Uncommon INSIGHT

SYM FINANCIAL ADVISORS NEWSLETTER

WINTER 2016

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SYM
Financial Advisors
Uncommon relationships. Uncommon results.

A Look at 2015 and the Year Ahead

As we begin 2016, we find our equity portfolios recently repositioned to benefit from the global landscape, and we currently see new opportunities forming. Let's take a moment to reflect on the year that brought us to where we are today.

While the commodities markets continued to plummet (including oil and gasoline prices), this did not translate to a resurgence of the American consumer. The dollars saved at the pump, contrary to wide expectation, did not serve to motivate retail purchases. Sales at Macy's and Wal-Mart grew about a percent over the course of the year. Of course this could be worse, but it's still a blasé outcome for what seemed like a politic-free consumer stimulus. On the distant other hand, energy companies (as well as their suppliers and other stakeholders) were hurt by the low prices.

After much anticipation, the Federal Reserve enacted its first interest rate increase in years. While at odds with very low realized inflation figures, the Board explained that their expected inflation outlook was high enough to move forward with the rate increase (which was clearly consistent with the nation's low unemployment and other positive labor metrics). This was "telegraphed" prior to the announcement, and the markets generally took the move in stride.

Throughout 2015 Japan and the United Kingdom, despite being the MSCI All-Country World Index's (ACWI's) second and third largest constituents, have largely seemed to stay out of the financial headlines.

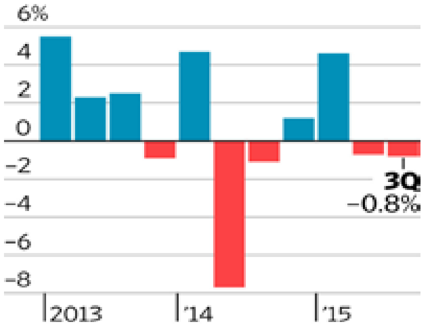
Japan is in a difficult situation with some bright spots. For eight quarters the country's economy has been vacillating between expansion and contraction (as measured by positive or negative GDP growth). Albeit mild, Japan is currently experiencing its second recession in two years. With that said, Japanese businesses have low inventories and their purchasing managers are seeing slightly increased new orders, oftentimes a recipe for business activity warming to play catch-up. It's worth mentioning that Japanese businesses are today very profitable, with the strong dollar / weak yen boosting the island's export profits.

Forecasters anticipate a bright future for the United Kingdom and generally see the country on solid footing today. In September the UK notched its 11th consecutive quarter of growing GDP, although the nation's growth rate slowed. Over a longer 15-year horizon, the Centre

continued on page 2

Sputtering

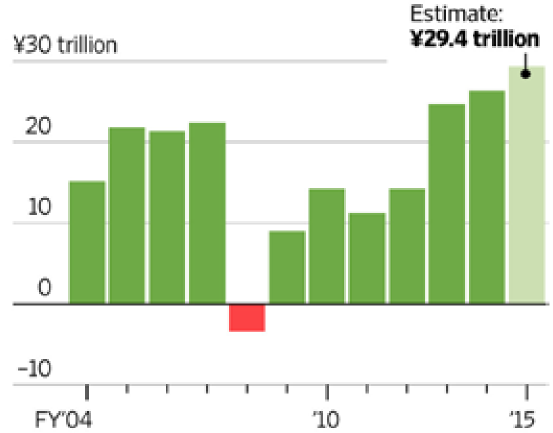
Annualized rate of change in Japan's GDP from the previous quarter, seasonally adjusted



Source: Cabinet Office
THE WALL STREET JOURNAL.

Heading Higher

Japanese corporate profits are expected to continue recovering in the current fiscal year.



Note: Fiscal years begin April 1.
¥1 trillion = $8.3 billion
Source: SMBC Nikko Securities
THE WALL STREET JOURNAL.

for Economics and Business Research recently published an analysis concluding Britain is likely to expand into the world's fourth-largest economy thanks in large part to its IT and software sectors. The International Monetary Fund also issued a broadly positive UK outlook in December 2015, predicting economic growth of 2.5% in 2015 and 2.2% in 2016. The country's three chief risk exposures are 1) a high household debt-to-income ratio; 2) the degree its imports exceed exports; and 3) the fiscal deficit – how much government income exceeds government spending – as a percentage of GDP (roughly 5% of GDP, compared to the USA's fiscal deficit measuring 2.8% of GDP). In the immediate term, the UK is also facing challenges brought on by recent storms. KPMG estimates cleanup costs of approximately £5 billion ($7.2 billion), most of which will be borne by insurance companies and the government.

Other economies spurred more dramatic headlines. Perhaps most focal to markets, China's economic growth, while still positive, slowed. As the United States backed off from emergency stimulus measures, many other economies were pouring them on. Volkswagen spent a bit of time as the world's largest auto manufacturer before we learned their vehicles' pollution numbers were too good to be true. And of course, nations responded in very different ways to the dreadful Syrian refugee crisis, as the desire to show compassion and provide assistance invited a worrisome possibility of letting the very bad in with the good.

In a sense, the U.S. market responded to 2015's generally slow global growth in three ways.

1. It, too, grew slowly.
2. Entrepreneurship and innovation were encouraged. At the blue chip level, we saw Google split its search operations and embark on diverse venture pursuits. From ride sharing services to free computer programming education, innovation's glamor has returned.
3. Incredibly low borrowing rates and large cash balances were used to acquire growing companies. While this strategy hits close to home for many Midwestern families, the growth-by-acquisition technique was extremely popular last year, and was led by the healthcare industry.

So what's next? In a sense the same bargains that were available last year are available now. Motivated by Chinese growth concerns and (for some nations) reliance on commodities, emerging markets stocks are relatively inexpensive. While we would always expect uncertainty and volatility in the short-term, emerging markets possess among the highest expected returns over reasonable horizons. International companies, benefitting from the strong dollar and government stimulus, are modestly priced as well. Finally, within the U.S., growth stocks have outpaced value stocks to a significant degree. This is counter to many studies which conclude value stocks should generate higher returns over the long run, and today this unusual streak enhances value stocks' appeal as a likely return enhancer going forward.

Finally, with some of the most popular presidential candidates' economic leanings spanning from real estate billionaire to democratic socialist, it's difficult to imagine a 2016 stock market immunized from the election. As to the impact on the economy and markets, we would typically expect limits of power and checks and balances to moderate any extreme presidential positions – but with a single tweet moving the biotech sector nearly five percent, perhaps the candidates' efforts will have a closer link, at least to temporary market movements, than what we've seen in years past.

However these sources of uncertainty play out in 2016, we look forward to sharing the year with you. We will continue monitoring the penny-pinching Japanese consumer, the currency and commodity markets' uneven impacts, and other developments to ensure our investment allocations remain best-positioned to capture what the markets provide.

Chart 1: 10-Year Annualized Excess Total Return of the MSCI World Value Index vs. MSCI World Growth Index (USD %)
December 31, 1984–August 31, 2015

Source: FactSet. Data as of 8/31/15. **Past performance does not guarantee future results.**

Chart 2: Price-to-Tangible Book Value of the MSCI World Value Index vs. MSCI World Growth Index
December 31, 1997–August 31, 2015

Source: Bloomberg. Data as of 8/31/15. **Past performance does not guarantee future results.**

2016 Bond Market

A Rate Hike Seven Years in the Making

The Committee judges that there has been considerable improvement in labor market conditions this year, and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective. Given the economic outlook, and recognizing the time it takes for policy actions to affect future economic outcomes, the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent. The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. – FOMC (Federal Open Market Committee) December 16, 2015

In many ways, 2015 was quite unusual in terms of equity and fixed income market performance. It has been almost a quarter century since the last time we experienced a similarly wide breadth of losses, ones strong enough to cause numerous asset classes to finish the year in negative territory. Although the combined impact of year-end losses was actually greater back in 2008, losses were concentrated in fewer asset classes that year. This left positions where one could take refuge, such as U.S. Treasury and Agency debt, broad aggregate fixed income indices, and gold. However, 2015's market deterioration offered fewer opportunities to sidestep trouble.

Nevertheless, SYM's taxable fixed income portfolio proved successful at mitigating duration and credit risks during 2015. Overall, our credit positioning favored an investment-grade capital structure and avoided the high yield market, which traded lower primarily because of lower-rated energy debt. Our reasonable credit position and shorter duration mitigated most of the interest rate risk and created a total return in line with our benchmark. That benchmark, the Barclays Capital Aggregate Bond Index, performed slightly better in terms of total return. Now, with the benefit of hindsight, we can confirm that the passive bond index's return profile was not worth the required interest rate risk.

Looking to 2016, evidence that U.S. payrolls are finally looking up should cause additional inflation that, at controlled levels, will be a net-positive for the domestic economy. This variable, along with low unemployment, are partial reasons the central bank of the United States raised short-term interest rates by .25% in mid-December.

We believe our central bank will continue to raise interest rates in gradual, quarter point increments for another three or four periods. Such decision-making will hinge on several key trends in 2016, including satisfactory economic data from the United States, China's capacity to avoid a hard economic landing, and a lack of exogenous events that change the equation. As U.S. interest rates rise, it will become equally imperative for non-U.S. central banks to cooperate in nurturing the overall global economy with their own supportive and expansionary economic policies. We are hopeful such policies will provide the consistent, healthy economic landscape required for stabilizing stock and bond markets worldwide.

Following the United States' interest rate increase in December 2015, we expect that Mexico, Brazil and South Africa will follow suit with their own interest rate hikes. The Bank of England is also likely to begin tightening monetary policy in 2016. In contrast, the Bank of Japan, People's Bank of China and the European Central Bank are facing tougher economic fundamentals. As a result, these countries are likely to continue with interest rate cuts and/or quantitative easing programs in the New Year. There is no question that the stakes for continued economic growth are significant. Obviously, we wish to see the world economy grow at a faster pace. However, persistently low rates do pose a long-term threat, a topic that Bill Gross of Janus Global Capital Group colorfully addressed in his December 3 2015 blog:

That they [central banks] haven't really succeeded is a testament to what I and others have theorized for some time. [Quantitative easing]and resultant artificially low interest rates carry distinctive white blood cells, not oxygenated red ones, as they wind their way through the economy's corpus: they keep alive zombie corporations that are unproductive; they destroy business models such as insurance companies and pension funds because yields are too low to pay promised benefits; they turn savers into financial eunuchs, unable to reproduce and grow their retirement funds to maintain expected future lifestyles. More sophisticated economists such as Kenneth Rogoff and Carmen Reinhart label this "financial repression". Euthanasia of the saver is the result if it continues too long. (www.janus.com/bill-gross-investment-outlook)

At SYM, although we acknowledge the existence of "financial repression" as defined by Rogoff and Reinhart, we ultimately do not believe central bank expansion and stimulus policies are entirely responsible for either slow growth or speedy economic recovery.

Nobel Prize winner Paul Krugman, unlike Gross, remains a strong advocate for economic stimulus as the key to growth. His counter argument appeared on September 15, 2015 in a New York Times article titled *The Conscience of a Liberal*.

1. Economies sometimes produce much less than they could, and employ many fewer workers than they should, because there just isn't enough spending. Such episodes can happen for a variety of reasons; the question is how to respond.

continued on page 4

Announcing

President's Award

Please join SYM in congratulating Rick Harrison as our 2015 President's Award winner. This award goes to the SYM employee recommended by the Board of Directors and selected by the President as the most valuable SYM team member of the year. Through his actions, attitude, performance and overall impact, Rick proved instrumental to SYM's success.

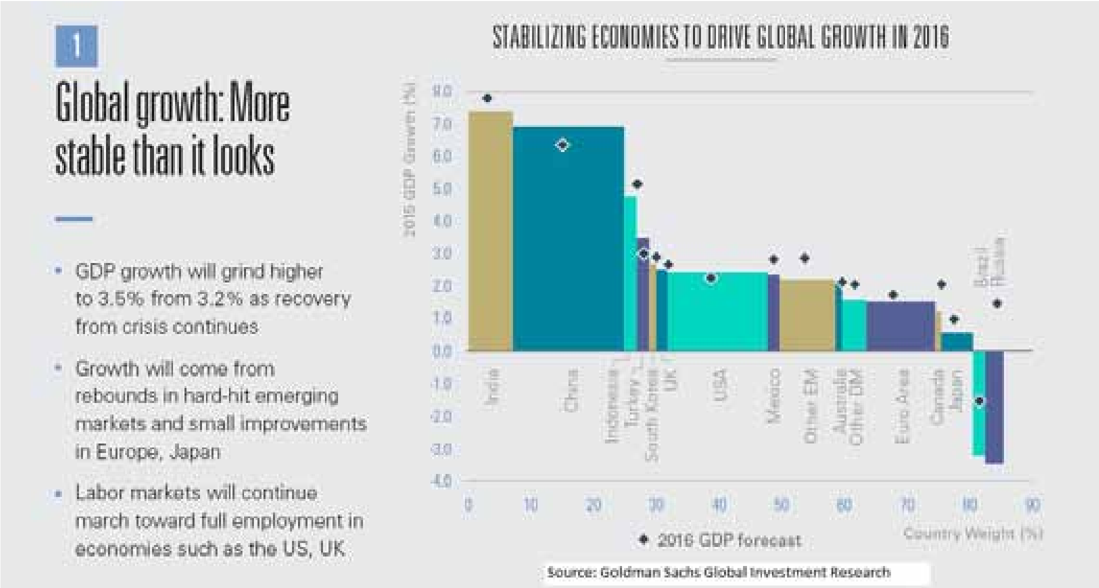
Rick has been a strong influence on SYM's presence in Indianapolis, and his leadership bodes a bright future.

Client First Service Award

SYM is proud to honor Kaleigh Stoddard with the Client First Service Award. Each year we recognize the team member who best exemplifies our core values of serving clients uncommonly well and building relationships of trust.

Kaleigh's accomplishments are both numerous and significant. She has risen to new challenges in learning the role of Paraplanner, while continuing to serve clients in the CSR role, mentoring new employees, and leveraging advisors by building financial plans. Kaleigh imbues all she does with professionalism and grace.

continued from page 3



TOP MARKET THEMES FOR 2016

Steady-as-she-goes global growth. Divergent monetary policy in developed markets. Higher-than-expected inflation. These are just some of the market themes our economists say will define the year ahead.

2. There are normally forces that tend to push the economy back toward full employment. But they work slowly; a hands-off policy toward depressed economies means accepting a long, unnecessary period of pain.

3. It is often possible to drastically shorten this period of pain and greatly reduce the human and financial losses by "printing money", using the central bank's power of currency creation to push interest rates down.

4. Sometimes, however, monetary policy loses its effectiveness, especially when rates are close to zero. In that case temporary deficit spending can provide a useful boost. And conversely, fiscal austerity in a depressed economy imposes large economic losses.

The grand experiment in central bank balance sheet expansion that began in 2008 is still underway. If nothing else, the various strategies intended to bring the world back from the "great recession" will certainly provide economists and historians with a great deal of data for debate.

In summary, it is the conviction of SYM's investment committee that many of the same fixed income challenges that made total return creation difficult in 2015 will continue in 2016. As each of the world's central banks resolve their own particular state of affairs, we caution investors to resist the temptation to hyper-focus on near-term monetary policy decisions and the regional divergence between them. Instead, we encourage you to pay attention to longer-term transformations like demographic shifts, disruptive technologies and geopolitical outcomes, which will bring confidence for navigating around risky short-term strategies and the insight needed to settle comfortably in appropriate fixed income strategies.

In keeping with this conviction, SYM will work to offset the upward pressure of tightening monetary policy by holding additional short-term instruments in its taxable bond portfolio.

Popenfoose Named Co-Chief Investment Officer

The board, ownership team, and employees of SYM Financial Advisors announce with pleasure the advancement of Andrew Popenfoose to the role of Co-Chief Investment Officer (CIO).

Andy holds a BS in Management and MS in Finance from Purdue University as well as an MBA from Winthrop University. Most recently Andy earned his Chartered Financial Analyst (CFA) charter, one of the most demanding credentials in the investment industry. He is an Operation Iraqi Freedom veteran and has lectured courses in investments and portfolio management at Loyola University Chicago's Quinlan School of Business. Andy also contributed research to expert testimonies heard by congressional boards and in several of our nation's largest financial court cases.

"Since joining SYM, Andy not only learned the SYM way, but began to influence the decisions of our investment team," said Rod Coleman, President. "Andy will continue to work in collaboration with our long-time CIO Neil Donahoe. So far, Andy has taken on the creation of many of SYM's communication tools, conducted research to inform strategy, and weighed in on investment decisions we've made as well as those we haven't - both equally valuable."

Please congratulate Andy on his new role!

THE SYM DIFFERENCE

If you have any questions about your portfolio, please don't hesitate to contact your advisor or team.

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