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Investment Briefing

Third Quarter 2015

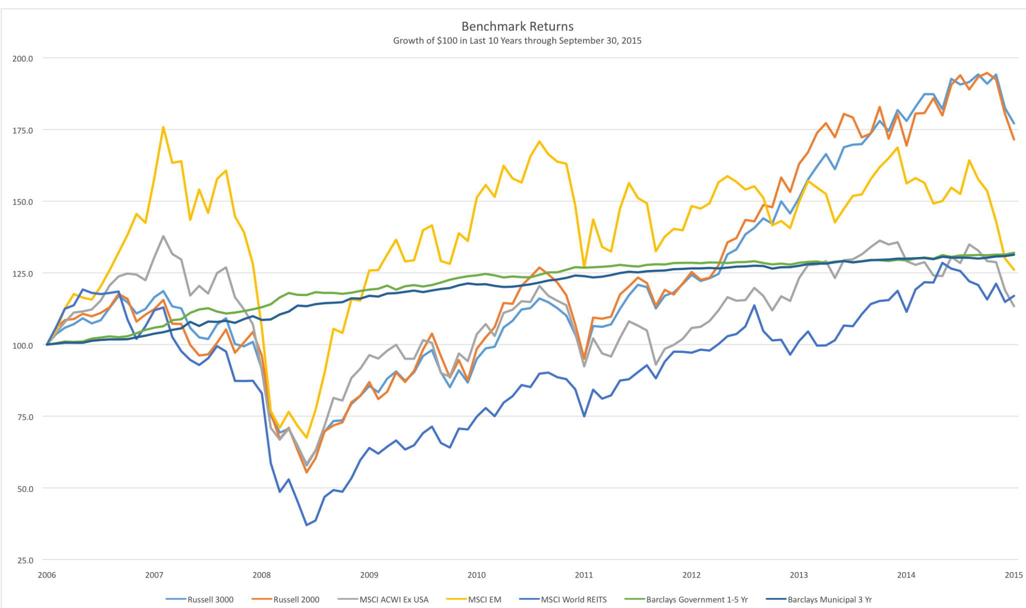
Introduction

"You weigh equally; a feather will turn the scale."
~William Shakespeare, *Measure for Measure*

After four years of mostly positive returns in the world's stock markets, we finally saw them drop firmly in the third quarter. The press blamed it on a slowing Chinese economy, although that was more likely to be the final feather that tipped investors' scales. Stocks dropped while bonds rose.

As shown in the table below, the quarter's best performer was Real Estate Investment Trusts, while the worst continued to be Emerging Markets. Looking out to 10 years, the U.S. stock market holds the prize for the best, with real estate investment trusts being the laggards.

Asset Class [1]	3rd Quarter	12 Months	5 Years (annualized)	10 Years (annualized)
U.S. Stocks (Russell 3000)	-7.25%	-0.49%	13.28%	6.92%
International Developed (MSCI All Country World ex U.S.)	-12.17%	-12.16%	1.82%	3.03%
Emerging Markets (MSCI EM)	-17.9%	-19.28%	-3.58%	4.27%
Real Estate Investment Trusts (MSCI World REITs)	1.08%	4.99%	9.35%	2.87%
Taxable Bonds (Barclays 1-5 Yr Gov)	0.68%	2.05%	1.24%	3.19%
Municipal Bonds (Barclays Muni 3 Yr)	0.80%	1.07%	1.66%	3.04%



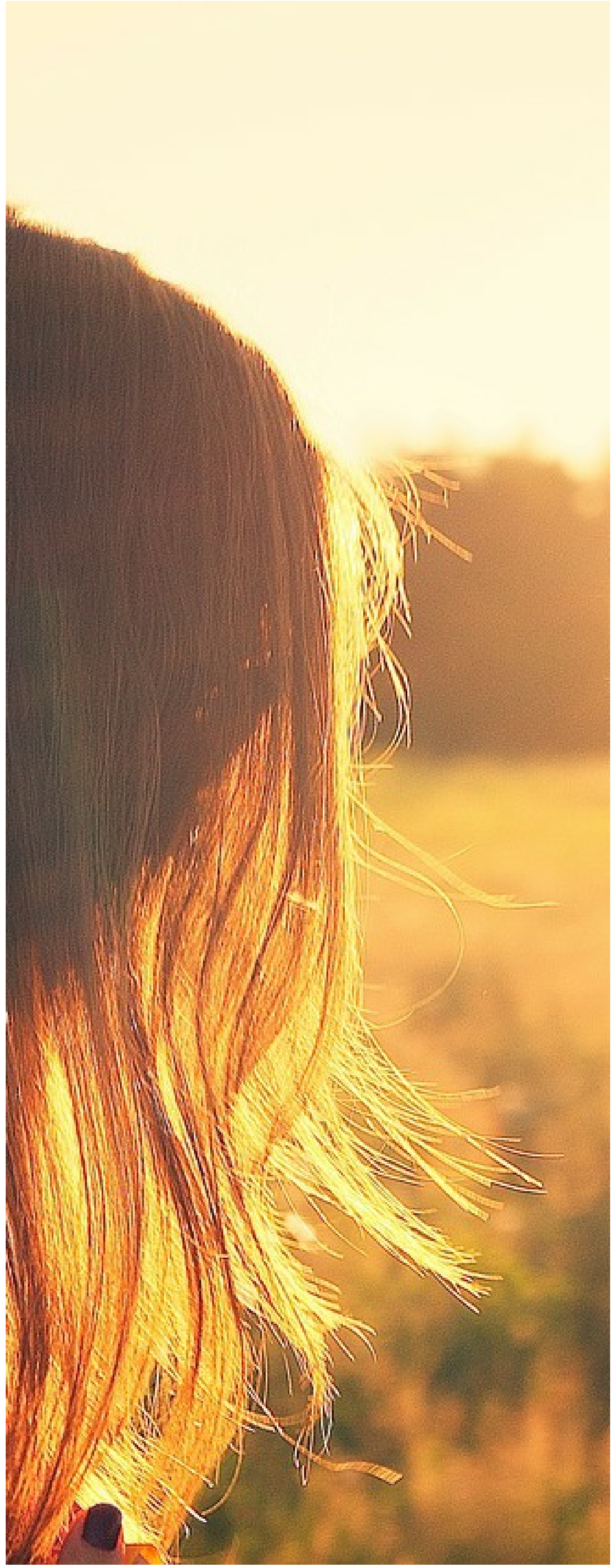
References

1. Return data and charts are from Morningstar Direct.

Questions and Ideas

Most people would associate questions with answers, but the world is a complicated place and we can only wish there were firm, clear, answers.

It would be great to be able to say with certainty why the market dropped or increased at any given time. However, in the web of causes that shift the minds of the millions of investors every day, we think it's more accurate to answer with what may have formed the outcome and what it may mean for the future.



Why Are The Markets Correcting?

There have been a host of issues weighing on investor's minds:

Relatively Expensive Stocks

The U.S. stock market (Russell 3000) rose almost 19% per year since the last correction in 2011, which is an unsustainable pace.

Impending interest rate rises at the Federal Reserve

Which are double-edged swords because they rise when the economy improves, but they also signify that the economy needs to start slowing down.

Slowing economies in the emerging markets (especially China)

There have been years of endless chatter about China's over-inflated growth numbers.

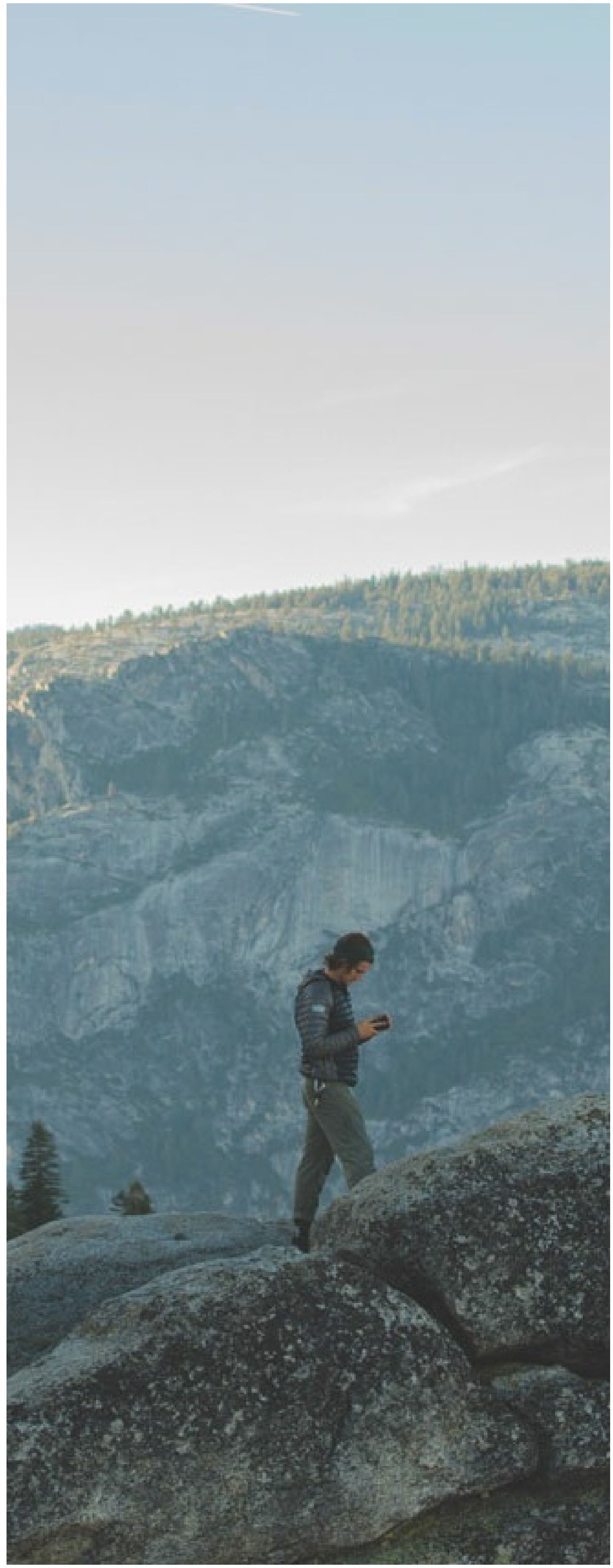
Fading Corporate Earnings

Which have dropped in the U.S. over the last few quarters.

Is this condition short-term or long-term?

It is, of course, tough to say with any certainty. However, while the press and nervous investors try to find telling cracks in the wall, most major economies continue to build:

- Employment in the U.S. improves (although slowly).
- Europe continues to provide monetary stimulus to their improving economy.
- Japan, although far from robust growth, seems to have stopped its long decline.
- Developed international markets have continued to be the best performers so far this year.
- China, opaque as its economy tends to be, still shows signs of a soft landing with its housing sector slowing gradually rather than crashing.

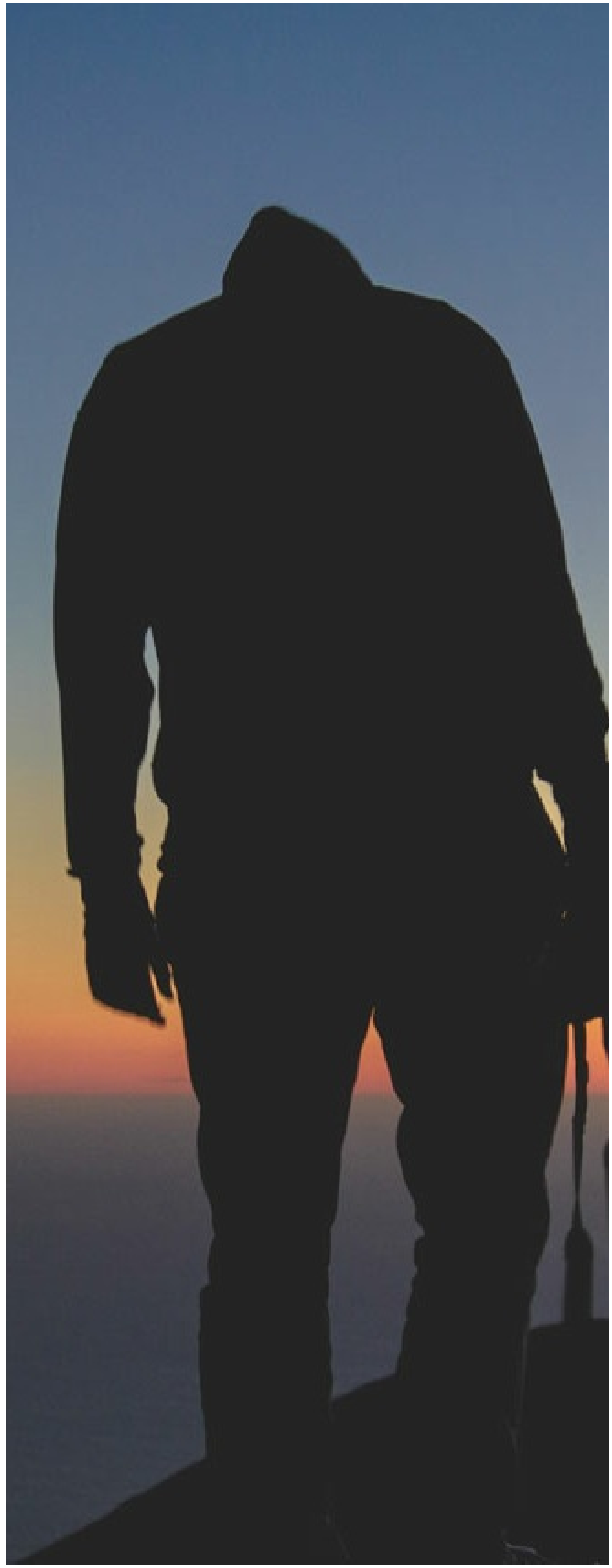


What could make this decline long-term?

- When we think about future stock market performance, the issue of earnings is the most troubling. Earnings have been middling for the past few months and if they continue like this, or drop, the market may remain challenged for awhile. If earnings start to grow nicely again, then chances are high that the market will snap back to growth.

- Improving earnings are possible when we consider that often companies bunch their bad news into one quarter, lowering expectations. The next quarter, they are then more likely to have a positive surprise, rewarding them with a nice increase in their share price.

- Emerging markets who are dependent on commodities will continue to struggle. It is interesting to note that China poured more concrete between 2010 and 2013 than the U.S. did



during the 20th century. Building at that scale cannot continue for long.

- Oil prices also appear to have dropped for an extended period, so producing countries (like Brazil) may stay subdued for awhile.

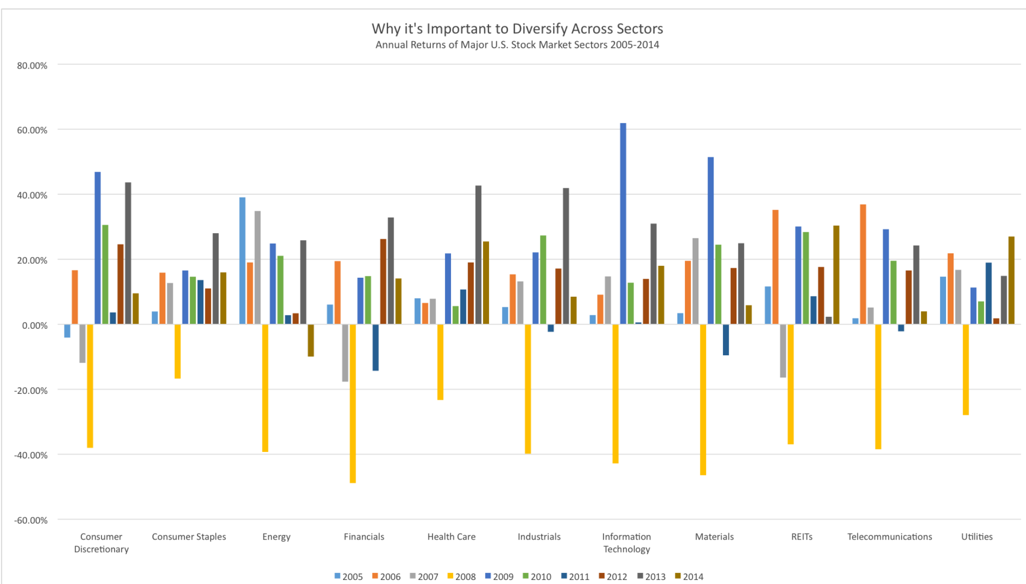
- At some point, each emerging economy will bottom and then resume growth. No free market economy with an increasing population can stop growing forever.

What is Vista doing about it?

You may have noticed some trades in your accounts as we repositioned portfolios back to their models, or harvested some tax losses.

As we've discussed many times, we don't believe in attempting to beat the market by moving to cash or rotating among sectors, regions or styles. When attempting those strategies, it is just a matter of time before market returns overtake the efforts.

The chart below shows the returns each year for major stock market sectors in the U.S. during the last 10 years. As you can see, returns vary widely from year to year and there are no patterns (other than that everything dropped in 2008).



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The inconsistent returns make it nearly impossible to tell the best performer. As an aside, the highest return for this 10-year period was from Health Care, at 10.1% per year, followed closely by Consumer Staples at 9.9% per year. Some pundits believe these areas to be so expensive that anyone focusing on them at this time is probably just “chasing" returns: a simple but dangerous method of investing. The worst return overall was Financials at only 1.3% per year.

Finally, it is interesting to note that the overall market returned 7.2% per year for those 10 years. With the best performing sector being only about 3% higher, even if we had tried to outperform by picking the best sectors, the outperformance would most likely not have been that great. In fact, there would have been very low odds of even achieving the 7.2% market return by shifting from sector to sector.

Nor are we changing our bond strategy after the Federal Reserve decided to leave interest rates alone in September. We're completing our process of shifting the bond portfolios to intermediate-maturities, as we decided to do last year. The new bond portfolio is continuing to perform as we expect.

Thanks

We hope this briefing brings a little more light to the numbers you see in your reports. As always, we look forward to any questions you may have. Thank you for your trust in Vista.

Your Vista Wealth Management Team

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