1Q16 The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives	1
Chart of Interest: Low Interest Rates Could Be a Long-Term Phenomenon	2
Chart of Interest: Relative Performance of US vs. Non-US Stocks Could Be Turning	3
Give Your Retirement Plan an Annual Checkup	3
Chart of Interest: S&P 500: January 2015 Thru Mid-December 2015	4

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Economic & Market Perspectives

Volatility may best describe the equities markets for the majority of 2015, as they were impacted by economic stress in China and Greece, coupled with under-whelming corporate earnings reports, falling oil prices, and terrorist attacks here and abroad. While some economic sectors, such as housing and labor, offered favorable news, others, including exports and wages, showed little in the way of positive movement. Nevertheless, despite inflation running below the Federal Reserve's (Fed's) target rate of 2.0%, there were enough signs of overall economic growth to prompt the Federal Open Market Committee (FOMC) to raise interest rates in December for the first time since 2006. Of the major benchmarks, only the Nasdaq posted a year-on-year gain. Not even a fourth quarter rally could bring the other indexes into positive territory for the year. U.S. Treasuries saw prices fall during the fourth quarter as the yield on 10-year Treasury bonds jumped 22 basis points for the quarter. Oil prices (WTI) continued to fall, dropping from $46.36 per barrel at the end of the third quarter to $37.07 per barrel at the end of the fourth quarter. Gold, meanwhile, also felt the effects of the global economy, finishing the fourth quarter at roughly $1,060.50 an ounce compared to $1,114.50 an ounce at the end of the prior quarter. Finally, not all falling values are necessarily bad, as the average retail price of a gallon of regular gasoline fell $0.29 to $2.034 at the end of the quarter.

The Markets

Equities: It was a roller coaster ride in the equities markets in 2015. After a lackluster start, domestic equities spent much of the year riding a wave of peaks and valleys, to ultimately close the year short of where they started. Anticipation of a federal interest rate hike influenced the markets, as did global economies, particularly in China and Greece. Favorable labor and unemployment figures pushed the markets higher, only to see them recede with news of poor exports, stagnant inflation, mediocre earnings reports, and falling oil prices. 2015 found only the Nasdaq finishing ahead of its 2014 close--up 5.73%. The Dow lost 2.2% (the first time it posted negative annual returns since 2008), while the S&P 500 fell 0.7%. The Russell 2000 and the Global Dow took the biggest year-on-year hits, finishing down 5.71% and 6.60%, respectively. Bonds: Long-term bond yields ticked up only moderately at the close of 2015, confounding those who expected the yield on 10-year Treasuries to rise toward 3.0% by the end of the year, especially with the interest rate increase announced by the Fed early in December. Instead, the yield on 10-year Treasuries closed 2015 at 2.26% compared to the 2014 closing yield of 2.17%. A strong dollar, continued uncertainty surrounding the global economy, and low inflation made Treasury debt an appealing investment choice, keeping bond prices up and yields down. Oil: As oil producing countries flooded the market, oil prices remained below $40 a barrel. While falling energy stocks had an effect on the stock market, the plunge in oil prices helped fatten consumers' wallets, with prices at the pump hovering around $2 a gallon for regular gasoline. Currencies: Falling oil prices coupled, with the expectation of higher interest rates, helped boost the U.S. dollar, which continued to rise over the course of the year. The U.S. Dollar Index, a measure of the dollar relative to the currencies of most U.S. major trading partners, gained about 9% over its December 31, 2014, closing value. The dollar also benefitted from interest rates abroad, some of which were even lower than those for Treasuries. The strong dollar raised new concerns that countries and foreign corporations hurt by lower oil prices might have trouble repaying debt in currencies that were substantially weaker against the U.S. dollar. Gold: With inflation hovering below 2.0%, gold, historically seen as a hedge against inflation, saw its value drop throughout the year, posting its third consecutive annual loss. The precious metal ended the year at roughly $1,060.50--about $120 below its value at the close of 2014.

2016 Returns

S&P 500	*1.38%*
NASDAQ	*9.75%*
Russell Small Cap	*-4.41%*
Russell Mid Cap	*-2.44%*
MSCI EAFE	*-0.81%*
MSCI World	*-0.87%*
Barclay US Agg	*0.55%*
Barclay Muni.	*3.30%*

The Economy

Employment: Improvement in the U.S. job market was slow but steady. The unemployment rate ended the year at 5.0%, lower than the 5.6% rate at the close of 2014. Over the past 12 months the unemployment rate and the number of unemployed persons were down by 0.8% and 1.1 million, respectively. Over the prior 12 months, total nonfarm

Continued on page 2

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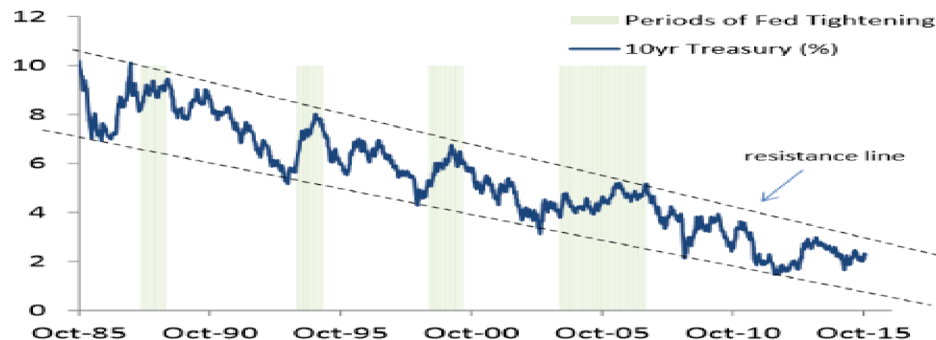
payroll employment averaged a monthly gain of 237,000, adding 2.3 million jobs. Over the year, average hourly earnings have risen by 2.3% to about $25.25 per hour. GDP: Challenging weather, a strengthening dollar, and lower oil prices slowed growth in the first quarter of 2015 to 0.6%. Economic growth in the second quarter expanded at an annual rate of 3.9% on the strength of increased personal spending. However, the latest figures for the third quarter show growth is once again slowing down to an annual rate of 2.0%, as consumer and business spending figures were revised downward. Inflation: Inflation remained below the Fed's stated target rate of 2.0%, but indications are that it is expanding, albeit at a very slow pace. The all items index rose 0.5% from November 2014 to November 2015--the largest 12-month increase since the 12-month period ended December 2014. The food index rose 1.3% over the span, while the energy index declined 14.7%. The index for all items less food and energy rose 2.0%--its largest 12-month increase since the 12 months ended May 2014. The core personal consumption expenditures price index, relied upon by the Fed as an important indicator of inflationary trends, sat at 1.3% for the year, giving no clear indication that it will approach the Fed's 2.0% target rate. Housing: The housing market had been relatively strong for much of the year. However, the latest figures show that sales of existing homes fell in November by 10.5% compared to October, and the year-on-year rate of existing home sales is -3.8%--the first such decrease since September 2014. The median price for existing homes in November was $220,300, which is 6.3% above November 2014. The number of new home sales in November 2015 increased 9.1% compared to the number of sales in November 2014. The median sales price of new houses sold in November 2015 was $305,000 and the average sales price was $374,900, compared to $302,700 and $358,800, respectively, in November 2014. Manufacturing: Manufacturing and industrial production have not been consistently strong sectors this year. The Fed's monthly index of industrial production was down 1.2% from November 2014 to November 2015. In addition, the latest report shows orders for all durable goods in the first 11 months of 2015 fell 3.7% on the year. Imports and exports: For the year, the goods and services deficit increased $22.2 billion, or 5.3%, from the same period in 2014. Exports decreased $84.7 billion, or 4.3%. Imports decreased $62.5 billion, or 2.6%. Low prices for oil held down imports, while the continued strength of the dollar was a key factor in the year's sluggish exports sector leading to weak demand abroad. International markets: For most of 2015, economic problems overseas impacted the U.S. and contributed to the Fed's caution with raising interest rates. Though the European Central Bank (ECB) extended its program of buying bonds, cut a key interest rate to -0.2%, and passed measures intended to pressure banks to lend more, the Eurozone economy grew at an annual rate of just 1.2%, with unemployment sitting at 10.7% and inflation at an annual rate of only 0.1%. Greece began the year electing an anti-austerity prime minister, saw its economy contract to the point where its banks and stock markets were forced to shut down, then agreed to more intense austerity measures to help support its economy. China had experienced an average annual growth rate of 10%. However, 2015 saw China's economy grow at a much slower rate of about 7%, prompting several government-backed measures intended to support growth.

Eye on the Year Ahead

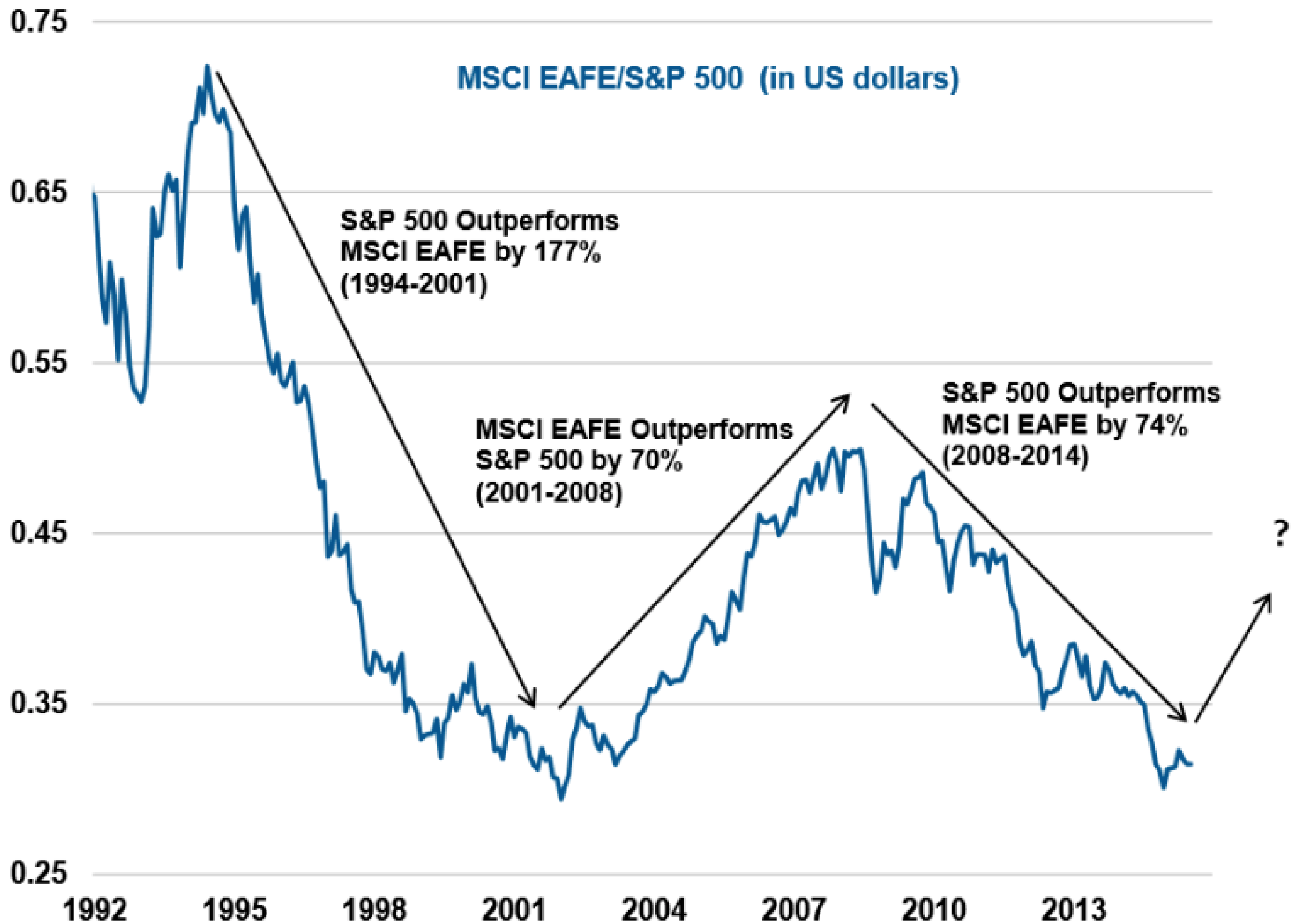
In many ways, 2016 may resemble 2015. We believe we are in the midst of a very long (if slow) economic expansion that should produce choppy returns in most asset classes. Global growth was uneven in 2015, and a major variable will be whether global growth slows or regains traction. The U.S. should enjoy an expansion that should not be derailed by modest Fed rate hikes. Continued policy easing in Europe should help the region rebound. On the negative side, China is likely to slow further, and commodity-dependent emerging economies may struggle. We expect the Chinese economy to stabilize, however, and believe oil is in the midst of a bottoming process. This should mitigate significant commodity-related damage. On balance, we believe the global economy should accelerate modestly in the coming year. Equity markets have been resilient but earnings growth must improve for prices to advance. As long as global growth increases, earnings should recover. And if profits expand even modestly, valuations are unlikely to be pressured. The bull market is maturing, which means gains will likely slow down (as occurred in 2015). Overall, we expect 2016 will present difficulties for investors, but there are reasons for optimism. If global economic growth broadens and improves, that could allow corporate revenues and earnings to strengthen. Such a backdrop, combined with still-low inflation and still-easy monetary policy, should allow equities to improve further.

Low Interest Rates Could Be a Long-Term Phenomenon



Sources: Bloomberg, Piper Jaffray & Co.

Relative Performance of US vs. Non-US Stocks Could Be Turning



Source: FactSet as of July 31, 2015

Give Your Retirement Plan an Annual Checkup

Financial professionals typically recommend that you review your employer-sponsored retirement savings plan annually and when major life changes occur. If you haven't revisited your plan recently, this may be an ideal time to do so.

Reexamine your risk tolerance

This past year saw moments that would try even the most resilient investor's resolve. When you hear media reports about stock market volatility, is your immediate reaction to consider selling some of the stock investments in your plan? If that's the case, you might begin your annual review by reexamining your risk tolerance.

Risk tolerance refers to how well you can ride out fluctuations in the value of your investments while pursuing your long-term goals. An assessment of your risk tolerance considers, among other factors, your investment time horizon, your accumulation goal, and assets you may have outside of your plan account. Your retirement plan's educational materials likely include tools to help you evaluate your risk tolerance, typically worksheets that ask a series of questions. After answering the questions, you will likely be assigned a risk tolerance ranking from conservative to aggressive. In addition, suggested asset allocations are often provided for consideration.

Have you experienced any life changes?

Since your last retirement plan review, did you get married or divorced, buy or sell a house, have a baby, or send a child to college? Perhaps you or your spouse changed jobs, received a promotion, or left the workforce entirely. Has someone in your family experienced a change in health? Or maybe you inherited a sum of money that has had a material impact on your net worth. Any of these situations can affect both your current and future financial situation.

In addition, if your marital situation has

Continued on page 4

Give Your Retirement Plan an Annual Checkup *(Continued from page 3)*

changed, you may want to review the beneficiary designations in your plan account to make sure they reflect your current wishes. With many employer-sponsored plans, your spouse is automatically your plan beneficiary unless he or she waives that right in writing.

Reassess your retirement income needs

After you evaluate your risk tolerance and consider any life changes, you may want to take another look at the future. Have your dreams for retirement changed at all? And if so, will those changes affect how much money you will need to live on? Maybe you've reconsidered plans to relocate or travel extensively, or now plan to start a business or work part-time during retirement.

All of these factors can affect your retirement income needs, which in turn affects how much you need to save and how you invest today.

Is your asset allocation still on track?

Once you have assessed your current situation related to your risk tolerance, life changes, and retirement income needs, a good next step is to revisit the asset allocation in your plan. Is your investment mix still appropriate? Should you aim for a higher or lower percentage of aggressive investments, such as stocks? Or maybe your original target is still on track but your portfolio calls for a little rebalancing.

There are two ways to rebalance your retirement plan portfolio. The quickest way is to sell investments in which you are overweighted and invest the proceeds in underweighted assets until you hit your target. For example, if your target allocation is 75% stocks, 20% bonds, and 5% cash but your current allocation is 80% stocks, 15% bonds, and 5% cash, then you'd likely sell some stock investments and invest the proceeds in bonds. Another way to rebalance is to direct new investments into the underweighted assets until the target is achieved. In the example above, you would direct new money into bond investments until you reach your 75/20/5 target allocation.

Revisit your plan rules and features

Finally, an annual review is also a good time to take a fresh look at your employer-sponsored plan documents and plan features. For example, if your plan offers a Roth account and you haven't investigated its potential benefits, you might consider whether directing a portion of your contributions into it might be a good idea. Also consider how much you're contributing in relation to plan maximums. Could you add a little more each pay period? If you're 50 or older, you might also review the rules for catch-up contributions, which allow those approaching retirement to contribute more than younger employees.

Although it's generally not a good idea to monitor your employer-sponsored retirement plan on a daily, or even monthly, basis, it's important to take a look at least once a year. With a little annual maintenance, you can help your plan keep working for you.

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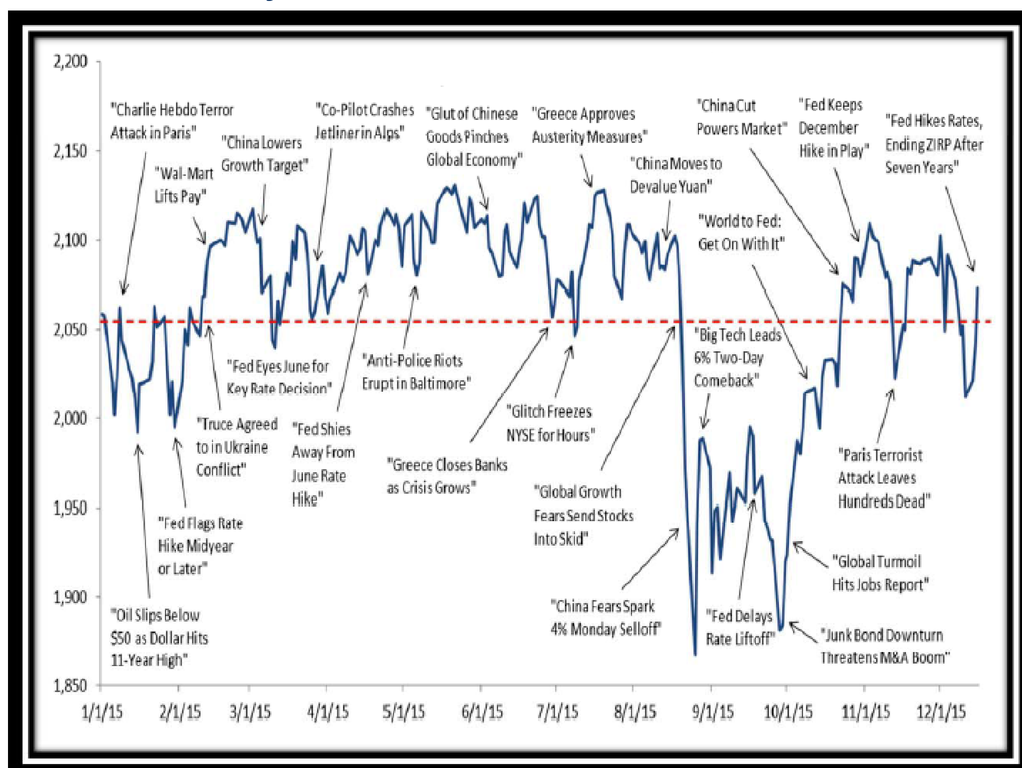
S&P 500: January 2015 Thru Mid-December 2015



Source: Goldman Sachs Global Investment Research

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