ECONOMIC & CAPITAL
MARKETS REVIEW
NEWMAN DIGNAN & SHEERAR, INC.

Newman Dignan & Sheerar
INVESTMENT ADVISORS

Full of Sound and Fury …

4th Quarter 2015

ECONOMY & MARKETS

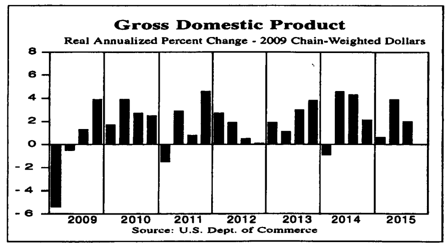
2015 was certainly an eventful year for investors – a summer stock market correction, a Chinese currency devaluation and economic slowdown, a collapse in the price of oil and other major commodities, continuing tensions and geopolitical challenges in the middle east *(what's new?)*, and the first rate hike by the Federal Reserve in the last 9 1/2 years. Perhaps it was simply a year like most – full of problems and challenges, but also filled with hope. Markets will always be subjected to the vicissitudes and tyrannies of the moment, but it is quite clear that most of the headline news that we see *signifies nothing* and have very little impact on the long-term value of stocks and bonds.

Tune Out…

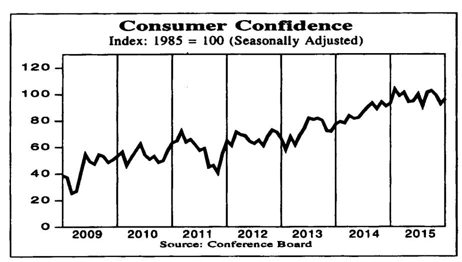
As we've stated before … investors today must resist the calls of the fast money crowd promising out-sized returns with little or no risk. Time honored techniques like diversification and patience seem to have fallen out of favor (how quickly we forget the pain of the past …). We suggest that investors tune-out the all-too-enticing talking heads, and stick with their game plan. Be careful of consensus and crowded expectations.

The fourth quarter of 2015 saw markets bounce back from oversold conditions at the end of the 3rd quarter. For the quarter, the **DJIA** advanced 7.0% while the **S&P** moved higher by 6.5%. The **NASDAQ** surged 8.4% for the quarter. International markets finally caught a bid as the **EAFE** Index jumped 4.4% for the quarter. Bonds gave up ground as the Barclay's Aggregate **Bond Index** lost 0.6% for the quarter.

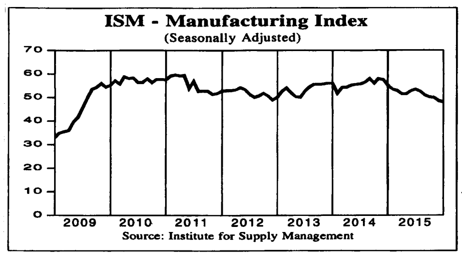
For the year, the **DJIA** finished lower by 2.2% while the **S&P 500** shed 0.7%. The volatile **NASDAQ** closed higher by 5.7%. International markets posted less-than-stellar returns as the **EAFE** index (developed markets) lost 3.3% for the year while emerging markets were lower by 14.96% for the year. Bonds finished the year slightly higher as the Barclay's Aggregate **Bond Index** gained 0.5% for 2015. *Of note* – Don't count on a flat year in 2016 … the S&P 500 often performs well in years following a market return of +/- 1%.



Domestic economic news continues to plod along at a tepid rate. **GDP growth** *(see chart above)* of 2% in the 3rd quarter was less-than-encouraging, and we suspect 2015 will finish with less than 3.0% growth (Q4/Q4). 2016 domestic GDP growth should clock-in about 2% or so while global GDP should be better at 3.0%. Feckless fiscal policies in the U.S. have been unable to generate much needed higher growth.



Lower **jobless claims** are certainly encouraging, but we are reminded of the lowest labor participation rate (62.6%) since 1978. A smaller work force presents a drag on growth. **Inflation** has been quiescent thanks to lower **oil prices** and China-exported deflation. **Consumer confidence** *(see above)* is perking up as more people are employed and savings at the pump are giving them a few extra dollars. Unfortunately, hourly wages are still stagnant, and consumption is growing at less than its long-term rate of growth. Interestingly, a recent Pew Research Center study found the middle class is now only 50% of the U.S. adult population, down from 61% in 1971. Along with a declining middle class, U.S. real median income is still below its level from 2000. Politicians cannot remain astigmatic.



Consequences of a higher US dollar (and low oil prices) continue to emerge. The **December ISM Manufacturing Index** *(see above)* fell to 48.2 from 48.6 in November (numbers below 50 indicate contraction). Although manufacturing is only 12% of GDP, the low ISM number points to continuing stress on factory output. On the other hand, **ISM Non-Manufacturing** data continue to be solidly above 50 (expansion). We expect the rate of appreciation in the U.S. dollar to abate in 2016 … helping U.S. factory orders.

OUTLOOK

Bottom Line – Economic and market predictions are almost always overly optimistic at the beginning of each year. We suspect expectations for 2016 will likely prove ambitious as well. Consensus GDP growth for 2016 is ~2.5% while we see GDP growth being a bit more tame – perhaps around 2% (still not bad given the global headwinds that exist). Consensus 2016 earnings expectations for the S&P 500 are ~ $125, but lower earnings from the oil sector will likely bring down overall earnings to ~ $120. Given consensus numbers of $125, the S&P 500 is selling for 16.3X earnings … reasonable given today's low interest rates and low inflation rates. We see the S&P 500 finishing the year at 2145 for a gain of roughly 5% (add in 2% dividends for a total return of 7% or so). Of course, the ride to our year-end target will be anything but smooth … so buckle up for continued volatility.

Reasonable

Will markets experience a correction/pullback in 2016? The answer is that it is quite probable; however, the world will likely not end. The good news is that corrections/pullbacks have always been temporary, and the long-term advance has always been permanent. Trying to time any market pullback has been a fool's game, and we would rather not participate.

Being mugwumps, we prefer not to engage in political debate. However, it is instructive to see how markets have reacted in previous Presidential election years. The good news is that market returns have been fairly upbeat as the S&P 500 has averaged roughly 7.5% in the 4th year of the Presidential cycle over the last 110 years. History may not repeat itself, but it often rhymes. Besides, as we highlighted in our last quarterly newsletter, stocks returns tend to be positive after the Fed begins to raise rates (as they did in December).

Bond prices should generally be flat to slightly lower in 2016, and investors should expect to collect their coupon. We anticipate keeping average durations in the short-to-intermediate range … we are not willing to take on much interest rate risk given the likelihood of higher rates. *Strategic Income Funds* ought to provide diversification benefits to a core bond portfolio.

Small and mid-cap equities still add value to an overall asset allocation strategy, but we remain underweight as valuations appear fully priced. We are more sanguine on *international equities* – both *developed* and *developing,* and we anticipate adding to positions in 2016 given reasonable valuations and yields. Again, we believe that *large-cap companies with higher quality attributes* should continue to provide better-than-market returns (valuations are a bit stretched, but they provide predictable growth and dividends). We like companies with excellent dividend growth potential *(not necessarily just high dividend yields). Commodities* offer investors some protection from potential inflation and dollar weakness, but those scenarios do not seem likely for the next six months or so. *Alternative assets* will continue to provide good risk-management for portfolios ... particularly in an environment of increased volatility.

We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance.

Happy New Year!

Tax Update for 2016

Estate Taxes
For 2016 the federal estate and gift tax exemption is $5.45 million. Married couples can still shield $10.9 million from federal estate and gift taxes. The annual gift exclusion amount remains at $14,000.
The Rhode Island estate tax exemption is $1.5 million with a top tax rate of 16%. The exemption amount in Massachusetts is $1 million while Connecticut's is $2 million.

Income tax brackets for 2016 appear below:

2016 Federal Tax Brackets	Single	Married Filing Jointly & Surviving Spouses	Married Filing Separate Returns	Heads of Household
10%	$0-$9,275	$0-$18,550	$0-$9,275	$0-$13,250
15%	$9,276-$37,650	$18,551-$75,300	$9,276-$37,650	$13,251-$50,400
25%	$37,651-$91,150	$75,301-$151,900	$37,651-$75,950	$50,401-$130,150
28%	$91,151-$190,150	$151,901-$231,450	$75,951-$115,725	$130,151-$210,800
33%	$190,151-$413,350	$231,451-$413,350	$115,726-$206,675	$210,801-$413,350
35%	$413,351-$415,050	$413,351-$466,950	$206,676-$233,475	$413,351-$441,000
39.6%	Over $415,051	Over $466,951	Over $233,476	Over $441,001

Contribute pre-tax

Retirement Plans
The ***maximum 401k, 403b and 457 plan contribution*** remains at $18,000 with a catch-up amount of $6,000 for those 50 and older. ***IRA and Roth IRA max contributions*** remain at $5,500 ($6,500 for those over age 50). There are adjusted gross income limits that need to be considered to determine your eligibility to contribute. Individuals have until April 15, 2016 to make IRA contributions for 2015. However, 2015 contributions to 401(k)'s and 403(b)'s had to be made no later than 12/31/15.

IRA Charitable Rollover Provision
The IRA charitable rollover provision has been made permanent under the Protecting Americans From Tax Hikes Act of 2015 ("PATH"), which was passed by Congress and signed into law by the president on December 18, 2015. It provides an annual exclusion from gross income up to $100,000 for "qualified charitable distributions" from an IRA.

Favorable

Capital gains rates max out at 20% for filers in the top income bracket (add to that a 3.8% Medicare surtax). The 15% rate applies to filers below the top income rate except for filers in the 10% or 15% income tax bracket where the rate remains 0%.

As always, we urge clients to review all tax related matters with their tax advisors.

Important Compliance Update

Pursuant to the ongoing written disclosure requirement placed upon registered investment advisers, we are required, on an annual basis, to make available to our clients our most recent written disclosure statement as set forth on our Form ADV Part 2A (our *"Brochure"*). As such, please contact ND&S should you wish to receive our most recent *Brochure*.

ND&S maintains a proxy voting policy that highlights our handling, research and voting of proxies. Please contact ND&S should you wish to receive a copy of our Proxy Policy. *As always, we ask that you also notify us of any significant changes to your financial situation.*

4th QUARTER 2015 SCOREBOARD

Index	Close	4th Quarter % Change	Year-to-Date % Change
DJIA	17425.0	7.0	-2.2
S&P 500	2043.9	6.5	-0.7
NASDAQ	5007.4	8.4	5.7
Russell 2000	1135.9	3.2	-5.7
MSCI EAFE	1716.3	4.4	-3.3

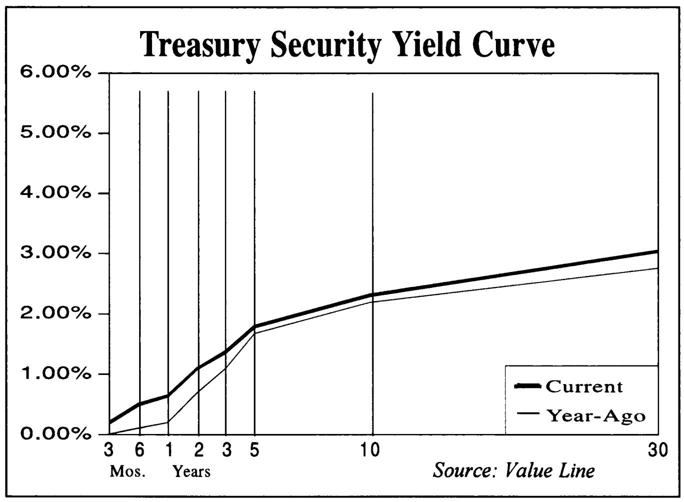
3 Month T-Bill	0.20%	Fed Funds Rate	0.25% - 0.50%
5 Year T-Note	1.77%	Prime Rate	3.50%
10 Year T-Note	2.27%	Gold	$1060.30
30 Year T-Note	3.02%	Oil	$37.04

Index returns are price only

Oil was down over 31% in 2015 ... a major tailwind.

Still time to re-fi

Rates ought to slowly move higher in '16



All of us at ND&S wish to extend to our clients and friends our best wishes for a happy, healthy and prosperous New Year.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Newman Dignan & Sheerar, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Newman Dignan & Sheerar, Inc.. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Newman Dignan & Sheerar, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Newman Dignan & Sheerar, Inc.'s current written disclosure statement discussing our advisory services and fee is available upon request.

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