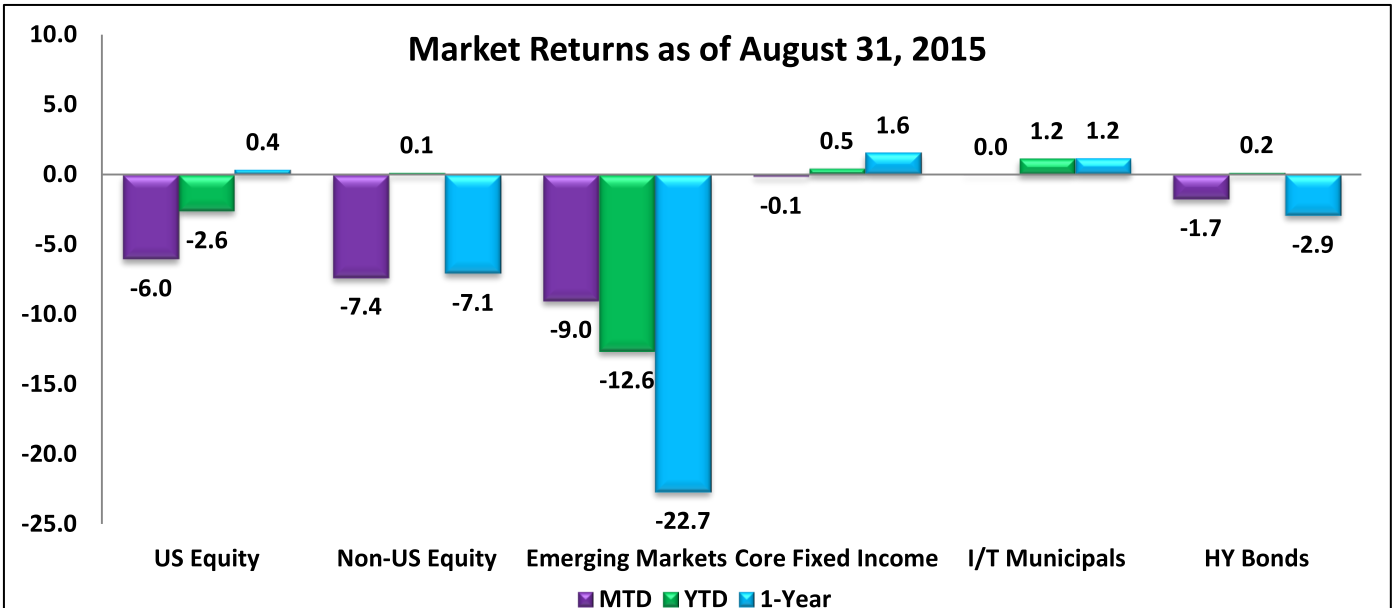
Acacia Wealth Advisors

CAPITAL MARKETS RECAP

AUGUST 2015



Source: Barclays Capital, Russell and MSCI . Returns are preliminary.

China continued to take center stage as investors tried to assess how the slowing of the second largest economy will impact growth in the rest of the world. The Chinese government has been using all its ammunition to fight the slowing growth including devaluing the yuan, and cutting interest rates and reserve requirements for banks. But these stimulatory measures take time to filter through the economy and investors are growing impatient. The spillover effect is also impacting commodity prices and emerging market stocks and currencies.

Economic Data

- Real GDP for the 2nd quarter was upwardly revised to 3.7% from the prior estimate of 2.3%. The adjustment was larger than expected and was broad based, indicating a bounce back from the paltry 0.6% increase reported in the first quarter.
- Inflation remained low, rising only slightly in July (up 0.1%) and 0.2% over the past year. The energy index is the main driver of the low overall rate as it fell 14.8% since July 2014. Core CPI (CPI less food and energy) remained stable increasing 1.8% over the past 12 months.
- The unemployment rate remained steady in July at 5.3%. Over the past year, the unemployment rate dropped by 0.9% or 1.4 million persons. A total of 215,000 jobs were added in July, lower than the 12-month average gain of 246,000 jobs. Most jobs were added in retail trade, health care, and professional and technical services, while mining continued to experience losses.
- Consumer confidence rebounded sharply in August after declining in July. Consumers were considerably more optimistic about the outlook for the labor market.
- Global manufacturing growth remained in expansion in August, but the growth rate was the slowest reported since April 2013. Improvements in the Eurozone and Japan were off-set by contractions in countries such as China, Russia, and Brazil. The U.S. remained squarely in expansion territory, but growth was more subdued as the stronger U.S. dollar and concerns about slower growth overseas weighed on the manufacturing sector.

U.S. Equities

- The U.S. stock market fell in August and pushed year-to-date returns into negative territory. The VIX index, often referred to as the fear index, spiked to its highest level since 2011.
- Size – Mid caps outperformed both large and small cap stocks for the month.
- Growth stocks held up better than value stocks for the month and on a year-to-date basis. Value indexes are more heavily weighted toward energy stocks, which negatively impacted year-to-date and one-year returns.
- All S&P 500 sectors declined in August, leaving equity investors with few places to hide:

Best		Worst	
Telecom Services	-3.36%	Health Care	-7.88%
Utilities	-3.44%	Financials	-6.76%
Energy	-4.18%	Consumer Discretionary	-6.45%

International Equities

- International developed equities declined more than domestic stocks in both local and U.S. dollar terms.
- Emerging market equities declined 6.5% in local terms, but U.S. based investors experienced a 9.0% decline as most emerging markets currencies fell relative to the U.S. dollar. China's slower than expected growth, coupled with its unexpected move to devalue its currency, sent emerging market stocks into a tailspin.

Fixed Income

- Interest rates declined during August amid the stock market volatility, but ended the month virtually unchanged. The 10-Year U.S. Treasury yield began the month at 2.2% and traded as low as 1.9%, but increased back to 2.2% as investors attempted to guess when the Fed would begin the rate hiking cycle.
- High yield bonds fell in August on widening credit spreads as investor risk appetite waned.

Looking Ahead

- As uncomfortable as they may be, stock market declines are a normal part of equity investing. It is important to note that even despite the recent decline, the S&P 500 is still up over 200% since the trough in early 2009.
- Further, the timing and duration of stock market corrections are exceedingly difficult to predict. According to a J.P. Morgan study, 5% declines occur approximately four times per year with a typical recovery time of 2 to 3 months, while 10% declines occur about once per year and have had around an eight month recovery period.
- Despite the low return prospects for bonds, the asset class provided investors a buffer to the extreme volatility experienced in the equity portion of their portfolios. This speaks to having a diversified portfolio during uncertain times.
- What should investors do now? First, stay calm (do not overreact); trying to time the market is rarely a winning strategy. Second, ensure liquidity needs are funded. Selling into weak markets lock in losses. Finally, stay focused on the long-term. Being a successful investor takes patience and willingness to remain invested during volatile markets.

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