2015 3rd Quarter

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PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

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ADVISOR'S THOUGHTS

The third quarter of 2015 saw the first **US stock market correction**, a decline of 10% - 20%, since **August 2011**. This has been an **unusually long** period of **time between corrections.** In fact, it is far more typical for a decline of this magnitude to occur every year or two. It is important to remember that **short term swings** (both up and down) in stock prices **are a normal part of investing.**

A look at the Index Return Table shows the **widespread declines** that **occurred in stocks.** The **S&P 500**, a broad based benchmark of US large company stocks, held up the best with **a decline of 6.94% in the third quarter.** Smaller sized US companies, as measured by the Russell 2000, were much weaker dropping 12.22%.

Overseas stock markets were even more troubled than in the US with the **MSCI Europe, Australia & Far East (EAFE)** a measure of developed countries stock performance **falling 10.75%.** In the less developed countries, stock prices were hit particularly hard with the MSCI Emerging Markets benchmark falling 18.53%.

There were **a number of factors that contributed** to the broad based declines in global stock prices. Chief among them was a **concern that a slowing global economy**, and **in particular** slower growth in **China, would hurt worldwide economic growth.** As a communist country that embraces its own form of capitalism, China has not been as transparent with its economic numbers as other leading world economies. This we believe contributes to an anxiety among investors over what is happening with the Chinese economy.

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INDEX RETURN THROUGH 09/30/2015

	3 Mo.	6 Mo.	12 Mo.
DJIA	-7.58%	-8.39%	-4.45%
S&P 500	-6.94%	-7.15%	-2.65%
NASDAQ	-7.35%	-5.73%	2.82%
Russell 2000	-12.22%	-12.14%	-0.09%
MSCI EAFE	-10.75%	-11.08%	-10.92%
MSCI Emerging Markets	-18.53%	-18.73%	-21.21%
Barclays Aggregate Bond	1.31%	-0.50%	3.10%

Source: Wall Street Journal
Stock indexes do not include reinvestment of dividends.

DJIA: A price weighted average of 30 stocks.

S&P 500: A market value weighted index of 500 stocks.

NASDAQ Composite: Market value weighted index of approximately 2,082 companies.

Russell 2000: A Market value weighted index of 2,000 stocks.
MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

MSCI Emerging Markets: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

Barclays Aggregate Bond: An index used by bond funds as a bench-mark to measure their relative performance.

HAPPY BIRTHDAY SOCIAL SECURITY!

Social Security turned 80 years old this year. On August 14, 1935, President Franklin D. Roosevelt signed into law the Social Security Act, which created a social insurance program to benefit retired workers 65 years and older. Since that time, the program has seen a number of amendments and changes. The Social Security Administration's website contains a wealth of information for those seeking answers to frequently asked questions. Trying to make sense of it all can be a little challenging. This article shares the answers to some of the questions clients have asked in recent years.

HOW DO I QUALIFY?

Benefit **payments** are **based on how much you earned** during your working career **and the number of years you worked.** This information is **used to calculate** your **Primary Insurance Amount (PIA)**, which is the **amount you will receive if you retire at your Full Retirement Age (FRA)**. According to the Social Security Administration's "Retirement Benefits" publication (January 2015), **while you are working** and paying Social Security taxes (currently 6.2%), you **earn "credits"** toward your benefits. As a rule, **you need 40 credits (10 years of work) in order to qualify**. To track your earnings, visit the Social Security Administration's website at *www.socialsecurity.gov/myaccount.*

A **spouse who has never worked or earned low income may be eligible** for a benefit **based on the worker's earnings**. The spouse must be at least age 62 or have a child under the age of 16. The benefit amount could be as much as half of a retired worker's PIA if the spouse has reached FRA. If the spouse begins receiving benefits before his or her FRA, the benefit amount will be reduced.

Surviving family members may qualify to receive benefits **when a person dies**. If your widow(er) has reached the full retirement age, he or she may receive 100% of your PIA. At age 60, a widow(er) may receive a reduced benefit (71.5% of your PIA).

WHAT IS MY FULL RETIREMENT AGE (FRA)?

If you were **born before 1938, your full retirement age (FRA) is 65**. The **FRA gradually increases from age 65 to age 67 for people born after 1938.** For example, if you were born in 1955, your full retirement age is 66 and 2 months. If you begin collecting benefits prior to that age, they will be at a reduced amount.

WHEN SHOULD I TAKE SOCIAL SECURITY?

That is a good question and the answer depends. **When to start collecting Social Security depends on your personal situation.** The things to **consider** are **your financial needs**, your **health, family longevity, plans to continue working and** if you have any **other retirement income**. The age in which you decide to start receiving benefits may dramatically affect the monthly benefit amount.

HOW MUCH WILL I GET?

That is a good question as well and the answer also depends. The main factors that affect your benefit are **how much you earned** during your working career **and** the **age in which you retire**. For a general idea of your potential benefit **we can assist you with an estimate based on your specific situation.** The Social Security Administration also provides several different calculators on their website to help you estimate your benefit.

Reduced benefits are payable beginning **at age 62. How much will it be reduced?** According to the Social Security Administration's "Guide to Social Security" (2015), it "**depends on how many months younger you are than your FRA when your benefit entitlement begins**". For example, if you were born in 1942 (FRA is 65 and 10 months) and you begin receiving benefits at age 62, your reduced benefit will be 75.8% of the amount you could receive if you wait until you are 65 and 10 months old.

The **decision to collect** benefits **before FRA is irrevocable; payments are permanently reduced** and they will not increase when you reach FRA. This makes **deciding when to start Social Security** one of the most **important financial decisions** of your life. The **table on the next page gives** you an understanding of how **early retirement can effect Social Security benefits** for both a retired worker and his/her spouse.

CAN I COLLECT SOCIAL SECURITY BENEFITS AND STILL WORK?

The answer is **yes, although** in doing so, you **may end up receiving reduced benefits** or paying taxes on your Social Security benefits. **If you are younger than full retirement age**, you may **earn up to $15,720 in 2015 before Social Security will reduce your benefit.** For every $2 you earn above the annual limit of $15,720, Social Security will deduct $1 from your benefit payments.

In the year you reach full retirement age, Social Security will deduct $1 from your benefit payments for every $3 earned above the limit of $41,880 in 2015. However, they only count the earnings you make prior to the month you reach full retirement age. For example, if your birthday is in April, only the earnings from January through March could be affected. Once you reach the full age of retirement, there is no limit on your earnings. With that being said, keep in mind that your benefits may be taxable depending on your other sources of income (i.e. pensions, investments, rental income, etc.).

If you plan to keep working and do not need the money, **another option would be to delay your retirement benefits.** Delayed retirement credits (DRCs) can be received for any month from full retirement age up to age 70. Keep in mind, **this will increase your benefit but not your spouse's**, however DRCs earned by you do increase the benefit for your widow(er).

HOW CAN I TELL IF I AM MAKING THE RIGHT DECISION?

Without a doubt, there is a lot to think about when planning for retirement. Social Security is a big part of it. That is why it is important to **come talk to us here at Braziel & Associates** before making that trip to the Social Security Administration office. We know your financial situation. We know how Social Security benefits could affect your retirement. **Allow us** the opportunity **to discuss your options and help guide you in making wise choices when it comes to Social Security**. Give our office a call.

Primary and spousal benefits at age 62 (benefits based on $1,000 primary insurance amount)

Year of birth[a]	Normal (or full) retirement age	Number of reduction months[b]	Primary		Spouse	
			Amount	Percent reduction[c]	Amount	Percent reduction[d]
1937 and prior	65	36	$800	20.00%	$375	25.00%
1938	65 and 2 months	38	791	20.83%	370	25.83%
1939	65 and 4 months	40	783	21.67%	366	26.67%
1940	65 and 6 months	42	775	22.50%	362	27.50%
1941	65 and 8 months	44	766	23.33%	358	28.33%
1942	65 and 10 months	46	758	24.17%	354	29.17%
1943-54	66	48	750	25.00%	350	30.00%
1955	66 and 2 months	50	741	25.83%	345	30.83%
1956	66 and 4 months	52	733	26.67%	341	31.67%
1957	66 and 6 months	54	725	27.50%	337	32.50%
1958	66 and 8 months	56	716	28.33%	333	33.33%
1959	66 and 10 months	58	708	29.17%	329	34.17%
1960 and later	67	60	700	30.00%	325	35.00%

[a] If you are born on January 1, use the prior year of birth.
[b] Applies only if you are born on the 2nd of the month; otherwise the number of reduction months is one less than the number shown.
[c] Reduction applied to primary insurance amount ($1,000 in this example). The percentage reduction is 5/9 of 1% per month for the first 36 months and 5/12 of 1% for each additional month.
[d] Reduction applied to $500, which is 50% of the primary insurance amount in this example. The percentage reduction is 25/36 of 1% per month for the first 36 months and 5/12 of 1% for each additional month.

Source: http://www.ssa.gov/oact/quickcalc/earlyretire.html

China has historically been an export driven economy and a big user of commodities. Evidence of the **concern over China's growth** rate was **reflected in** the volatile **price movement in oil.** For **most of 2011 through 2014 oil** was priced $80 **to $107 per barrel.** Beginning in **late 2014 oil began to fall** below that range and in the middle of this year **fell even further** from over $60 **to below $40 in late August.** It has **since shown some stability at around $45 to $50 per barrel.**

Implications of oil's **price decline has a big impact on** a number of the **emerging market economies.** Countries such as Brazil and Russia are huge exporters of oil. The declining price of oil was a significant reason for the weakness in emerging market stock prices, as noted above.

The decline in the price of oil is also **having an impact on the oil industry in the US.** A major source of job growth in recent years has been a result of increased oil exploration, drilling and refining. New technology helped to expand the industry. More **recently**, however, the **oil industry has been a drag on employment with job losses** rather than job gains.

All of this is **leading to weak corporate profits** in the US. According to S&P Capital IQ consensus earnings data, it is **anticipated that S&P 500** companies' **earnings will fall 4.9% in the 3rd quarter** when compared to the 3rd quarter of 2014. However, the **energy sector is the major culprit** with **earnings anticipated to decline 65.9%. Without the energy sector**, the **S&P 500 corporate earnings estimate is an increase of 3.1%.** This appears consistent with the modestly growing economy here in the US.

Federal Reserve interest rate policy is also top of mind for many investors. As we all know too well, short term interest rates have been near zero for seven years. This has been painful for savers leaving their money in cash (savings accounts, money market funds and CDs). In many cases, investors' ultra-low returns were negative when considering the effects of income taxes and inflation.

There were **many economists and investors anticipating that the Federal Reserve would raise rates in September** despite concerns of weakness overseas. This we believe **contributed to** the recent **stock market volatility.** It is clear from the Federal Reserve's press release and meeting minutes that global economic and financial developments influenced their decision to not raise rates. **By not raising rates** this appears to have **given investors more confidence** in the Federal Reserve's handling of interest rate policy.

Despite the concerns listed above there are **still reasons to be encouraged** with the outlook for the US economy. One early indication of the future employment picture and how the economy will do going forward is the US weekly jobless claims figure. For the week ended October 3rd, **initial jobless claims** fell 13,000 to 263,000, **near a 42 year low.** The four week moving average fell 3,000 to 267,500. These **impressive numbers** indicate employers are reluctant to lay off employees and it **bodes well for the job market.**

There are **even signs of strength** in some parts of the economy. US **car and light truck sales** experienced their **fastest growth in ten years** last month with 18.17 million units sold on an annualized basis. This was a **16% increase over the same month last year.** Apparently, some people like lower fuel prices when making the decision to buy a new car.

Moving into the 4th quarter and into next year, the trajectory of the US economy will be paramount in determining the performance of the US stock and bond market. Thus far the economy is weaker than it was earlier this year, but is still growing. **As long as this expansion continues** we are in a **favorable long term investment climate.**