contrarian point of view, this could be a sign that a bottom may be near.

ASSESSING TECHNICAL DAMAGE

We can also use more traditional technical analysis to assess how likely it is that stocks are nearing a bottom. Over the past few weeks, the S&P 500 Index has incurred some technical damage, with the index now testing its August 25, 2015, low at 1867. From a technical perspective, a sustained break below the 1867 support level would establish a lower low, indicating the downtrend may continue. Conversely, a bounce off of the 1867 level would indicate stabilization by setting up a higher low, increasing the potential for a short-term bottoming process.

Another form of technical damage occurred on January 8, 2016, when the shorter-term moving average (50 periods) crossed below its longer-term moving average (200 periods) on the daily price chart (which some refer to as a "death cross"). This is the second time this cross has occurred over the past six months--the first occurred on August 28, 2015, very close to the stock market lows of August and 2015 [Figure 2].

Click here for Figure 2, The So-Called Death Cross Often Gives False Signals.

Since 1980, the S&P 500 has experienced 16 of these crosses. In 11 of those instances, the S&P 500 was higher 3 months later, with an average gain of 4.7%. The numbers improve after 6 months, with gains in 10 out of 15 instances, and an average gain of 7.4%. And over 12 months, stocks are only down if accompanied by recessions. This indicator has provided many false bear market signals over time and often indicated the approach of a rebound (see our *Weekly Market Commentary*, "Consulting Our Technical Playbook," for more on this topic).

CAPITULATION?

Evidence of "capitulation," essentially marking investors as throwing in the towel, can also signal the end of selling may be near. When the S&P 500 Index was at 1867 on August 25, 2015, many technical and sentiment stock market indicators were at extreme levels on heavy trading volume and were characterized by some as capitulation. This essentially means investors have all headed for the exits, leaving no one else to sell (in theory) and signaling a potential tradable stock market bottom.

The Relative Strength Index (RSI) can assess capitulation by measuring the depth of oversold conditions. A greater frequency of steep declines over a period (in this case we use 14 days) coincides with a low RSI. The RSI at just over 18 on August 24, 2015, was considered extremely oversold, compared with the recent low back on January 8, 2016, at 29. Holding this level would be considered a higher low, indicating the potential start of a short-term bottoming process and increasing the likelihood that stocks move higher.

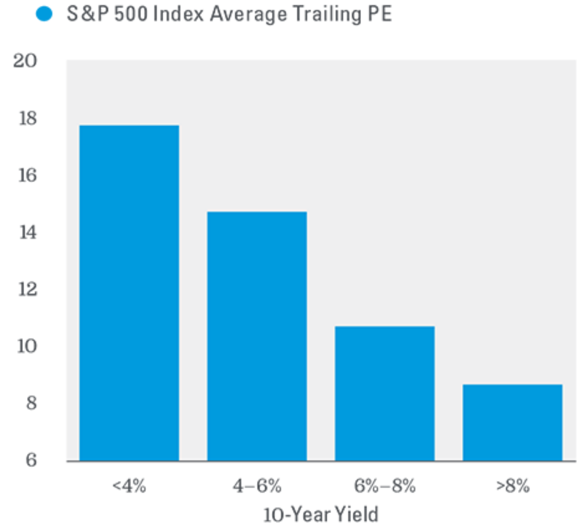
We can also look at the percent of S&P 500 companies above their 50-day moving average to assess capitulation. On August 24, 2015, this measure stood at 8.2, an extremely oversold, capitulation-like reading, compared with the more recent low of 12.7 on January 8, 2016. Again, should this level hold, it would suggest the start of a potential short-term bottoming process and, hopefully, a subsequent rebound in stocks. We may not have seen full-blown panic, but we have gained some confidence that the upside opportunity for stocks from here may outweigh the downside.

VALUATIONS

Another way to gauge sentiment is valuations, one of the more common worries about the ongoing bull market. The latest stock market correction has brought stocks down to a reasonable forward (next 12 months) price-to-earnings ratio (PE), below 15, down from more than 17 back in March 2015 (based on Thomson-tracked S&P 500 consensus estimates). On a trailing 12-month basis, at 15.8, valuations are in-line with the average since 1950 and slightly below the post-1980 average.

While valuations alone do not drive our investment decisions, especially in the short term, they can help entice buyers when stocks fall, especially at such low interest rate levels [Figure 3]. In fact, the dividend yield for the S&P 500 at 2.37% as of January 15, 2016, is higher than the yield on 10-year Treasury bonds at 2.03%. Corporate America, outside of the challenged energy sector, remains in very good shape and, we believe, is in good position to grow profits in 2016 despite the drags from the energy sector, a strong U.S. dollar, and slower growth in China.

3 STOCKS VALUATIONS HISTORICALLY HIGHER AT LOW INTEREST RATE LEVELS



Source: LPL Research, FactSet 11/30/15

Data: 1962–2015

Trailing PE is the sum of price-to-earnings, calculated by taking the current stock price and dividing it by the trailing earnings per share for the past 12 months. This measure differs from forward PE, which uses earnings estimates for the next four quarters.

WHAT ABOUT FUNDAMENTALS?

Technical analysis and valuations can provide some reassurance that a market decline might be nearing an end, but fundamentals are another key piece of the story. We continue to watch a number of fundamental indicators that might provide early warning of a potentially larger bear market decline. Look for an update on some of our favorite leading fundamental indicators in this publication over the coming weeks.

CONCLUSION

As difficult as it is in periods of heightened volatility, we encourage investors to stick with their plan. The natural emotional response is to sell everything and go to cash, but that is rarely the right decision. Technical analysis tools can help inform our decisions, in addition to valuations and fundamentals. Technical indicators, like valuation and fundamental indicators, are not perfect, but the convergence of extreme bearish signals indicate selling may be near an end.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

All investing involves risk including loss of principal.

Because of its narrow focus, investing in a single sector, such as energy or manufacturing, will be subject to greater volatility than investing more broadly across many sectors and companies.

DEFINITIONS

Overbought condition: This term identifies a scenario in which the price of the S&P 500 Index has moved too high and too fast reaching an extreme limit, increasing the likelihood that the price moves lower in the form of a pullback. Overbought conditions can be measured using the following technical indicators: 1) Price versus its 50-day simple moving average; 2) Relative Strength Index (RSI (14)) oscillator; and, 3) Percent of S&P 500 companies that are above their 50-day simple moving averages.

Oversold condition: This term identifies a scenario in which the price of the S&P 500 Index has moved too low and too fast reaching an extreme limit, increasing the likelihood that the price moves higher in the form of an oversold bounce. Oversold conditions can be measured using the following technical indicators: 1) Price versus its 50-day simple moving average; 2) Relative Strength Index (RSI (14)) oscillator; and, 3) Percent of S&P 500 companies that are above their 50-day simple moving averages.

Relative Strength Index (RSI-14) oscillator is a momentum oscillator which measures the rate of the rise or fall in price. It is typically used over a 14-period look back time period and measured on a scale from 0 – 100, with overbought levels marked above 70 and oversold levels marked below 30.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Forward price-to-earnings is a measure of the price-to-earnings ratio (PE) using forecasted earnings for the PE calculation. While the earnings used are just an estimate and are not as reliable as current earnings data, there is still benefit in estimated PE analysis. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period.

Weekly Economic Commentary | Week of January 18, 2016

KEY TAKEAWAYS

- The latest Beige Book suggests that the U.S. economy is still growing near its long-term trend.
- However, Main Street's latest assessment suggests that the manufacturing sector continues to be affected by oil and energy prices.
- Main Street has remained broadly optimistic despite recent equity market volatility and negative headlines.

BEIGE BOOK: WINDOW ON MAIN STREET

BEIGE BOOK SUGGESTS CONTINUED MODEST ECONOMIC GROWTH

During periods of economic volatility, investors sometimes abandon the tools for evaluating markets and the economy that had been serving them well before the volatility started. Good tools, however, should continue to provide insight, which is why we are turning, once again, to the latest Beige Book from the Federal Reserve (Fed) as we gauge the health of the broad U.S. economy as 2015 ended and 2016 began.

The latest Beige Book suggests that the U.S. economy is still growing near its long-term trend, but that the drag from a stronger dollar, weaker energy prices, along with the slowdown in emerging market (EM) economies--most notably China--are still having a major impact on the manufacturing sector. Comments in the Beige Book also continue to indicate that some upward pressure on wages is beginning to emerge; but the wage pressures are not accelerating, which should keep the Fed from raising interest rates aggressively this year. Overall, the Beige Book described the economy as expanding at a "modest or moderate" pace in 9 of the 12 districts. In general, optimism regarding the economic outlook far outweighed pessimism throughout the Beige Book, as it has for the past two years or so.

The Beige Book is a qualitative assessment of the U.S. economy and each of the 12 Fed districts individually. We believe the Beige Book is best interpreted by measuring how the descriptors change over time. The latest edition of the Fed's Beige Book was released Wednesday, January 13, 2016, ahead of the January 26-27, 2016 Federal Open Market Committee (FOMC) meeting, the first Fed policy meeting of 2016. The qualitative inputs for the January 2016 Beige Book were collected from late November 2015 through January 4, 2016. Thus, they captured Main Street's reaction to:

- A 20%+ drop in the price of oil
- The first Fed rate hike in nine years
- A much warmer (and drier) than usual December that likely impacted holiday shopping
- The terror-inspired shootings in San Bernardino, CA, in early December
- Economic and inflation data for October, November, and December 2015 that were generally softer than expected, especially in the manufacturing sector
- Another bout of equity market volatility in December with several swings of nearly 5%
- Heightened fears of a "hard landing" in the Chinese economy

SENTIMENT SNAPSHOT

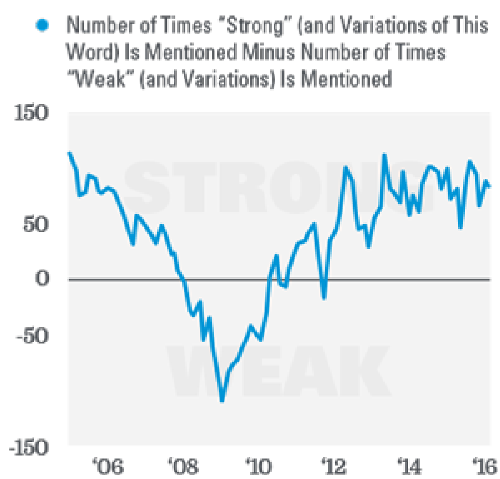
To evaluate the sentiment behind the entire Beige Book collage of data, we created our proprietary Beige Book Barometer (BBB) [Figure 1]. In January 2016, the barometer ticked down to +84 from +89 in October 2015. The BBB is remains below its mid-2015 peak, which followed a 40% bounce in oil prices from March to June 2015. The BBB hit +106 in July 2015, the highest reading since April 2013, and the second-highest reading in over 10 years. The downshift in the BBB from +106 in July to +84 in January 2016 traces, but doesn't match, the nearly 50% drop in oil prices from June 2015 to early 2016. The +84 reading in January 2016 has been matched just a handful of times in the past 11 years or so, and if sustained, suggests that the U.S. economy is growing at or just above its long-term trend.

HOW THEY WORK
BEIGE BOOK AND BEIGE BOOK BAROMETER

The **Beige Book** compiles qualitative observations made by community bankers and business owners about economic (labor market, prices, wages, housing, nonresidential construction, tourism, manufacturing) and banking (loan demand, loan quality, lending conditions) conditions in each of the 12 Fed districts (Boston, New York, Philadelphia, Kansas City, etc.). This local color that makes up each Beige Book is compiled by 1 of the 12 regional Fed districts on a rotating basis—the report is much more "Main Street" than "Wall Street" focused. It provides an excellent window into economic activity around the nation using plain, everyday language. The report is prepared eight times per year, ahead of each of the eight Federal Open Market Committee (FOMC) meetings. The next FOMC meeting is January 26–27, 2016.

The **Beige Book Barometer** is a diffusion index that measures the number of times the word "strong" or its variations appear in the Beige Book less the number of times the word "weak" or its variations appear. When the Beige Book Barometer is declining, it suggests that the economy is deteriorating. When the Beige Book Barometer is rising, it suggests that the economy is improving.

1 THE DROP IN THE BEIGE BOOK BAROMETER TRACES, BUT DOESN'T MATCH, THE NEARLY 50% DROP IN OIL PRICES FROM JUNE 2015 TO EARLY 2016



Source: LPL Research, Federal Reserve Board 01/15/16

WATCHING WAGES & INFLATION

Now that the Fed has initiated its first rate hike cycle since 2006, FOMC members, and, of course, market participants trying to gauge what the Fed may do next, will be watching inflation closely. Each Beige Book provides an economy-wide assessment of wages and prices. Although the January 2016 Beige Book noted that

4 of the 12 districts saw tighter labor markets, they reported "little overall change in wage and price pressures, with wage increases running from flat to moderate, while price increases tended to be minimal."

We monitor wage pressures via the data in Figure 2, which shows the recent trend in the number of wage/inflation words in the Beige Book. We counted the number of times the words "wage," "skilled," "shortage," "widespread," and "rising" appeared in recent editions of the Beige Book. In January 2016, these words appeared 100 times, down from the 120 seen, on average in the final three Beige Books of 2015, and below the 109 average seen in all 8 Beige Books in 2015. In all of 2014--when deflation, not inflation, was a concern--those words appeared, on average, 98 times per Beige Book; so a drift back toward deflation worries can be seen in the latest Beige Book, and markets are already asking if FOMC members are taking notice. For reference, during 2011-13, also a period when heightened risk of deflation was evident, inflation words appeared, on average, 80 times per Beige Book.

2 IN JANUARY 2016, INFLATION WORDS APPEARED 100 TIMES, DOWN FROM THE 2014 AND 2015 AVERAGES

Source: LPL Research, Federal Reserve Board 01/15/16

COMMENTS ON OIL & ENERGY STABILIZE AT A HIGH LEVEL

Oil and energy received a total of 71 mentions in the January 2016 Beige Book, the highest reading since the April 2015 Beige Book, which was released at the start of the 40% increase in oil prices between mid-March and mid-June 2015. For context, energy and oil got around 40-45 mentions per Beige Book in 2011-14 [Figure 3]. Guidance from corporate management in the manufacturing sector, surveys of manufacturing activity, and data on manufacturing orders and shipments continue to be downbeat, and oil has dropped another 20% since data collection for this Beige Book wrapped up on January 4, 2016; thus, absent a sharp rebound in oil prices in the next few weeks, the next few Beige Books are likely to see elevated mentions of oil and energy.

To better gauge the impact of lower oil prices on the economy, we recently constructed a separate Beige Book Barometer [Figure 4] for the three Fed districts with the most energy-related economic activity (Minneapolis, Kansas City, and Dallas). During 2014, the Beige Book Barometer in the energy-related Fed districts averaged +18. In the 8 Beige Books released in 2015, the barometer in the energy-related districts was just +10, a clear deceleration in activity. In January 2016, the reading bounced back up to +18, suggesting more robust activity outside of the energy sector in these districts. Oil prices averaged around $49 per barrel in 2015--48% below the 2014 average price of $92 per barrel--so perhaps companies in the oil and gas sector may be throwing in the towel, but it may be too soon to tell. Anecdotes from the Beige Book on energy include contacts in Dallas noting that on the labor front, "the second round of layoffs in the energy sector continued," and that "there have been some layoffs at companies two to three degrees separated from the oil and gas sector." Still, we point out that even in places like Texas, Louisiana, and Oklahoma, energy accounts for less than 20% of gross domestic product (GDP). However, in the final four Beige Books of 2015 (July, September, October, and December), the number of weak words in the energy-related Fed districts (72) alone accounted for nearly half of all weak words (164) in the entire Beige Book, indicating that the economic weakness related to the oil and gas sector is still significant.

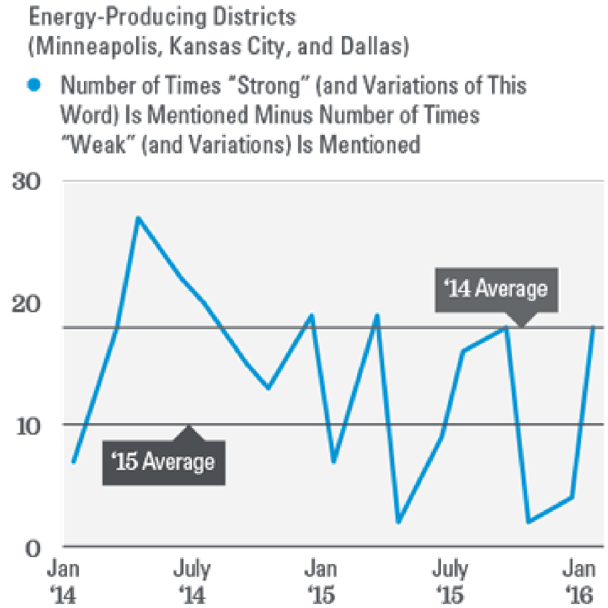
As was the case in the Beige Books released in 2015, the January 2016 Beige Book provided many comments from all 12 Fed districts about how lower fuel and energy prices were benefiting multiple industries. In short, comments on the impact of falling oil prices are consistent with our view that falling oil prices may be a net plus for the U.S. economy as a whole, but economies in certain states could see a significant impact from the additional slowdown in drilling activity that is likely to occur over the next 6-9 months or so.

3 **ENERGY/OIL REMAINS TOP CONCERN, ALONG WITH WEATHER; CHINA MENTIONS DROP**

	Weather	China	Energy/ Oil	Dollar/ Strong Dollar
Jan '16	26	2	71	13
Dec '15	16	6	65	15
Oct '15	4	7	56	15
Sep '15	7	11	56	14
July '15	14	0	55	6
June '15	16	1	57	13
Apr '15	71	0	83	12
'15 Avg	22	4	64	13
'14 Avg	40	2	43	1
'11–'13 Avg	14	2	46	0

Source: LPL Research, Federal Reserve Board 01/15/16

4 **ECONOMIC ACTIVITY IN ENERGY-PRODUCING DISTRICT BOUNCES BACK TO 2014 AVERAGE**



Source: LPL Research, Federal Reserve Board 01/15/16

FADING CONCERNS/RISING CONCERNS

Uncertainty around fiscal policy and the Affordable Care Act has continued to fade as a concern; however, in some cases it has been replaced by uncertainty surrounding China, the drop in oil and other commodity prices, the stronger dollar, and the implications for global growth. There was also an uptick in mentions of weather in the latest Beige Book, with 75% of the 26 mentions of weather in the January Beige Book saying that the warmer than usual weather had a negative impact on activity. Warm weather in the winter hurts holiday sales and winter-related leisure activities like skiing.

Despite the widespread concern in financial markets around the potential impact the equity market and economic turmoil in China may have on the U.S. economy, Beige Book respondents remain largely unconcerned. China had just 2 mentions in the latest Beige Book, well below the 8 China mentions per Beige Book in the late summer and fall of 2015. China averaged only 2 mentions per Beige Book from 2011-14. As we noted in the *Weekly Economic Commentary*, "China Challenge," while the Chinese economy has been slowing for more than 5 years, the news media and U.S. financial markets have only recently seemed to have taken note. Ironically, both mentions of China in the latest Beige Book were in a positive context

The concerns about a stronger dollar moderated somewhat in the latest Beige Book, but remain elevated relative recent history. There were 18 mentions of the dollar in the January 2016 Beige Book [Figure 3], 13 of which were specifically about the "strong dollar," below the 25 mentions (15 of them "strong dollar") in the December 2015 Beige Book.

To put these readings in context, the strong dollar was mentioned, on average, just once per Beige Book in 2014 and in the first few Beige Books of 2015, and got virtually no mentions in 2011-13. But since the big run-up in the dollar between late 2014 and early 2015, the dollar has received, on average, 20 mentions per Beige Book. While strong dollar concerns mainly came from manufacturers, retailers who cater to overseas customers and tourism contacts in areas that traditionally attract overseas tourists (New York, Florida, Nevada, and California) also cited the strong dollar as a drag on business.

OPTIMISM STILL RULES

Of the major transitory factors that impacted the economy and the Beige Book in early 2015 (dollar, oil, port strike, bad weather), only oil and the strong dollar remain as concerns. However, neither the dollar nor the other headlines has dampened optimism on the economy, which has picked up strength in the past year or so.

In the January 2016 Beige Book, the word "optimism" (or its related words) appeared 17 times, whereas the word "pessimism" appeared just three times [Figure 5]. In the 9 Beige Books released since early 2015, optimism appeared, on average, 21 times per Beige Book, while the word pessimism has appeared a total of just 8 times, with 5 of the 8 mentions coming in the Dallas and Kansas City districts, who were commenting on the outlook for the oil and gas sector.

5 OPTIMISM CONTINUES TO RUN HIGH ON MAIN STREET

Mentions per Beige Book in:	Optimism	Pessimism
Jan '16	17	3
Dec '15	20	0
Oct '15	15	1
Sep '15	22	1
July '15	24	1
June '15	19	1
Apr '15	23	0
'15	21	1
'14	30	0
'13	25	1
'09	9	5
'07	10	1

Source: LPL Research, Federal Reserve Board 01/15/16

As reassuring as it is to see that Main Street can remain optimistic despite the flow of bad news, the large number of optimistic comments in the Beige Book is not the start of a new trend: In the 8 Beige Books released in 2014, the word "optimism" appeared, on average, 30 times. In 2013, "optimism" appeared, on average, 25 times per Beige Book. In the 8 Beige Books released in 2009, during some of the worst of the financial crisis and Great Recession, the word "optimism" appeared, on average, just 9 times.

Concerns that today's economic and market environment is similar to the onset of the Great Recession and the stock market peak in late 2007 also appear to be misplaced. In the 8 Beige Books released in 2007, the word "optimism" appeared, on average, just 10 times per edition--a far cry from the 30 times per edition in the 8 Beige Books released in all of 2014 and the 21 times per edition in 2015.

IMPORTANT DISCLOSURES

strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

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Client Letter "Balancing Confidence and Volatility" | January 2016

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.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards.

Investing in emerging markets may accentuate these risks.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Institute for Supply Management (ISM) Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

This research material has been prepared by LPL Financial.

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