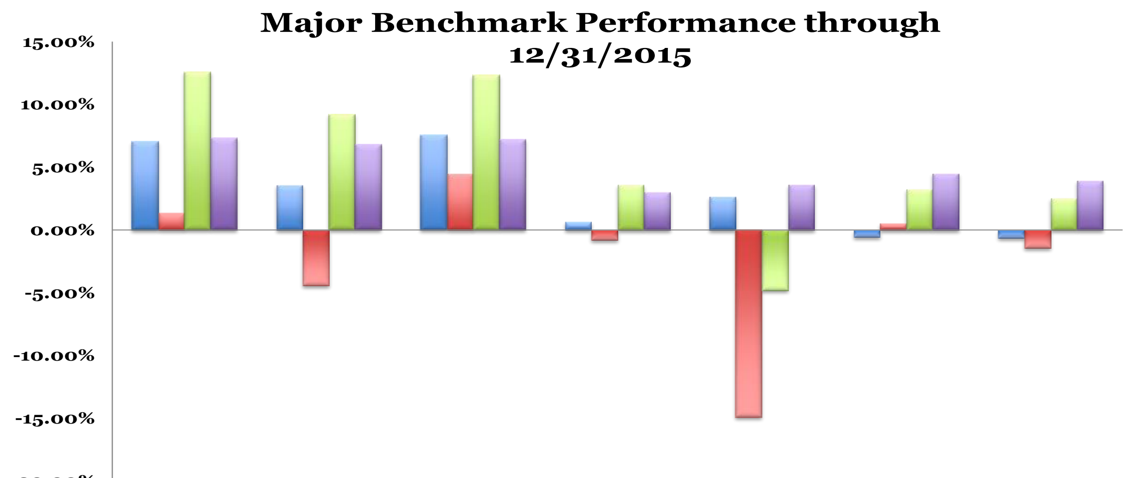
Integral Financial Solutions

2015 Market Summary

After several years of stellar market returns, volatility and uncertainty were the major themes for 2015. Most asset classes, such as cash, large cap US Stocks, and high quality US bonds showed little or no growth, and other asset classes, such as international stocks and bonds, small cap US stocks and riskier US "junk" bonds were all down last year.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
4Q15	7.04%	3.59%	7.54%	0.66%	2.66%	-0.57%	-0.64%
2015	1.38%	-4.41%	4.48%	-0.81%	-14.92%	0.55%	-1.44%
5 Year (ann.)	12.57%	9.19%	12.32%	3.60%	-4.81%	3.25%	2.55%
10 Year (ann.)	7.31%	6.80%	7.20%	3.03%	3.61%	4.51%	3.94%

2015 was a difficult year for asset allocation portfolios (i.e. our approach of including several broad asset categories with the expectation that several but not all categories will outperform in a diversified portfolio). As you can see from the chart, there was very little to be excited about for the calendar year.

Diversification did help, although to a limited extent. The performance of US large cap, REITS and US high quality bonds was positive. Unfortunately, the positive performance of these asset classes was not strong enough to offset the decline in foreign markets, especially emerging markets, which was the worst performer. As part of our approach, we include emerging markets in portfolios due to their historical positive performance, but due to their volatility we minimize the exposure. Emerging markets exposure is well less than 5% in a typical IFS portfolio.

While international equities have not kept up with US equities for the past few years, the opposite was the case in the first decade of this century. You may have heard us mention the “Lost Decade,” which was widely reported in the financial press. From 2000 – 2009, the S&P 500 was the only NEGATIVE asset class. International equity, fixed income, REIT, small cap, and high quality US fixed income categories were all positive.

We did avoid commodities and high yield (junk) bonds in the portfolios we manage since the amount of risk inherent to those investments did not seem like a worthwhile trade-off for the moderately higher expected return (which did not pan out anyway). If we had included commodities and high yield bonds in the portfolios, which many investors purchased last year in pursuit of higher returns (also known as “chasing yield”), portfolio returns could have been a lot worse.

The economic and geo-political concerns that were a major drag on 2015 performance are still present and as we reported in our recent commentary about 2016, the year is off to a rough start. Although we feel that many investors have misunderstood and therefore overreacted to current events, we believe we will experience more volatility in 2016. That said, based on historical market fluctuations (please reference our most recent commentary HERE) we encourage investors to remain calm *and* invested. The data still overwhelmingly suggests this is the best way to navigate volatile and uncertain markets.

We encourage you to call any time.

Sources: Vanguard, DFA, PIMCO, Wall Street Journal, New York Times, Morningstar, JP Morgan