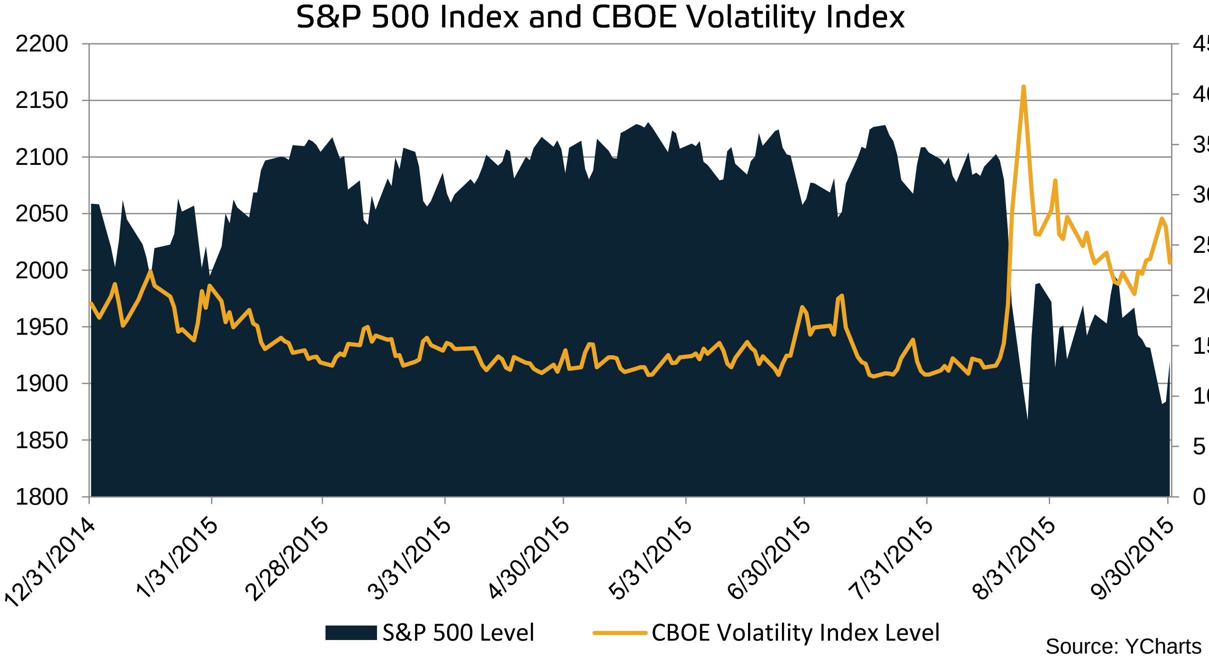
DETALUS

Third Quarter 2015 Market Commentary

The long-expected spike in volatility arrived in the second half of the third quarter. Concerning economic and market data from China coupled with fears that the Federal Reserve (the Fed) would raise interest rates for the first time in years created a sell-off midway through August. At its lowest point of the quarter (using closing day prices), the S&P 500 Index was down 14.7% from its intra-year highs and the CBOE Volatility Index jumped above 40%. The downturn in equity prices and the rally in Wall Street's fear gauge were the most extreme readings since the fall of 2011 when the U.S.'s credit rating was downgraded by Standard & Poor's and the European debt crisis was in full swing.



Source: YCharts

As we review the third quarter and look to the months ahead, it is important to keep the recent market pullback and volatility in perspective. The minimal volatility experienced over the past three years has sensitized investors to increased volatility. Before the August correction, the S&P 500 Index did not rise or fall more than 3.5% from its January 1, 2015 price. Eidosearch, a U.S. research group that analyzes historical market patterns, called the conditions unprecedented over the past four decades in the 62 markets that it tracks. As a result, any heightened price action in equities was bound to rattle investors, particularly when the volatility put equity markets into correction territory.

While small-cap growth stocks were quick to find their footing, large-cap stocks (particularly "Blue Chip" dividend-paying companies) continue to struggle. Tracking large publicly owned companies, the Dow Jones Industrial Average, down 8.7% year-to-date through the end of the quarter, continues to lag the S&P 500 Index. Similarly, the Vanguard Dividend Appreciation Index is down 9.1% year-to-date. Blue Chip companies with solid reputations are more hard pressed by a strengthening U.S. dollar than smaller, more nimble rivals and upstarts. Analysts at FactSet predict a 4.6% decline in third quarter earnings and a 3.3% decline in revenue when compared to last year's numbers. While headwinds remain for these global behemoths, their core businesses, strong balance sheets, healthy cash flows, and rising dividend yields continue to make them compelling long-term investment opportunities for patient investors seeking relative stability and income.

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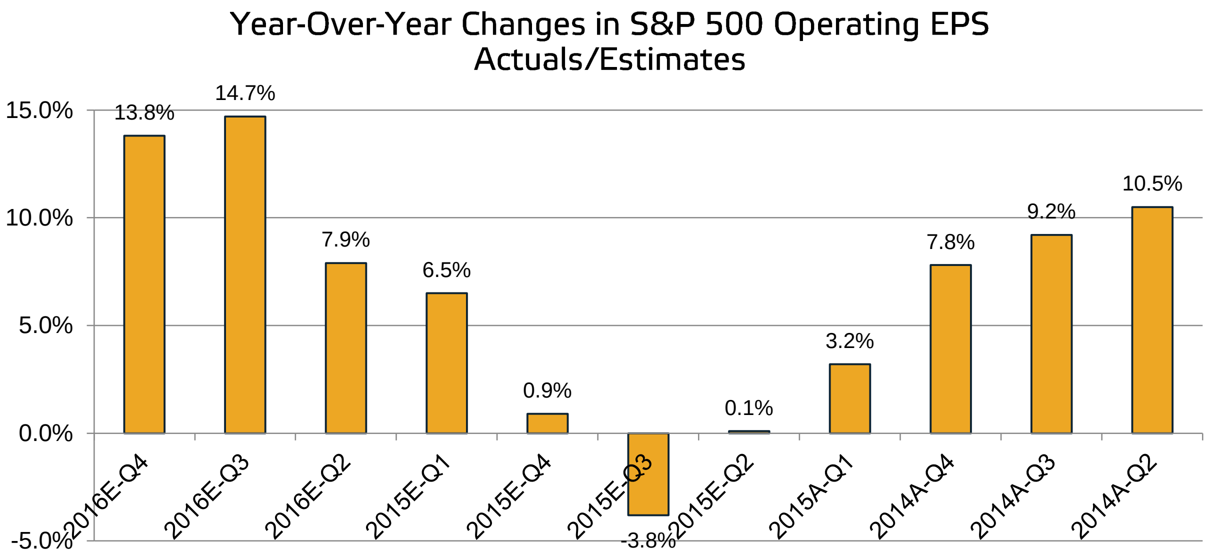
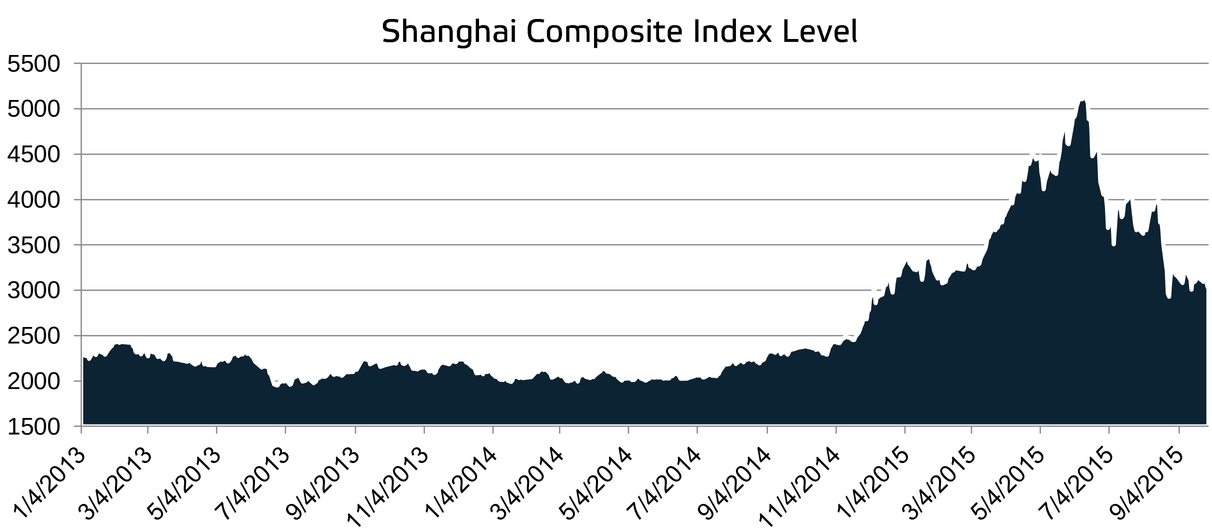


Source: S&P Capital IQ

Citing "recent global economic and financial developments" the Fed decided to keep interest rates unchanged at September's Federal Open Market Committee (FOMC) meeting. Previous Fed statements suggested that an increase in interest rates would come in 2015 if the Committee saw "further improvement in the labor market" and was "reasonably confident that inflation would move back to its 2% objective in the medium term." While these conditions were apparent in the U.S. economy, the Fed's normalization plans were delayed by global economic conditions. Chief among the international concerns are the deteriorating conditions in China and the effects on growth in other emerging markets. Since the September meeting, Chair Janet Yellen said the Fed still intends to raise rates before year-end.

China, the world's second largest economy, faces struggles with its monetary policy, industrial production, and stock market. At its low, China's stock market (as measured by the Shanghai Composite Index) was down 43% from its closing high on June 12. Despite the dramatic fall from its intra-year highs, it is currently only down 5.6% year-to-date through the end of the quarter. The Chinese government bailed out the markets with hundreds of billions of dollars in an attempt to reverse the fall. The low demand for Chinese-produced products significantly impacts other emerging market economies that rely heavily on similar commodity exports for growth.



Source: YCharts

The global economic conditions also affect Europe as the continent struggles with a sluggish economic recovery and low inflation. The actions of the European Central Bank (ECB) to spur the economy seemed to work earlier in the year, but shrinking demand for exports and the political uncertainty of certain member states prevent the continent from reaching its goals. ECB President Mario Draghi stated that while the sluggish recovery is a concern, the Committee is not concerned enough to add more stimulus at this time (but remains ready if the situation deteriorates). European markets, as measured by the Stoxx Europe 600 index ex-UK, remain relatively flat for the year.

As we enter the fourth quarter, we enter months that have been historically good for the markets. October has seen the end to twelve post World War II "bear markets," while November, December, and January tend to be the best three-month span. While 2015 has been a frustrating year thus far, with history as our guide it is possible for the markets to rid themselves of earlier losses and finish on a positive note. Global economic conditions (including accommodating monetary policy, cheap inputs, and a strengthening U.S. economy) lend themselves to earnings growth and increasing valuations.

Looking forward, we will continue to construct portfolios that best match each client's individual risk tolerance, time horizon, and objectives. To that end, we remain committed to reducing long-term uncertainty and short-term volatility through balanced portfolios using a combination of fixed income assets, domestic and international equities, and alternative investment strategies (such as managed futures, private notes, global real estate, long/short equity, and diversified baskets of MLPs).

Thank you for the continued opportunity to serve your investment management needs. Please contact us if you have any questions or would like to schedule a time to meet with your Advisor.

About Detalus

The Detalus affiliated companies provide investment advisory, traditional broker/dealer, and consulting services to financial institutions, individuals, families, nonprofit organizations, small businesses, and startup organizations. Detalus now includes Detalus Securities (Member FINRA, SIPC), Detalus Advisors and Detalus Institutional (both SEC Registered Investment Advisors), and Detalus Consulting. To check out our company, go to our website at www.detalus.com.

What is Detalus?

According to ancient Greek mythology, Icarus and his father Detalus (the phonetic spelling of Daedalus) were imprisoned on the island of Crete. To escape, Detalus built two sets of wings made of wax and feathers - one for himself and another for Icarus. Before they took flight, Detalus warned the impatient Icarus against flying too high (as the sun would melt the wax in his wings) or too low (as the sea water would weigh down his wings). According to the myth, Icarus ignored his father's advice, flew too high to the sun, and ultimately paid the price while Detalus successfully escaped imprisonment.

It is a story with a moral and we bring it to the world of investing. The story of winged Icarus reminds us: pride and recklessness are poor strategies. Fly too high and you crash, flow too low and you might miss opportunities. We liken our company's approach to the story of Detalus - helping clients find the appropriate level of risk to achieve their investment and life goals.

Sources

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Index Definitions

- The Dow Jones Industrial Average represents large and well-known U.S. companies. The index covers all industries with the exception of Transportation and Utilities (www.djindexes.com).

- The S&P 500 is the most widely accepted barometer of the market. It includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market. Companies eligible for addition to the S&P 500 have market capitalization of at least US$3.5 billion (www.standardandpoors.com).

- The Barclays Capital Aggregate Bond Composite covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities all with a maturity of greater than one year. (https://indices.barcap.com/index.dxml)

- The Shangahi Composite Index tracks the biggest and most important public companies in China. (http://english.sse.com.cn/)

- The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.
- (https://www.stoxx.com/home)

- The MSCI ALL COUNTRIES WORLD (X-US)(USD) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets minus the U.S. (www.msci.com)