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Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me at your convenience to set up your quarterly meeting.

Contents:

Going, Sebastien, Fisher & Le Bouef, LLP (GSF&L) News:

- With recent volatility occurring in the equity markets and some financial analysts calling a market top is at hand or near, feel free to call Darren or Craig for a review of your portfolio asset allocation.

Investment Views:

- ***Morningstar Data - Through June 30, 2015 - Year-to-date returns -*** S&P 500 1.23%, Dow Jones Industrial Average 0.03%, NASDAQ Composite (dollars) 5.30%, Russell 2000 4.75%, MSCI EAFE (dollars) 5.52%, and the Barclays U.S. Aggregate Bond Index -0.10%.

- ***The Northern Trust Company – Economic Update – July 2, 2015 –*** The June U.S. labor market report was solid, but not spectacular. It will not, by itself, guarantee that the Fed will raise interest rates in the coming months. The U.S unemployment rate declined to 5.3% in June, which is close to what the Fed considers full employment (5.0% to 5.2%). However, the improvement in the jobless rate was entirely due to a lower participation rate (62.3%, the lowest since the 1970s).

- ***Bureau of Economic Analysis – June 24, 2015 -*** Real Gross Domestic Product (GDP) – the output of goods and services produced by labor and property located in the U.S. - decreased at an annual rate of 0.2% in the first quarter of 2015 as compared to a 2.2% increase in the fourth quarter 2014. Personal Income increased 0.5% in May as compared to 0.4% in February.

- ***Bureau of Labor Statistics –June 18, 2015 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.4% in May, and over the last 12 months the all items index was unchanged before seasonal adjustment. The index for all items less food and energy rose 1.7% over the last year.

***C*raig's Thoughts and Views:**

Insurance-Linked Securities

Clients may have noticed a few new mutual funds in their portfolio. The funds with the following symbols SRRIX, SHRMX, and SREMX are in summary called insurance-linked securities (ILS). You may be thinking are these some type of annuity or life insurance product. The answer is **no.** In summary, these ILS are issued by reinsurers and insurers (property and casualty insurance companies primarily) as a way to partner with capital markets investors to more efficiently and strategically support the risks they underwrite.

Types of contracts that are included in ILS are catastrophe bonds ("cat bonds"), quota share transactions, and excess of loss ("XOL") transactions. Cat bonds are the most liquid of the ILS and have historically delivered excess returns similar to the equity risk premium, while exhibiting low volatility, low external correlation to traditional asset classes (equity and fixed income), and low internal correlation with each other. Compared with cat bonds, quota share and XOL transactions allow access to broader classes of reinsurance risks and the opportunity for higher returns, but with less liquidity. Reinsurance risks can diversify a traditional fixed income portfolio while offering potentially higher returns with similar or lower risk. An investment in the fund involves risk. The reinsurance-related securities in which these funds invest are considered "high-yield" or "junk bonds" by ratings agencies (S&P, Moodys, and Fitch).

Mechanically, insurance, reinsurance, cat bonds, quota shares, and XOL allow the insurer to receive a fixed premium in exchange for protecting against a remote risk. There has been considerable growth in the alternative reinsurance capital market. In 2005, the total 3rd party market for cat bonds, quota shares, and XOL was about $10 billion, and in 2014 it was about $62 billion. Global reinsurers and insurers that are using and see the benefits of partnering with third party capital are Swiss Re, Munich Re, Citizens Property & Casual, Liberty Mutual, and USAA.

Cat bonds allow insurance companies to partner with capital markets investors to reduce their reinsurance premiums. Attributes of cat bonds are historical returns of about 4-6%, low external correlation with traditional asset classes (equities and bonds), lower volatility and drawdowns compared to some traditional asset classes, and practically no credit risk because the bonds are generally collateralized with proceeds in US Treasury money market products. A comparison of historical annualized returns from January 2002-December 2014 shows that the Swiss Re Global Cat Bond Index return 8.3% compared to the High-Yield Corporate Index (7.8%), Commodities (2.5%), and S&P 500 Index (6.5%). Also, a comparison of annualized volatility and max drawdown for the same period was Swiss Re Global Cat Bond Index (2.5%/-4.3%, High Yield Corporate Index (6.4%/-26.5%), Commodities (17.5%/-56.9%), and S&P 500 Index (17.7%/-55.3%).

Research has also shown that from a historical performance since the inception of the Swiss Re Index in 2002, cat bonds which were most commonly BB rated historically have performed similarly to BB corporate bonds. However, during periods of equity markets stress the performance of cat bonds has resembled that of AA corporate bonds.

Quota shares and XOL transactions involve the capital markets investor investing "side by side" with a reinsurer by taking a slice of its book (insurance contracts) and participating pro-rata in premiums and losses. Generally they offer higher yields than cat bonds and maximum losses are capped to the invested amount; the reinsurer retains all the tail risk. These transactions are generally 1-year contracts, with a specified maturity date. The potential benefits are generally high yield with no correlation to financial markets, participation in highly diversified portfolios, access to a broader universe of perils than just cat bonds, and global underwriting experience of leading reinsurers. Quota shares and XOL transactions potentially offer the opportunity for substantially greater risk diversification than catastrophe bonds alone. Others risks that capital markets investors may invest in in addition to cat bonds are agriculture, offshore energy, transport, political, fine art, marine and satellites.

Investing in ILS also provides diversification away from U.S. risk peril. The typical ILS cat bond fund will have about 77% in U.S risks and about 23% in non-U.S. risk as a percentage of expected total loss, while the typical quota/XOL fund will offer a reduced 33% in U.S. risks and 67% in non-U.S risks as a percentage of expected total loss. Typical peak perils in these ILS are U.S. hurricane, earthquake, tornado; Europe windstorm, earthquake, and flood; Australia earthquake, bushfire, hail, and windstorm; and Asia earthquake and windstorm.

ILS are a unique asset class that can be used to reduce risk and increase or maintain one's expected rate of return over the long run. Should you have questions or wish for more information please feel free to call us.

Market Volatility

The world financial markets, including the U.S., have been somewhat volatile the past couple weeks. Some believe it is due to austerity negotiations between Greece and the European Union. Over the last 10 days, the Chinese market has dropped significantly adding to global market volatility. There are those that believe that the entire structure of the euro itself is flawed and over time may not work, meaning the recent austerity demands agreed to by Greece is just "kicking the can down the road." In China, regulators (leadership) banned major shareholders, corporate executive, and directors from selling stakes in listed companies for the next six months hoping this will limit continued losses in the Chinese market (already down 25% from its peak value in mid-June).

Many investors like to place certain events (Lehman Bankruptcy in 2008 for example) with the beginning or cause of the stock market recession, depression, etc. However, detailed historical research has shown that "bear" markets do not all of a sudden occur based on some random event. Generally, the later stages of a bull market are often characterized by increasing levels of selectivity. This selectivity occurs over a series of many months as part of an aging bull market. In many cases the development of a market top should come as little surprise to some managers.

As seasons change, there is usually a gradual change in market dynamics from buying (or lack of buying) to selling of stock securities. At the beginning of Fall, the leaves begin to change color and eventually fall to the ground. Over the course of weeks and months there is no significant change on any given day until later when you look up there are virtually no leaves remaining. The same can be said for stocks falling out of favor during an aging bull market.

Helpful tools to look at in determining this gradual change are percentage of stocks at or within 2% of their highs and stocks at or within 20% of their highs to name a couple. There are other market technicals that can be monitored and may give further additional evidence of gradual market selling; however, this article will focus primarily on the above mentioned.

A historical examination (done by research firms not by me) of trading at fourteen peaks in the Dow Jones Industrial Average (DJIA) found that the vast majority of stocks reached their bull market highs and began to turn down well before the final peak of the DJIA. If a portfolio manager had somehow been able to sell out on the absolute top day of the DJIA in most of the cases studied, in most instances the portfolios would have already lost a considerable amount of value by that time. To describe this phenomenon, the market decline was evidenced by a gradual process of hundreds of individual stocks falling over into their own bear markets, one by one, over a period of many months.

Below is an examination of several randomly selected (included in research by others) trading peaks in the DJIA showing how stocks were already in their respective bear markets and the percent of those stocks that make up the DJIA.

BULL MARKET TOP DAY	% OF STOCKS @ NEW HIGHS	% STOCKS AT OR < 2% OF NEW HIGHS	% OFF 20% OR MORE	% OFF 30% OR MORE
09/03/1929	2.30%	15.62%	31.84%	18.77%
03/10/1937	6.05%	21.34%	5.94%	1.06%
05/29/1946	8.59%	30.44%	6.30%	0.86%
12/13/1961	3.56%	11.83%	25.29%	11.60%
09/21/1976	10.97%	22.88%	21.65%	10.09%
01/14/2000	3.54%	6.31%	55.33%	32.45%
10/09/2007	10.77%	11.03%	26.51%	16.51%

The above provides some evidence about the nature of stock market tops. In each case, 11% or less of stocks were making new highs along with the new high in the DJIA. In 5 of the 7 cases above, a large number of NYSE-listed stocks had already dropped in price by 20% or more before the DJIA had reached its bull market peak.

A conclusion that can be drawn from the above is that the large majority of stocks reached their bull market highs and began to lose value well before the peak of the DJIA. Even if an investor had been lucky enough to sell all of their stocks on the exact top day of the DJIA, he still could have suffered significant losses.

When investing in the capital markets we can only deal with probabilities. Monitoring the % of stocks at or < 2% of new highs and the % off 20% or more is not bulletproof. As stated earlier there are other market technical statistics that could be used to help determine a market top. However, the capital markets have many investors making decisions based on many variables unique to each person or entity; therefore, no one strategy is a crystal ball. As always, a proper asset allocation built for diversification will help reduce risk when that market top does occur.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results.

Diversification does not assure against market loss.

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