SUMMER
2015

Uncommon INSIGHT

SYM FINANCIAL ADVISORS NEWSLETTER

SUMMER 2015

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CAPE Fear

Observers from both academic and investor circles are making a loud and spirited case that U.S. stock market returns over the next decade will be muted, perhaps reaching zero or even turning negative. One of the most heavily cited sources given for these forecasts is the Cyclically-Adjusted Price to Earnings (CAPE) ratio, also known as the P/E 10 ratio. CAPE data goes back to the late-1800s and measures the stock market's price per real dollar of per-share earnings over a trailing 10-year period. This predictive tool was popularized by Yale University professor Robert Shiller, who won the Nobel Prize in Economic Sciences in 2013, and for that reason, it is sometimes called the "Shiller Ratio."

While the CAPE ratio does provide interesting and relevant data, we stand firm in our belief: anyone claiming to have anything even approaching certainty in a stock market forecast is simply guessing at best. Though it may be tempting to act on tips and premonitions, it is far better to stay diversified and focus on the prospective big gains that continued innovation in our economy produces. Many of the companies that will dominate the markets in the future may not even exist today. And while there are many reasons to be optimistic about economies outside the U.S., foreign stocks can still be purchased at much lower valuations. Even at home the S&P 500's valuation does not tell the entire stock return story. But two things *are* certain. To share in the potential gains you have to stay in the market, and probability theory favors those who are well-diversified.

At the start of 2015 the CAPE came in at 26.5 times the trailing ten years' worth of inflation-adjusted earnings. Looking back at the long history of the CAPE ratio, this level hasn't been breached too often and it's far above the average of 16.6 times going back to the start of this data. If we look back on Professor Shiller's data for every calendar year that began with a CAPE of 26.5 times or higher, we find these subsequent five and ten-year annualized return numbers for the S&P 500.

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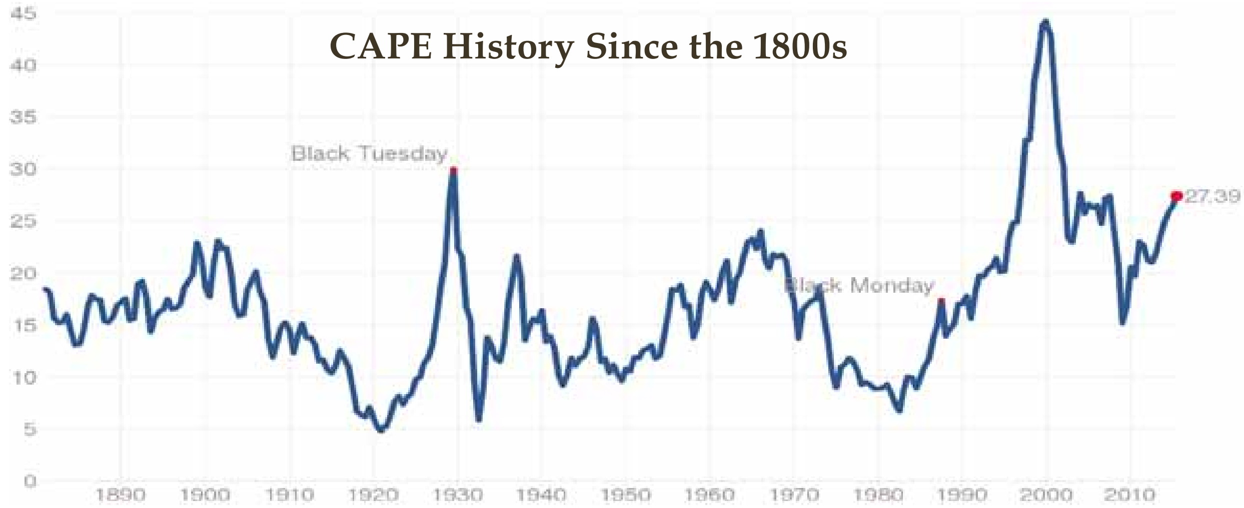
CAPE History Since the 1800s



Annual Returns

	CAPE Ratio	5 Years	10 Years
1929	27.1	-11.98%	-1.67%
1997	28.3	10.41%	8.23%
1998	32.9	-0.59%	5.84%
1999	40.6	-0.59%	-1.36%
2000	43.8	-2.32%	-0.95%
2001	37.0	0.49%	1.38%
2002	30.3	6.10%	2.88%
2004	27.7	-1.07%	7.33%
2005	26.6	0.21%	7.60%
2006	26.5	1.13%	n/a
2007	27.2	-0.12%	n/a
2015	26.5	???	???

Source Robert Shiller

Remarkably, over the course of nearly 150 years, there have only been twelve times where the market started out the year with a CAPE ratio of 26.5 times or higher – this explains the concern. Within this set we focused on the nine instances which began long enough ago for us to observe the ensuing ten-year experience. There are two ways to interpret this data: The next ten years will provide returns of less than 5% annually (five of the nine) or returns will be better than 5% (four of the nine).

Common sense would suggest we look at the data both ways. It's true that above-average CAPE ratios have led to lower than average stock market returns in the past. For these ten-year periods, the annualized average return was 3.3%, ranging from a negative 1.67% to a desirable return of 8.23%.

An interesting observation is how clustered the above-average CAPE periods have been over the past thirty years. Since the beginning of 1997, the first time since 1929 that a year started out with a CAPE above 27, the S&P 500 is up 386% or almost 9% per year. Over that time the average CAPE ratio has been 27.1. Granted, there were in-between periods, with downturns in market benchmarks, where the CAPE ratio fluctuated. But these storms passed, as they are prone to do, and the market regained its footing and moved to the all-time highs we currently observe. Markets have become significantly more efficient since 1929, and technological advances allow companies to grow faster with less overhead. Perhaps higher valuations will become the new normal.

Our point in this exercise is to show how little the pundits and forecasters have to go on, even when they're using one of the longest market data sets at their disposal. Sure, we can reference CAPE data to set reasonable expectations, and maybe even to offer a range of possible future returns in the markets for the longer term. Even then, there's a good chance the future will see outliers either higher or lower than the historical precedent. In the end it comes back to the same question: how should your portfolio be invested for the next ten years to align with your objectives? Once that question is addressed, a few corrections along the way are inevitable.

With all this in mind, the U.S. market is expensive, based on history and the CAPE. Future ten-year returns could be well below the historical averages, pulled down by unforeseeable economic problems. But given where we are today in our economy, should the market be at these levels? We believe there are reasonable forces behind the market's current valuation. To name a few, the U.S. is experiencing low real interest rates, a lack of investment opportunities in fixed income markets, aggressive government support of the economy, and somewhat less-risky economic growth yielding reduced equity risk premiums (the difference between equity returns and fixed income returns). We don't see a euphoric mania.

Unlike prior eras of history, the secret of "stocks for the long run" is now well known, thoroughly studied by scholars all over the world, and baked into the thinking of every long-term investor. As well it should be.

2015 Bond Market

The Paradox of Rising Yields

Most of the major economic powers across the world saw their bond yields rise to new heights over the last few weeks, continuing an ascent that began in late April of this year.

Having moved beyond 1%, the 10-year German Bund yield is now at its highest level since September of 2014. In addition, the 10-year U.S. Treasury yield rose to just under 2.5%, its highest level in over eight months. Even more striking is that the yield on the 10-year bond has increased by more than half a percent since late April - a rather remarkable move in the bond market. Not to be left out, Japanese and United Kingdom 10-year government bond yields are also at their highest levels since last November. As of this mailing, the 10-year Bund sits at .887% and the U.S. Treasury at 2.36%.

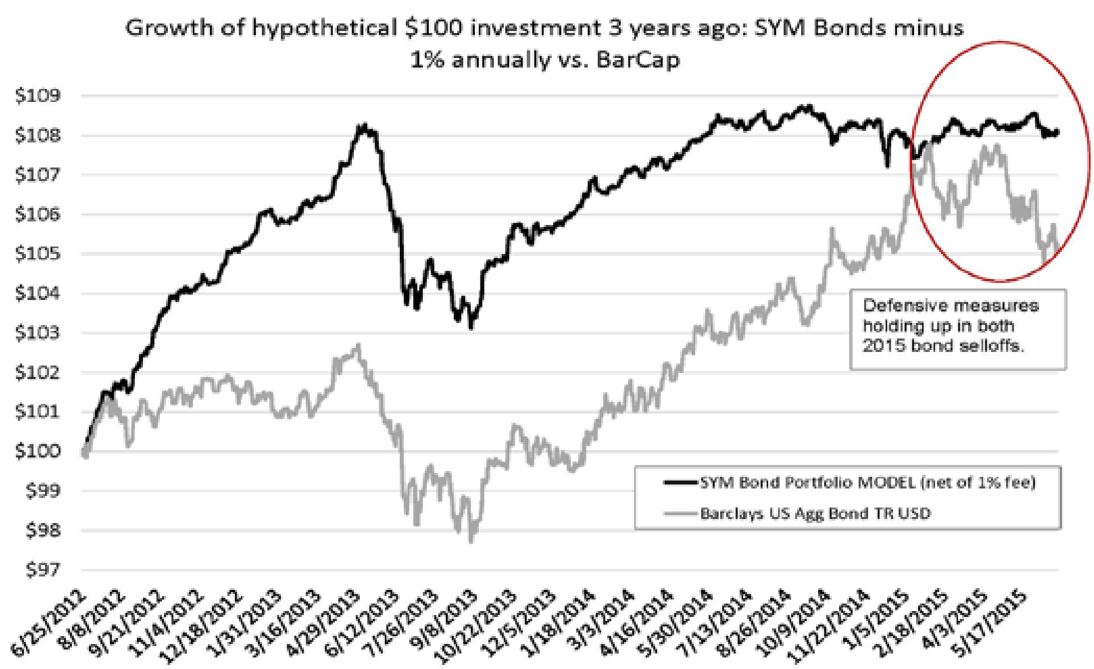
Despite ongoing concerns in regard to the Greek economy, a generally more positive outlook for the Eurozone and United States economy seems to be at the epicenter of this most recent surge in bond yields. Not too long ago the view among pundits was that the Eurozone had a significant threat of deflation. It now seems that those fears have been offset by better overall expectations and growth projections.

Whenever a bubble exists in any asset class - it is probable that the buying is too extreme. In reaction, we now suspect we are seeing yields come back in line with the fundamentals of the underlying economies.

The yield increase reflects a more positive outlook on the world economy. However, the paradox exists that higher interest rates could slow the economic growth that is still moderate in many regions around the world. Central banks around the world will continue keeping a keen eye on the economic data that drives their policies.

Regardless of which variables may have contributed to a rapid rise in bond yields, rising interest rates tend to erode underlying bond prices, which shakes the bond market. This recent move is the biggest price setback for the bond market since 2013 during the now infamous "Taper Tantrum". The popular BarCap aggregate bond benchmark has lost value year-to-date in 2015, particularly hurt by a 0.67 percent slide incurred over the past one month because of rising interest rates.

SYM Financial Advisors has been anticipating a bond sell off for some time. Our taxable bond portfolios are positioned to mitigate most of the interest rate risk that accompanies a rapid increase in interest rates in the general economy. Therefore, our client's taxable bond portfolios are doing an excellent job in relative performance to the benchmark year-to-date.



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New Team Member

Jamie Mitchell

Please join us in welcoming Jamie Mitchell, Retirement Plan Advisor.

Jamie joined the SYM team in March. Prior to her move, Jamie worked locally in the retirement plan services industry, and was responsible for overseeing the daily valuation open-architecture series for 401(k) and 403(b) plans.

Jamie will work within our qualified plan team to provide comprehensive support to plan clients, including investment oversight, the monitoring of plan design, and sponsor/participant education. She brings to this role a tremendous amount of client facing experience and we look forward to the positive impact she will make on our clients.

Jamie attended the International Business College of Fort Wayne. She is active with the Mustard Seed Furniture Bank along with her husband, Steve. They enjoy time spent with their three children and four grandchildren, golfing, and following the NFL.

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SYM Midland Service Project: Creative 360

Founded in 1994, Creative 360 is a community based, non-profit organization dedicated to crafting an environment for people of all ages to experience the creative process through ongoing classes, events, art exhibits, concerts, and outreach programs. It was unfortunate when their basement flooded at Thanksgiving of last year, destroying floor tiles along with the lower portion of the wall. Though the basement floor was cleaned and restored, Linda Z. Smith, the organization's co-founder, thought it looked bare and unfinished. With that in mind, Karen Thomas, SYM client relationship coordinator and a new member of Creative 360's Board of Directors, saw an opportunity for a great SYM service project!

From left: Karen Thomas, Rod Coleman, Will Zank, Jeff McGraw, Sarah Delahanty, Brooke Thurlow, Rochelle Balenda.

We find it uniquely satisfying when SYM works together to support the community and the passions of its employees. With Karen taking the lead, several members of the Midland team left the office early on a Friday afternoon, trading their computer screens and spreadsheets for paintbrushes and t-shirts. Pictured is our team just before - and just after - painting the bottoms of the walls and splatter painting the floor. The basement level of the building is used for many varied classes, and we believe the new paint job will put a smile on the faces of all those who walk across it. Our group had plenty of smiles as they splattered purple, white, blue, red, green, and yellow paint all over the floor - and each other!

Cooperative Internship Program

SYM Financial works cooperatively with local colleges' and universities' internship programs toward the development of future talent within the financial services industry. Each year we recruit top students pursuing a degree in a finance related field. Each intern is exposed to the most current practices in finance as well as SYM's uncommon method of providing unique service to our clients.

This year we are fortunate to work with ***William Zank*** in our Midland office, and ***Cameron Gerst*** in our Winona Lake office.

William is entering his senior year at ***Central Michigan University***, double majoring in Finance/Financial Planning, and is also involved on campus with CMU's Fortify Capital Management Group.

Cameron attends ***Indiana University, Kelley School of Business***, Bloomington, as a senior this fall. He majors in Finance and is involved with the Kelley Portfolio Management Club. Cameron is also a member of the Indiana Daily Student editorial staff, where he contributes a weekly opinion column.

These students are adding value to SYM with their enthusiasm and work ethic, while also gaining useful experience in their interactions.

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THE SYM DIFFERENCE

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

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Vice President

SYM Financial Advisors
801 Park Ave
Winona Lake, IN 46590

Phone 800-888-7968
Fax 574-269-5905

www.sym.com