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Total Wealth Planning
Economic & Investment Outlook 2016

During 2015, the major equity indexes performed erratically. Most of the equity indexes experienced flat or negative performance results during the first three quarters, which were then offset by stronger, positive performance results occurring in the fourth quarter.

The chart below illustrates how the disparity in investment returns in the short term subsequently shifted and regressed to the mean over the longer-term:

Index	4th Qtr.	2015	3 year*	5 year*	10 year*	Description
S&P 500 Index	7.04%	1.38%	15.13%	12.57%	7.31%	Large-Cap Stocks
Russell 1000 Growth	7.32%	5.67%	16.83%	13.53%	8.53%	Large-Cap Growth Stocks
Russell 1000 Value	5.64%	-3.83%	13.08%	11.27%	6.16%	Large-Cap Value Stocks
Russell 2000 Growth	4.32%	-1.38%	14.28%	10.67%	7.95%	Small-Cap Growth Stocks
Russell 2000 Value	2.88%	-7.47%	9.06%	7.67%	5.57%	Small-Cap Value Stocks
MSCI – EAFE	4.75%	-0.39%	5.46%	4.07%	3.50%	International Stocks
MSCI – Emerging Market	-17.18%	-14.60%	-6.42%	-4.47%	3.95%	Emerging Market Stocks
Barclay's Aggregate Bond Index	-0.57%	0.55%	1.44%	3.25%	4.51%	Domestic Bonds
Consumer Price Index	-0.60%	0.73%	1.00%	1.53%	1.86%	Inflation
*Denotes returns annualized as of December 31, 2015.						

The year 2015 was unique in that a diversified investment portfolio generated relatively flat returns regardless of whether it was positioned more conservatively or more aggressively. Volatility, a theme for 2015, will likely continue in 2016, generated by a number of geopolitical events, including a dramatic decline in oil prices and a slowdown of the Chinese economy.

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Oil Price Declines Will Likely Stimulate Economic Growth for Most Sectors of the Economy

We believe it is likely that oil prices will remain low for an extended period of time. In December 2015, OPEC again refused to cut production even though there were 16 consecutive months of significant oversupply of approximately 1.3 million barrels per day. Even if OPEC were to significantly decrease their production of oil today, the past 16 months of surplus would likely keep oil prices lower than what we've grown accustomed to during the past 4-5 years.

The glut in oil has resulted in a sharp decline in oil prices, dropping from $100 a barrel to about $30 at the beginning of 2016. This decline has had a crushing impact on the energy sector as a whole. However, we do not expect to see a prolonged negative effect on the rest of the economy. In the US, sectors such as technology, basic materials, consumer products, transportation and others make up the overriding majority of the economy. These sectors will ultimately benefit from lower energy prices because of lower manufacturing and distribution costs. Furthermore, decreased energy prices may have the result of a "tax cut" at the pump for the US consumer.

Weakening Chinese Stock Market and Economy Should Not Have a Lasting Impact on Global Economic Growth

The slowdown in the Chinese economy is not a new story and has been discussed in the media and in economic circles for the last several years. As China has grown to be the second largest world economy, growing pains have arisen.

During the 1990's and early 2000's China's GDP had been exceptionally strong, averaging a growth rate of over 10% per year. Much of this growth was fueled by China's admission to the World Trade Organization as its export manufacturing industries surged. China's annual growth is still very impressive, but it has been in a relative trend of deceleration for the past several years as they continue to transition to a consumer driven economy anchored by a growing middle class. In 2016, the Chinese economy is still forecasted to grow at 6.5% which is a substantially higher rate than other developed markets where growth has been around 1-2% for the last several years. While these events have certainly led to some volatility in the equity markets, our opinion is that growth expectations have been reset and that equity markets have mostly readjusted. Lastly, since the US does not export many goods and services to China, a slowdown in their economy should not have much direct impact on our own.

The Outlook for 2016 Appears Promising for Modest Gains with Heightened Volatility

We continue to focus our attention on the economic fundamentals that to tend drive markets over the long term. It is this basis for which we expect modest growth in 2016, along with another year of low inflation. These fundamentals include but are not limited to the following:

- Unemployment continues to remain low and new job openings are high; however, wage growth has yet to see a substantial boost.

- As the consumer has reduced debt over the last several years, discretionary income is now high, which allows for strength in consumer spending. Consumer spending is important because it is the main driver of economic growth.
- Housing starts and auto sales, two of the largest drivers of economic growth, have still not yet returned to pre-2008 levels, and their recovery will likely provide additional fuel for a continued economic recovery.
- Earnings in 2015 for all sectors were mostly higher, with the exception of Energy and Materials. The industry forecasts for 2016 for all sectors are extremely optimistic—if earnings grow by even half of these forecasted growth rates, economic growth will receive a significant tailwind.
- In spite of expected Federal Reserve interest rate increases, the interest rate yield curve is still quite normal which is a sign of a healthy economy.
- Stock prices are fairly valued as of year-end, and therefore may even be considered as slightly undervalued following the early 2016 correction.

Today's media culture with a focus on negative events, along with the speed of communication, continues to be a disservice to many investors. Combine this factor with a changing retirement landscape that shifts the responsibility of meeting retirement income from corporate pensions to the individual employees directly, and it is evident that an over sensationalized story or an error in judgment by the press can directly impact end-user investors into making impulsive and detrimental moves with their portfolios.

Volatility is Likely to Continue, but A Diversified Portfolio along with Proactive Management Will Prevail

Although the cause for market volatility involved a combination of uncertain factors, including oil and China, as 2016 continues we expect that impending presidential nominations and elections, possible interest rate increases by the Federal Reserve, and a debt ceiling deadline in the Fall will probably stir markets.

Again, while it is impossible to accurately predict the magnitude of volatility of markets, especially in the short term, we tend to believe that investors should expect to continue to see larger and more normal equity market swings than we have seen the past five years. Short-term, negative volatility is often a product of fear and uncertainty but long-term, economic fundamentals are the drivers of market growth.

Our clients' investment portfolios are designed to be successful over full market cycles, but a patient approach, broad diversification and systematic rebalancing are needed. Volatility creates opportunity. Because the portfolios do not take on full equity market risk, market volatility is beneficial allowing us to rebalance and buy more, while prices are low, and sell while prices are high—leading to a competitive return over the long term.

Experienced Wealth Building and Preservation Go Beyond Investment Management

Since our founding in 1989, Total Wealth Planning has advocated that investment management be done as part of a comprehensive, coordinated financial plan whereby specific goals are set. Progress is monitored along the way as life events evolve, and economic and investment scenarios change. In our opinion, wealth building and preservation must include not only investment management, but also financial planning activities such as cash management, debt management, tax planning, college funding, retirement planning, and estate preservation.

For this reason, we have assembled a financial planning team to work together cooperatively with our investment management team in order to build and preserve wealth for our clients throughout all the stages of economic and investment cycles.

Total Wealth Planning Has Been Recognized Nationally as We Continue to Grow from Satisfied Clients and Professionals Who are Willing to Refer Us

Today, many people are searching for a knowledgeable and trustworthy advisor to assist them with their current financial management concerns. Total Wealth Planning is a fee-only advisor with a proven 25-year track record of success. We have an experienced staff of professionals prepared to advise new clients seeking comprehensive financial planning and investment advisory services. We offer, with no charge or obligation, an introductory, get-acquainted consultation to determine if and how we might be able to assist others with our services. For additional information, please view our website at www.twpteam.com or telephone us at 513-984-6696.

We look forward to seeing you in the New Year!

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