Third Quarter 2015

As the long days of summer began winding down, market volatility returned to the global financial markets. Volatility, of course, is not news. It is simply an inherent part of investing. However, that fact does not make living with volatility any easier. Over the past 30 plus years, Albion has worked with clients through many investment cycles. Our goal has been to help clients make good financial decisions over long periods of time. Good decision making requires strong financial advice, a solid investment plan, and a team that understands each client's unique situation.

We strive to weave the tenets of good financial decision making into each quarterly letter – sharing both items related to financial planning as well as our thoughts on the economy and the market. This quarter we highlight some of the planning steps and associated actions we would like to review with you as year-end approaches. We also discuss recent economic and market activity and offer a view forward. We close by sharing updates on a new series of workshops Albion is conducting and by announcing recent promotions of Albion team members.

The End of the Year Approaches .... Again!

The fourth quarter marks a busy time at Albion Financial Group as we work with our clients to take care of planning issues subject to end of year deadlines. Following is a list of common items we expect to help clients complete before year end:

- Required Minimum Distributions for 2015
- Charitable contributions for 2015
- Gifting strategies (annual exclusion, gifting partnership interests)
- Funding of retirement accounts for 2015
- Required <u>trust</u> distributions for 2015
- Year-end estimated state and federal tax payments
- Roth IRA conversion opportunity

Also, Albion periodically reviews realized gains & losses for tax purposes - offsetting gains and losses where possible. If you have substantial gains or losses that have occurred outside of the accounts managed by Albion, please let us know. As always, we welcome the opportunity to discuss these (and other) year-end planning issues that may apply to your specific situation.

<u>Economy and Markets</u>

"It's not what you look at that matters, it's what you see." - Henry David Thoreau

After a hiccup in Q1 followed by a strong snap-back in Q2, blended US GDP growth in the first half of 2015 expanded at a pace just below this recovery's six-year average of approximately 2.25% per anum. Recent economic indicators suggest that a similar speed is plausible for Q3. Steady job gains, rising consumption, stable confidence, and flush corporate profitability - all bedrocks to economic activity - are supportive of continued growth.

As we anticipated, zero-bound monetary policy remains intact as the Federal Reserve chose not to raise rates at both their July and September FOMC meetings. Indeed many years of interest rates near zero have helped resuscitate a weak economy and prompt a modest level of risk taking (a vital ingredient to a healthy economy), which has proven to be a good cocktail beneficial for stocks.

Going forward we think that the US economy likely continues along its modest path higher and the Fed continues with easy monetary policy. On the latter, there is a growing parlor game among investors and economists alike as to when the Fed will begin to raise interest rates. While we understand the intense focus surrounding this question, our position has been and continues to be that the timing of the first rate hike is of little importance to investors. Rather, what matters more is the pace, magnitude, and duration of interest rate increases once commenced. We think that the Yellen Fed will be slow, steady, and pragmatic in "normalizing" rates. This "lower for longer" narrative should be supportive to both the US economy and the stock market.

Outside of the US, the third quarter ushered in growing anxiety as China - in tandem with a summer stock market swoon - showed further evidence of a slowing economy. This, along with several other countries showing signs of a slowdown, plus signals from soft commodity prices, prompted financial markets to modestly recast their world macro views. Countering this are the stabilizing effects of Europe's young QE program and the cooling of the Greek debt crisis, as well as Japan's continuous attempts to reignite economic growth. These global cross-currents have increased market volatility, and, if stubbornly persistent or ill-managed, could begin to affect US growth. Despite this *possibility*, we believe the *probability* is that easy global monetary policy (on the whole) and steady economic trajectories in most developed countries will ultimately have the largest impact on aggregate world output. If correct, this implies that world economic growth should continue to expand.

As a consequence of the tense environment, US equity returns in Q3 as measured by the S&P 500 were down nearly -7%. Yet when we distill all of this information down into our near- and longer-term outlook for stocks we remain constructive on US equities despite recent volatility and growing pessimism. Not only has the quarter's selloff refreshed valuations, but history shows that bear markets are typically caused by recessions as they depress corporate profits. Though select economic figures might have slowed recently, there's no evidence in the preponderance of data to suggest a looming recession.

At the corporate profits level, undeniably the past couple of quarters have experienced sluggish growth in aggregate. However this pause is mainly due to much lower energy prices and a strong US dollar. As these year-over-year declines run off, mid-single digit profit growth should return. Meanwhile, inflation is tame and interest rates remain at historically low levels.

All told we reason that the underlying fundamentals of the bull market remain unbroken and we continue to remain cautiously optimistic.

Albion Updates

Albion kicked off our Women of Albion initiative with an event titled "A Night of First Impressions" on September 24th at the McCune Mansion. We introduced the Women of Albion team and enjoyed a fun workshop on first impressions. Our attendees were asked to write a financial topic or question and pin it to our "Albion Tree of Learning." We will use these topics of interest to conduct women-specific quarterly workshops. Our first workshop titled "Getting Organized for 2016" will be held January 14, 2016. The Women of Albion initiative is a collaborative effort to help our female clients, friends, and peers better understand and manage their financial lives. This is the spirit in which Women of Albion was born. We are very excited about the response and the energy surrounding this initiative.

In other Albion news, we are pleased to announce two promotions within the Albion Team. Jason Ware was recently promoted to Chief Investment Officer. As CIO, Jason's work, along with the work of the entire investment team, will provide the foundation for client portfolio construction and form the basis for the firm's opinions and outlook on the global economy and financial markets. Additionally, Mason Woolf has been promoted to Chief Compliance Officer. As CCO, Mason will oversee the stringent regulatory guidelines for Albion, safeguarding the integrity of internal policies and procedures, and upholding the firm-wide culture of compliance.