NEW ENGLAND GUILD WEALTH ADVISORS

INVEST IN CONTEXT

Market Spotlight

Returns as of 09/30/15

Index	3rd QTR	Annual 1 YR	3 YR	10 YR
S&P 500 (inc. div.)	-6.4%	-0.6%	12.4%	6.8%
Russell 2000	-11.9%	1.3%	11.0%	6.6%
MSCI AC World xUS	-12.2%	-12.2%	2.3%	3.0%
MSCI AC World	-9.5%	-6.7%	7.0%	4.6%
REITs	0.5%	7.0%	8.0%	5.7%
Barcap Agg. Bond	1.2%	2.9%	1.7%	4.6%
90 Day T-Bills	0.0%	0.0%	0.1%	1.3%

Volatility returned to the equities markets in the third quarter, impacted by economic stress in China (the world's second largest economy) and Greece; underwhelming corporate earnings reports; and falling energy stock prices. While some economic sectors such as housing and unemployment offered favorable news, others including exports and wages showed little in the way of positive movement. As a result, the Federal Open Market Committee once again declined to raise interest rates, noting that inflation still hadn't reached the committee's preferred target rate of 2.0% (Data Source: Broadridge Investor Communications).

Despite a closing rally in the major market indexes, the third quarter ended a tumultuous period in which almost all asset classes declined. The S&P 500 was down 6% for the three months ending September 30, but was the best performing equity market with the MSCI AC World ex US and Emerging Markets returning -12% and -18%, respectively. Small cap U.S. equities struggled more than the broader market, falling 12%.

Within the fixed income space, high yield fell 4% as spreads continued to widen in response to lower energy prices and slowing global growth. The two standouts for the quarter were the Barclays Aggregate Bond Index., which rose after the Fed failed to raise rates in September, and REITs which benefitted from resilient domestic economic data. (Data Source: JP Morgan's Weekly Market Recap).

Investment Commentary

After years of relative calm in the markets, Summer 2015 gave way to higher levels of volatility. From the all-time highs reached in May of this year, the S&P 500 (large cap) Index officially entered "correction territory", defined as a decline of over 10%. It has been almost 4 years since the market experienced a correction, which is an unusually long period by historical measures. In fact, there have been only a handful of times since the 1920's that the market has gone as long without correcting.

The recent market decline and increased volatility could have been precipitated by several catalysts. These include concerns over weakness in China and emerging markets; devaluation of the Yuan and a commensurate sell-off in the Chinese stock market; ongoing Euro crises; central bank policies; Greece; earnings pressures given the strength of the dollar and price of oil; uncertainty surrounding a rate hike by the Federal Reserve ; - to name but a few! Any of these triggers could have been the spark that turned investor sentiment; it may also have been that the market was simply due to correct.

History has taught that *volatility is unavoidable in investing; and that those who stayed invested during such periods benefitted from subsequent market rebounds.* For example, in October of 1987, later referred to as Black Monday, the S&P 500 declined by 20.5%, still the worst day for the stock market on record. Because the drawdown was a result of trading behavior and not market or economic fundamentals, the S&P 500 finished the year with a gain. 2013 saw a drawdown of -5.8% as the Federal Reserve began to talk about reducing bond purchases that had been part of the economic stimulus plan. However by year-end the S&P 500 was up 30%! October 2014 saw still another pullback of -7.4% as a result of numerous global concerns. But once again, the S&P 500 ended the year in positive territory, up 11%. Market pullbacks can occur over days, weeks, or months. Having the fortitude to remain invested during these periods requires discipline that has often been rewarded. Can you imagine having gone to cash and moved to the sidelines while markets rebounded as they did in the examples above?

As the Federal Reserve becomes increasingly likely to raise rates and as valuation levels rise, expect market volatility to continue. It will be an important time for investors to distinguish from volatility resulting from short-term news rather than long-term fundamentals; and to stay focused on the latter.

Exhibit 1 on the next page illustrates the frequency of market pullbacks of various sizes over the course of a year, as well as the typical recovery period. You will note that over the past 50 years, corrections have occurred on average about once every 1.5-2 years. This one took nearly four. While corrections are fairly common, only about half develop into a full "bear" market, defined as a decline of over 20%. The last S&P 500 bear market was in 2007-2009, and the Index more than tripled off that low leading into this correction.

As seen in the exhibit, 20% market corrections (or more) historically occur at the end of market cycles. Shorter term, the market has pulled back 5% on average four times a year, or about once a quarter. Despite this, the market has usually recovered within 3 months. Thus maintaining a long-term perspective and not acting on pessimism in the face of volatility is critical. When it comes to investor behavior during volatile markets, Vanguard's John Bogle said it best, "Don't do something, just stand there!"

Exhibit 1:

Small stock market pullbacks are normal

EXHIBIT 3: FREQUENCY BY SIZE OF DRAWDOWN, THRESHOLDS ANALYZED INDEPENDENTLY*

Drawdown Threshold	Historical Frequency	Typical # per Year	Typical Recovery Time
20%	Once per Market Cycle	0	20 Months
10%	Once per Year	1	8 Months
5%	Once per Quarter	4	2 to 3 Months
3%	Once per Month	11	2 to 6 Weeks
2%	Often	18	1 to 4 Weeks

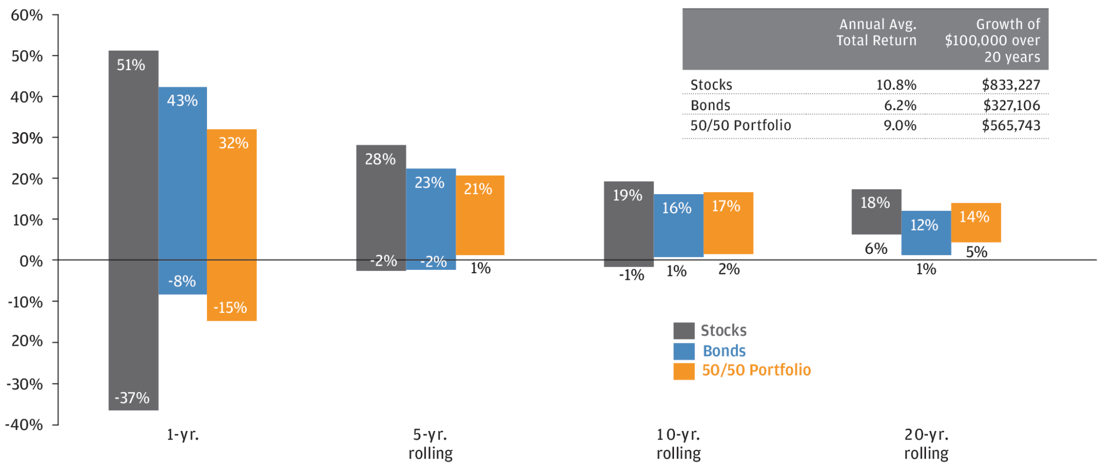
Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. For illustrative purposes only. *Analysis based on each type (size) of drawdown being independent. For example, the market does not typically see four 5% drawdowns and one 10% drawdown in the same year, but rather those 5% drawdowns may compound into a single 10% drawdown for the year. Data are as of 1/31/15.

Exhibit 2:

This chart shows the historical range of returns for stocks, bonds and a 50/50 portfolio of stocks/bonds over four time periods; 1, 5, 10 and 20 rolling year periods of time. Of particular note is how volatile returns experienced on a daily basis are smoothed over monthly and annual periods. The key takeaway from this chart is to ensure that one's time horizon, as to need for funds from a portfolio, mates up with the volatility characteristics of the asset classes one invests in; e.g., cash needs for the short-term invested in money markets, intermediate term in bonds and longer term needs invested in equities. Also note from the chart that returns for a 50/50 portfolio over any 5-year rolling period of time resulted in positive returns ranging from +1% to +21%; a strong argument against holding cash to satisfy longer-term funding needs given cash currently generates a close to 0% nominal return, and a negative return when adjusting for inflation. Therefore, a well thought out matching of future cash flow needs to one's portfolio investment program should go a long way to providing solace, even in the most turbulent markets.

The investment time horizon is a powerful tool for managing volatility

EXHIBIT 6: RANGE OF ANNUAL TOTAL RETURNS, 1950 – 2014



Sources: Barclays Capital, FactSet, Robert Shiller, Strategas/Ibbotson, Federal Reserve, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2014. For illustrative purposes only. Growth of $100,000 is based on annual average total returns from 1950 to 2014. *Guide to the Markets* – U.S. Data are as of 1/31/15.

Research and excerpts from Investing with composure in volatile markets by James C. Liu, CFA JP Morgan Asset Management.

OUR FIRM CONTINUES TO GROW BY REFERRALS FROM OUR CLIENTS. THANK YOU FOR RECOMMENDING US.

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