BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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FINANCIAL MARKET OVERVIEW

It was a painful quarter for investors as stocks had their worst quarterly performance since 2011. Most major stock indexes were down 7% - 8% during the third quarter of 2015 and are down 5%-6% year-to-date.

The total return for the broad U.S. stock market during the third quarter was -7.29% and down -5.6% over the first nine months of 2015. The Dow Jones industrial Average was down -7.58% during the third quarter and -8.63% year-to-date. None of the major stock indexes have posted positive returns thus far in 2015.

Large-company stocks were down 5.5%-7.5% while mid-cap stocks were down over 8% and small-company stocks had the worst performance: down 10%-13%. International stock performance was down nearly 10% during the third quarter and emerging market stocks (small international companies) were down over 17% during the 3rd quarter. The big story was the Chinese stock market, which dropped over 20% during the third quarter.

China's slower growth and decline in stock prices started a chain reaction around the world. Not only did stocks begin to fall around the world, but commodity prices dropped nearly 25% as well. China is a big user of basic materials used to manufacture and export goods around the world. China's demand for basic materials has slowed considerably.

Energy companies and energy mutual funds continued to get slammed during the third quarter – down over 20%. Health and biotechnology companies had been experiencing far better performance than the overall market, until August 2015. Health and biotech companies were down an average 15% during the third quarter.

Real estate (REIT's) was the biggest loser during the second quarter however; REIT's ended up with a small positive return of 2% during the third quarter.

Fixed income or bonds were up 3%-5% as interest rates momentarily declined after the Federal Reserve said (last month) that they would delay raising interest rates until later this year or early next year. When interest rates *decline*, bond prices or values increase and visa versa. Everyone knows that most countries around the world have lowered interest rates over the past few years in an attempt to increase economic growth. Likewise, everyone knows that interest rates have nowhere to go but up after reaching a 65-year low point. It's simply a matter of time and guessing when the rate increase will begin to rise has been a losing game.

Perhaps the biggest shock during the third quarter was the significant price decline of all metals (copper, gold, silver etc.). Gold and other metal mining ***companies*** are down over 35% this year as demand for metals has decreased due to a slowing global economy. The price of gold itself (not gold mining companies) is down 40% over the past 3 years.

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

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Yr-to-Date 2015	3rd Qtr. 2015	Index Return (*includes dividends reinvested*)
- 8.63%	- 7.58%	**Dow Jones Industrial Average (^DJI)**
- 5.43%	- 6.46%	**Standard & Poor's 500 Index (^GSPC)**
- 5.55 %	- 7.29%	**DJ U.S. Total Stock Market (VTI)**
- 1.75%	- 5.43%	**Large-company stock-Growth (IWF)**
- 9.07%	- 8.43%	**Large-company stock-Value (IWD)**
- 4.34%	- 8.10%	**Mid-Size Stocks – Growth (IWP)**
- 7.82%	- 8.17%	**Mid-Size Stocks – Value (IWS)**
- 5.39%	- 13.02%	**Small-company stock- Growth (IWO)**
- 10.21%	- 10.75%	**Small-company stock- Value (IWN)**
- 4.20%	- 9.72%	**International (EFA)**
- 15.95%	- 17.26%	**Emerging Markets (EEM)**
- 4.28%	+ 2.15%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income
+ 0.99%	+ 0.30%	**Short-term U.S. Treasury (SHY)** *(includes appreciation)*
+ 3.07%	+ 3.21%	**Intermediate U.S. Treasury (IEF)** *(includes appreciation)*
		Alternative Investment Category
- 5.92%	- 4.90%	**Gold (GLD)**

CHANGES WE'VE MADE

In our previous newsletter, we suggested that increased volatility in the financial markets and relatively flat investment performance means ***change is coming***. The dilemma was trying to determine when the change would occur and the impact, magnitude, and direction the change would likely bring to our financial markets. Two of those questions- *when the change will occur* and *which direction the change is likely to bring* are no longer a mystery.

On August 12, 2015, we executed a large block trade to reduce clients' stock holdings by 20% -35%. Later the same month, we executed another round of trades to reduce or eliminate international and emerging market stocks. The obvious intent was to reduce our client's exposure to stocks and rotate the portfolio balances toward a greater emphasis on a preservation of capital objective.

While the reduction in equities has accomplished the stated objective, most of our clients have moderate to very large taxable capital gains or profits from the sale of stocks that have been held for several years and accumulated meaningful appreciation. Note, the sales and capital gains realized in retirement accounts are not subject to capital gains taxes.

In September, we executed another round of selling with a different objective. We sold bond funds and primarily energy stocks that had declined in value. The objective was to offset or reduce the taxable capital gains from the earlier sales made in August with losses on the sales executed in September. Normally, we wait until the end of the year to harvest losses to offset capital gains. However, since the market was, and still is weak and subject to decline, we implemented the additional trades in September.

Many client accounts still have net taxable long-term capital gains that exceed their losses. Therefore, please pay particular attention to the ***Realized Gain/Loss Reports*** in this quarterly mailing. Contact your CPA or income tax preparer and discuss the level of net long-term capital gains as your tax preparer may determine you should send in an estimated income tax payment during the fourth quarter. Most of our clients have directed us to send these reports to their accountants on a regular basis; however everyone should take the initiative and contact their tax preparer to discuss this issue. Don't wait until after December 31, 2015!

While the objective of reducing stock exposure has been accomplished, our clients now have rather large cash or money market balances. In our current very low interest rate environment, money market funds earn a very small return; however, there is almost no possibility for loss of principal value. Obviously, we do not intend to hold these large money market balances earning a safe and low rate of return for a long period of time.

Just as we could not predict when a particular event would occur and trigger our decision to sell a meaningful proportion of stocks, we also cannot predict when we will invest the money market balances back into stocks or other asset classes. Presently, nearly all assets classes are posting negative returns.

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For the first time in decades, we did not include our *Blue Recommendation Sheets* in our quarterly reports which identify which securities we expect to buy or sell over the coming quarter. At this time, our investment selections and recommendations are subject to constant change. Volatility in stock prices continues at often extreme levels with wide variations on a daily basis and all but a few asset classes continue to post negative weekly returns.

FINANCIAL MARKET OUTLOOK

While we don't expect a deep bear market or a dramatic drop in stock prices similar to what we experienced in 2008, we will admit there is much uncertainty about the fairness or reasonable valuations of stock values - even after the nearly 10% recent drop in stock prices. It really depends on whether global economic growth continues to slide, holds steady or improves. Prior to August, the consensus had been economic growth, while still trending below-average, was expected to improve. In large part, that "feeling" explains why U.S. stock prices continued to advance beyond "reasonable valuations" over the prior 3 years even after the recovery in prices from the 37% loss 2008. The evidence shows expectations were more optimistic than what actual economic growth would justify.

The big question is: What makes the stock market go up from here? We can't lower interest rates to zero, and even if we did, there would be no measurable impact. We already have the lowest interest rates in 65 years and these low interest rates have been around for more than 4 years. While the low-interest rate environment likely helped our economy avoid a recession, easier monetary policy should have created much more growth than what we've had over the past few years. While we have some job growth, the current rate of job availability isn't enough to satisfy most of the people seeking employment and certainly not enough to jumpstart a rally to higher levels. Throw in a Presidential election next year, the delayed decision by the Federal Reserve to begin raising interest rates, a divided Congress, and with Russia stepping into the Middle East with new aggression against the very troops we are training and it's easy to see why anxiety, volatility and uncertainty will only increase over time.

Generally speaking, our stock market is still above what we would consider "fair value". Another 5%-10% decline from here would bring valuations near a fair level - considering the below-average economic growth here and around the world. We also are mindful that just as the U.S. stock market advanced well-above a fair valuation over the past few years (given slow economic growth, etc.); the potential for further downward adjustment in stock prices doesn't have to stop at a level we believe is fair either. That's why these uncertainties mentioned in the previous paragraph can cause sudden adjustments and increased volatility.

Historically, bear markets occur primarily because of recessions. Recessions depress corporate profits and the markets follow. While U.S. economic data still shows below-average or slow growth, the consensus believes there isn't much expectation of a recession looming. So, "fair valuation" expectations are really what the financial markets are trying to find.

We are just as likely to re-purchase some of the securities we sold in August as we are in recommending new stocks or different asset classes. It is not clear which direction to pursue at this time. When overall stock market prices decline, most individual stock prices go down as well, even though the prospects of some of these companies have not changed. When a soft market correction arrives, it brings an opportunity to identify which stocks have unfairly lost too much value and this creates a buying opportunity. For example, some large energy stocks that pay generous dividends are now selling at prices that appear to be bargains. There are several other examples, and we expect to begin investing in these types of individual stocks, exchange-traded funds and mutual funds when we believe the opportunity and prices are attractive.

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OUR QUARTERLY REPORTS AND RECOMMENDATIONS

For the first time in decades, we have **not** included our blue recommendation sheets for each client account in our quarterly report(s). Most of our clients are aware that we sold a meaningful proportion of stocks in our managed accounts on August 12th and 21st. The sell transactions implemented on August 12th resulted in significant capital gains for many clients who have held stocks over the past 5 years. To minimize the capital gains and income tax implications, a second round of selling of emerging market (international) stocks occurred on August 21st. Another round of selling of energy stocks and global bonds occurred in mid-September as all of these latter positions had losses. The intent was to reduce or eliminate taxable capital gains by offsetting the capital gains with capital losses. Finally, all three rounds of selling stocks have increased our clients' cash positions significantly.

We do have a short list of stocks and other securities that appear to be attractive purchase recommendations; however, at this time we do not have a strong conviction that the financial markets have completed its course in finding a "new" fair market valuation. Any purchase suggestions or recommendations that we could identify at this time could change dramatically; therefore, we will not include any purchase recommendations on the blue sheets you are accustomed to receiving at quarter-end.

COPIES OF 2014 INCOME TAX RETURNS

The final income tax filing date (extensions) is rapidly approaching in mid-October. 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.

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Best Regards

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