BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

The broad U.S. stock market continued with flat investment performance during the second quarter of 2015 ending up about 0.2% following a first quarter return of only 1.6%. The total return for the broad U.S. stock market over the first six months of 2015 was less than 2% and the Dow Jones Industrial Average was down 1.1% over the same six-month period. While some sectors of the economy performed better than others during any particular time period, overall U.S stocks were up marginally during the first half of 2015.

Second quarter financial market performance was slightly negative for most indexes with returns ranging from -2% to +2%. While large-company stocks posted fractional losses, small-company growth stocks and the NASDAQ index earned nearly 2%. International stock performance was flat and emerging markets returns were down slightly. Real estate (REIT's) was the biggest loser during the second quarter – down over 10%. Fixed income or bonds were also down approximately 2%.

Real estate, utilities, fixed income and most other income-paying investments were down due to rising interest rates. The 10-year Treasury bond was paying 1.93% at the beginning of the second quarter, but rose to 2.3% by the end of the quarter. The same pattern of slightly rising interest rates followed by interest rate declines the following quarter has continued since the beginning of 2014.

The chart on the following page displays sample returns of various asset categories during the second quarter of 2015:

Yr-to-Date 2015	2nd Qtr. 2015	Index Return (*includes dividends reinvested*)
- 1.14%	- 0.88%	**Dow Jones Industrial Average (^DJI)**
+ 1.10%	+ 0.22%	**Standard & Poor's 500 Index (^GSPC)**
+ 1.87 %	+ 0.22%	**DJ U.S. Total Stock Market (VTI)**
+ 3.89%	+ 0.09%	**Large-company stock-Growth (IWF)**
- 0.71%	+ 0.07%	**Large-company stock-Value (IWD)**
+ 4.08%	- 1.10%	**Mid-Size Stocks – Growth (IWP)**
+ 0.38%	- 1.99%	**Mid-Size Stocks – Value (IWS)**
+ 8.77%	+ 2.00%	**Small-company stock- Growth (IWO)**
+ 0.60%	- 1.29%	**Small-company stock- Value (IWN)**
+ 6.12%	+ 0.62%	**International (EFA)**
+ 1.59%	- 0.53%	**Emerging Markets (EEM)**
- 6.30%	- 10.52%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income
+ 0.69%	+ 0.11%	**Short-term U.S. Treasury (SHY)** *(includes appreciation)*
- 0.13%	- 2.66%	**Intermediate U.S. Treasury (IEF)** *(includes appreciation)*
		Alternative Investment Category
- 1.07%	- 1.13%	**Gold (GLD)**

ECONOMIC AND FINANCIAL MARKET OUTLOOK

The overall U.S. stock market is continuing to advance at a turtle's pace. The total return for the second quarter of 2015 was 0.22%, 1.65% during the first quarter, and about 6% over the past 12 months. Real estate investment trusts (REIT's) are up less than 2% over the past 12 months, international stocks are down over 7%, fixed income (bond funds) is down 1.75% and gold is down 12% over the past 12 months. In addition, volatility or price fluctuation is increasing. During each of the previous six months in 2015, there have been several days of significant up and downward adjustments in stock prices.

As stated before, volatility and relatively flat investment performance means ***change is coming***. The dilemma is trying to determine when the change will occur, the impact, magnitude,

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and which direction the change is likely to bring to our financial markets.

Over the past year, our strong U.S. dollar and the relative safety of our financial markets compared to other countries have resulted in an inflow of investment dollars from around the world into our stock market. The U.S. stock market has delivered well-above average performance over the past 6 years. Over the short-term, it is very common for investors to move money into whatever asset class is performing well without much thought as to why or if the advance is sustainable. Presently, better relative performance of U.S. stocks compared to other countries has run its course.

Simply stated, we can offer a convincing argument (an essay) explaining how or why the stock market(s) will continue to advance and an equally compelling case study supporting why the party is over. But, outside of the classroom, it is very difficult to forecast which events or variables investors will react to and nearly impossible to accurately predict the timing of their reaction. Today, excessive (government) debt and artificially low interest rates is slowly inflating a balloon.

A common tactic used by central banks and governments around the world to jump start growth or prevent further decline is to reduce interest rates. When interest rates are reduced and the reduction results in better economic growth, more spendable funds for borrowers and greater employment opportunities, the artificial tactic (lower interest rates) is deemed successful. The U.S. started this artificial tactic following the banking financial crisis in 2008. U.S stocks were down over 37% in 2008. The easy money tactic worked in the sense that we avoided a recession and the stock market recovered.

Years later, nearly every country around the world has lowered their interest rates as well. The problem is domestic and global economic growth remains very weak and financial problems have continued to grow.

Greece is in a very bad situation. Their economy and financial crisis will continue for years to come. The majority of its citizens just voted “no” to implement austerity to reduce spending to a level that matches income. A simple analogy is when a family or individual continues to spend more than the income received, eventually additional credit is denied and hardship/bankruptcy follows. This is exactly where Greece is today. We don’t predict any direct impact on the U.S. financial markets as Greece is only one small country in the world. But remember, Spain, and Portugal have already been bailed out and even though the press is not following up on the weakness that remains in these countries, their poor economic circumstances persist.

Japan continues to be impacted by their financial crisis (artificial boom) from decades ago. Interest rates are still near zero and their economy has never fully recovered from their easy credit and speculative building/buying binge. Today, with interest rates near zero around the world, countries with larger economies (U.S., Europe, Russia and China) are STILL experiencing lower economic growth. Further, these governments continue to increase taxes of all kinds and descriptions, yet domestic and global growth is hardly improving while debt levels continue to grow.

China continues to build a financial bubble and yet their stock market success over the past 5 years seems to be a contradiction. China's government is now using the same tactics as Wall Street did back in 2008 to try to prop up the markets. Even worse, it has become very common for the (Chinese) general population to borrow money against the value of their brokerage account to buy more Chinese stocks. Under a planned move, China’s central bank has just announced it will lend money to Chinese brokerage firms who will then continue to lend and allow investors to buy more stock on margin in order to rescue Chinese stocks from a 29% decline during June 2015.

Over the weekend China's top stock brokerages pledged that they would collectively buy at least 120 billion yuan ($19.3 billion) of shares to help steady the market, with backing from the People's Bank of China. The central bank is effectively becoming the buyer of last resort, printing money to buy up shares and prop up prices.

Further, in an effort to keep its population employed, China is literally building cities where no one is living (simply google “empty cities in China” and you will literally see the truth).

Like the U.S., China, Greece and other European countries continued use of debt is like dripping water on the forehead. Looking backwards, many journalists and pundits don’t see or predict any near-term consequences for the continued use of excessive debt (spending more than government is taking in from its citizens) in the U.S. or other countries. And the pundits are correct. So far, there is and has been no near-term consequence.

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There were no near-term consequences in the U.S. when the technology craze of 1995-2000 rocketed stock prices to absurd levels. Investors borrowed and spent money as though the party would never end – but it did end badly. The most compelling point we make is: the market correction that followed was ***triggered*** by an event ***unrelated*** to tech stock prices and excessive debt – it was the September 11, 2001 terrorist attack in New York City.

This is our main point: No one knows **when** or **what** event will trigger a financial market adjustment. The event does NOT need to be related to economic growth, interest rates or debt levels. The word commonly used within the financial community to explain an unpredictable event is a "black swan". How many black swans have you ever seen?

The narrative above is not intended to be negative or a gloom and doom forecast. Financial markets can continue to advance under a growing or accelerating (global) economic environment. However, the hurdle is much higher when interest rates are currently at or near a 65-year low point, are expected to rise gradually, AND economic growth is still below-average. It simply means the "stimulus" (lowering interest rates) hasn't worked as well as it should have.

Second, collectively, U.S. stock prices are near the top range on a valuation basis. The most common valuation measure is price-to-earnings ratio. That broad range is between 10 and 20, with 10 representing the low valuation point and 20 is very high with little room to go higher. Today, the U.S. P/E ratio is near 19. Simple math. Either (corporate) earnings must advance, or stock prices need to fall in order for the overall P/E ratio to stay within this normal valuation range and sustain a rally into the future. This valuation measure alone is bothersome. A pending rise in interest rates during a below-average economic growth environment is not a comfortable outlook.

Further, many countries (even China) are experiencing decelerating or below-average economic growth. Add to this recipe several governments, including our own, are continuing to borrow more money because tax revenue (income) is less than total government spending. This alone is a huge problem for Greece and other European countries. Add an aging society (oldest baby boomers are now entering retirement age and will continue to do so over the next 10 years) and someone needs to explain how economic growth (jobs) can accelerate in order to increase tax revenue and meet our current government spending plus the additional cost of Medicare and Social Security benefits for all of the new (baby boomer) retirees soon to retire.

Greece citizens just voted "no" to cut spending (pensions, benefits, early retirement etc.). This scenario applies to all countries: If a country will not cut spending, then it must increase taxes (revenue). Increasing taxes removes more money from consumers and results in less take-home pay ….. which means less consumer spending. Granted, the government does spend the increased taxes, but on what - new companies, new jobs, new technology? Economies can only handle increasing taxes when economic activity is at least average or growing.

The economies of countries around the world are now much more connected than decades ago. In the past, U.S stocks could easily advance while other international stock markets were flat or trending down or visa versa. Today, worldwide trade, energy dependence and 28 countries belonging to the European Union (Euro as the common currency) have changed our financial markets. In financial parlance, we refer to this trend or connection as correlation. Now, changes in financial markets and economies on one side of the world have a growing impact on other country's financial markets.

In summary, forecasting is difficult to do. And even if you do get it right (economic variables), how do you predict world events, political surprises, terrorist activity and other country's problems and at the same time accurately predict how/when investors will react to new information.

OUR RECOMMENDATIONS

For existing client portfolios that are nearly fully invested, we will stay the course with stocks representing the largest portion of the total portfolio. In addition, we have identified which stock holdings to sell in each client account(s) in order to reduce stock exposure by 33% if sudden changes in the financial markets necessitate making reductions. The total of all of these stock sales are ready to go in one block trade.

New clients and or new cash additions to existing accounts: Please be patient. We will gradually invest the funds over a 6-12 month period. Over the near-term, we expect to increase our clients' exposure to U.S. equities only during market weakness. The truth is; U.S. stocks, real estate and bonds are more than fairly valued at this time. This observation doesn't mean there must be an imminent market correction, it simply means adding to U.S. stocks or low-paying bonds at this time are less attractive compared foreign or international stocks. Expect lower returns in the U.S. stock and bond markets in 2015.

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What we will purchase? When change does arrive, it will bring opportunities. Perhaps natural resources, gold/metals, or we could purchase stock funds that go up in value as the U.S. stock market goes down. We will have to use our judgment when the time arrives.

COPIES OF 2014 INCOME TAX RETURNS

Please send paper or electronic (email) copies of your 2014 income tax returns to our office at your earliest convenience. Our investment decisions, income tax management and retirement planning strategies are greatly improved when we have your most recent income tax returns in our files.

ANNOUNCEMENTS

It's official! Remette Martinson has retired. Remette and her husband Jay are now frolicking through the mountains in Lake Arrowhead enjoying retirement. Jennifer Finley has transitioned into her role as office manager and we thank Remette for mentoring Jennifer over the past 3 months and providing a seamless transition.

Brian is now officially an empty-nester. Andrew has been living in San Carlos and Melissa left for Santa Clara University a few weeks ago.

Clint's oldest daughter Alexandra graduated in May from Marquette University. She has returned to San Diego to pursue a second degree in nursing. Clint's second daughter Amada is still pursuing her nursing degree at University of Michigan and his son Aaron graduated from high school in May and will be heading to the University of Washington in the fall.

Pam is going to be a "Grandma" for the third time – although she doesn't resemble the "Nana" role as we know it - she has bumped up her physical training routine adding spin class & a personal trainer to her yoga practice. She will outlive us all!

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Best Regards

Brian Lowder Clinton Winey Michael Kinnear Jennifer Finley Pam Priest