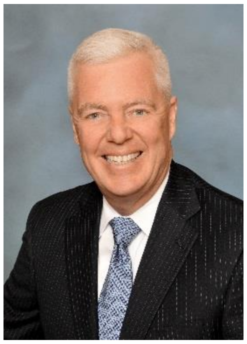
AAFMAA
WEALTH MANAGEMENT & TRUST



Market Outlook

Third Qtr. 2015

Every summer, Hollywood rolls out a series of blockbuster movies. I love taking the family to the local IMAX to see our favorite stars while enjoying a huge tub of popcorn. Not to be outdone, the market decided to roll out its own summer series for investors. Whether you wanted a comedy (Grexit), drama (Iran), suspense (Fed “liftoff”), horror (China devaluation) or a host of lesser events (port strike, oil, dollar rally), the market kept investors fixated on their screens all summer. One recurring response from clients was, “now is not the time to invest in the market.” Unfortunately, if you use current events as an investment timing indicator, you will never invest. As the chart below shows, you can always find a reason not to invest.

Holding Periods																
5 Year Periods	10.90%	7.67%	10.69%	23.90%	14.97%	10.72%	4.96%	-2.39%	14.82%	14.81%	20.36%	8.70%	28.56%	-2.30%	0.42%	15.46%
10 Year Periods	9.27%		17.11%		12.83%		1.22%		14.81%		14.38%		12.07%		7.68%	
20 Year Periods	13.12%				6.87%				14.60%				9.85%			

35 40 45 50 55 60 65 70 75 80 85 90 95 00 05 10 14

Data: Standard & Poor's 500 Total Return Index • Red line segments indicate declines of 10% or greater. • Holding period data is expressed as compound annual rates.
Recessions are as defined by The National Bureau of Economic Research.
Sources: Standard & Poor's Corporation; National Bureau of Economic Research • Copyright © 2015 Crandall, Pierce & Company • All rights reserved.

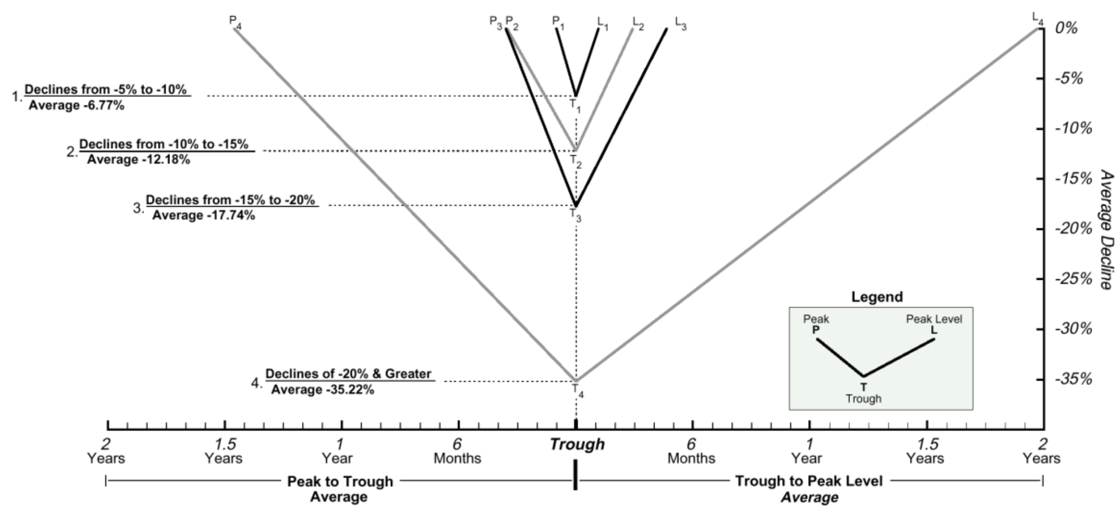
At AAFMAA Wealth Management & Trust, we call these on-going events “noise.” We advise our clients to ignore the noise and instead focus on their own particular situations — time horizon, risk tolerance, and liquidity needs — when determining their unique asset allocation.

Our clients also shared concerns about the recent “abnormal” market volatility and asked, “is this the start of a new bear market?” First, the recent volatility expressed by the market is actually not abnormal. In fact, the lack of market volatility seen in the first half of the year — the narrowest six month S&P 500 trading range on record — was what was abnormal. The 10% decline that just occurred is not, in our opinion, the start of a bear market. One of the most predictable conditions that we monitor that marks the end of a bull market and the start of a bear is when the yield curve “inverts” meaning short-term interest rates exceed long-term rates. This has not happened. What we believe is happening (and have been calling for) is a normal market correction. Remember, on average the market experiences three 5% and one 10% corrections each year. It’s been over nine months since the last 5% pullback and over three years since the last 10%. So what do we expect during this correction? As the chart below illustrates, the average 10% correction takes about six months to run its course from peak to trough and back to peak.

The Anatomy of Market Declines & Recoveries

Market Declines (5% and Greater) from 1945 Through June 2015

The Standard & Poor's 500 Stock Index



Decline, Recovery - Timeline (Average)

	Decline Range	Decline Average	Peak to Trough P to T	Trough to Peak Level T to L	Return to Peak Level P to L
1.	-5% to -10%	-6.77%	1 Month	1.2 Months	2.2 Months
2.	-10% to -15%	-12.18%	3.5 Months	2.9 Months	6.4 Months
3.	-15% to -20%	-17.74%	3.6 Months	4.7 Months	8.3 Months
4.	-20% and Over	-35.22%	1.5 Years	2.2 Years	3.5 Years

Frequency of Declines (on Average)

-5% and Greater	2.5 Per Year
-10% and Greater	Once Every 1.5 Years
-15% and Greater	Once Every 3.2 Years
-20% and Greater	Once Every 7.0 Years

Note: During the last 70.5 years (since 1945) there have been 174 declines of 5% or greater.

This correction may be even more ‘V” shaped than usual due to the prevalence of computer generated trading. These black box algorithmic trading methods (trend strategies “CTAs”, risk parity portfolios

“RPPs”, volatility target “VTs”, etc.) trade based upon formulas without human intervention — anyone remember “portfolio insurance” in 1987 or Long Term Capital Management in 1998? I suspect these price insensitive trading strategies will generate more hair raising 1,000 point days ahead. Remember, volatility and corrections are normal. Emotional trading kills returns!

One last thing. Clients constantly ask us where oil prices are going in the future. We have no idea, and neither does anyone else. What we do know is the price of oil is historically volatile and that the cure for low oil prices is low oil prices. People, industries and countries react to the price of oil. Baker Hughes & Company, a servicer of oil rigs, recently reported that there are currently 638 rigs at work in the U.S. That is down from over 1,600 rigs at the peak about a year ago. Supply and demand will equalize.

So what is our outlook for the future?

- Continued slow but positive GDP growth. As we have explained in earlier Market Outlooks, historically a country’s GDP growth stalls when its national debt to GDP reaches a tipping point of 90% or greater. The U.S. is there at over 100% and we see no reason to think this time is different.
- The Federal Reserve will move gradually to a more neutral monetary policy. It is not the timing of the policy change that the market will focus on but the path or rate of change. We expect a very gradual, data driven path back to normalized rates.
- We expect monetary policies around the world to diverge. The U.S. Fed will slowly move to raise interest rates while other central banks such as the ECB begin their own quantitative easing policies.
- We expect positive market returns ahead. The market is neither cheap nor expensive based upon historical factors that we monitor.

What are we advising clients?:

- Stay fully invested and diversified based on your own unique target asset allocation. Don’t try to time the market; it doesn’t work.
- Plan for volatility. Market swings are normal, corrections are normal. Don’t trade based on emotions.
- Stay diversified and avoid sources of new risk. In other words, don’t stretch for yield by extending your bond maturities or lowering credit standards. Watch your equity concentrations. Don’t make big name or sector bets.
- Being too cautious is just as bad as being too aggressive. Sitting in bank money markets with all of your investments earning almost zero when inflation is running at 2% is as sure a path to the poor house as betting it all on “the next Apple.” It is critical to develop and maintain a mix of assets that aligns with your investment goals, time horizon, and risk tolerance. Try it, you’ll see; it works.