Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE DECEMBER 2015

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MARKET COMMENTARY

Stocks rebounded during the quarter but their returns for the full year were disappointing as they were never able to break above the range they had been trading in since January. Large stock indices would not have posted gains for the year if it had not been for dividends. For example, the S&P 500 and DJIA each have a dividend rate of about 2%. Even though the S&P 500 was up 7% during the quarter, it only gained 1.4% for the year meaning that without dividends, its return would have been negative. The DJIA had a quarterly return of 7.7% but the return for all of 2016 was 0.2%. Small cap stocks in the Russell 2000 were down –4.4% for the year even after posting a 3.6% gain for the quarter. International stocks also suffered with developed market stocks in the MSCI EAFE posting a -0.4% loss for the year after recording a 4.8% gain in the fourth quarter. Emerging market stocks were unable to recover in the fourth quarter resulting in a full year loss of -14.6%. Bond yields rose resulting in negative quarterly returns of -0.57% and thereby lowering the annual return for the Barclays Aggregate Bond Index to 0.6%.

The returns on the stock indices can be deceptive, causing a person to believe that stocks didn't do much this year since returns were near 0%. In reality, returns varied greatly by stock. Large cap growth stocks were up 6.4% while large cap value stocks were down -3.2%. Consumer discretion, healthcare and consumer staples were the best performing industries this year with returns of 10.1%, 6.9% and 6.6% respectively. Energy, materials and utilities were the worst performing industries with returns of –21.1%, -8.4%, and –4.8% respectively. In addition, the S&P 500 is market cap weighted meaning that the largest companies have a larger weighting. As of December 21st, the largest 10 companies in the S&P 500 were up 16%. If these companies had been excluded, the return of the S&P 500 would have been –6%.

2015 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	7.0%	1.4%
DJIA	7.7%	0.2%
NASDAQ	8.7%	7.0%
Russell 2000	3.6%	-4.4%
International	4.8%	-0.4%
Fixed Income	-0.6%	0.6%

Third quarter GDP growth has been revised to 2.0% which is what the full year 2015 GDP is expected to be. This growth is below the 2.5% GDP growth of the previous two years.

Oil prices fell to new lows in the quarter—even lower than they were in the 2008 recession. As economist Brian Wesbury states, "conventional wisdom has always viewed a fall in energy prices as a "tax cut" for the economy". That didn't happen this time. Although people had money to redistribute to other spending, it wasn't enough to offset the negative effects declining oil prices had on drillers and those industries that sell to them and benefit from their activity.

Another thing that didn't help the economy is that government spending increased as a percent of GDP for the first time since 2009. For every dollar spent by the government, private sector income is reduced. The bigger the government, the smaller the private sector and the weaker the GDP growth.

GDP growth is expected to average around 2% for the foreseeable future (about two thirds of what it had been averaging at 3.2%). As a result, earnings are also expected to grow more slowly. Slower earnings growth means stock returns will likely also be lower over the next decade. Most analysts expect forward long term stock returns in the mid single digit range, or 4% to 7%. Some investors may need to adjust their financial plans to account for the expected lower-than-historical earnings rates on all asset classes.

The Federal Reserve finally followed through and raised short term interest rates by 0.25% in December. This was the first increase in nine years. Additional increases are expected over the year although the Fed will likely go slow. Current expectation is that they will raise rates by 1% in 2016. The yield on the 10-year Treasury bond is

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

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MARKET COMMENTARY

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currently 2.27% up from the 2.06% at the end of last quarter.

Rising yields do not need to be feared by the stock market over the longer term. In each of the last three periods the Fed raised rates, stocks ended higher than where they started when the rate raising cycle ended. Stock prices still experienced some volatility, but overall saw gains from when interest rates began increasing.

Stock valuations seem reasonable at current levels but few believe them to be a bargain. We continue to expect volatility in the new year but feel the time-tested disciplines of patience and diversification are good strategies for dealing with volatility.

FINANCIAL PLANNING

New Year, New You

With the new year, you may have made a resolution to save more. Rather than waiting til the end of the year and hoping that it's magically happened or looking for extra money at that time, now is a great time to take steps to insure you save more throughout the year. If you are not already maxing out your retirement plan contributions, you can take this opportunity to increase your contribution through salary deferral. Likewise, now is a good time to start making monthly contributions to a savings or investment account. You can do this through the automatic deposit feature on your payroll or we can set up an automatic transfer from your checking account to a Schwab investment account. If money automatically goes to savings before it's in your spending account, you are already ahead of where you were last year. Plus, it's much easier to save on a monthly basis rather than trying to make one large contribution at year end when you are already worried about the Christmas bills that will be coming due.

2016 Retirement Contribution Limits

Retirement Plans	2015	2016
401k and 403b Plans	$18,000	$18,000
Catch up contributions*	$ 6,000	$ 6,000
IRAs		
Traditional or Roth IRA	$ 5,500	$ 5,500
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$12,500	$12,500
Catch up contributions*	$ 3,000	$ 3,000

*If you are age 50 or older, you can make additional catch up contributions

QUESTION: *What are the capital gains distributions that mutual funds pay?*

ANSWER: Mutual fund managers buy and sell stocks (or other securities) within their funds. When they sell a stock that has a gain, these gains are passed through and realized for tax purposes by the individuals who are currently invested in the fund. When the distribution is made (normally at year-end), the price per share drops to account for the distribution and cash is paid to the investor (which many times is then reinvested into new shares at the lower price). The value of the total investment remains the same to the individual, but they now are responsible for paying the capital gains tax.

The amount of gain realized can vary widely. Funds where investors are net sellers generally have to sell more of their gains to raise the money necessary to fulfill liquidation requests. This exodus can leave the remaining shareholders with a large tax liability- sometimes more than their actual gain in the fund. In taxable accounts especially, we monitor the funds and make changes where necessary.

CAMBRIDGE ADVISORS NEWS

We've spent 2015 celebrating our 25 year anniversary. At this time, we'd like to thank you for the trust and confidence you have placed in us over the years. We appreciate the relationships that have formed and know that without you, there wouldn't be a Cambridge Advisors.

Although many things have changed since our beginning, our core values are the same and always will be:

- To be aligned with the client's interests;
- To have highly-educated professionals working together as a team;
- To have a client-centered approach;
- To provide a high quality service; and
- To always act with integrity.

Clients have told us that they wished they had known about Cambridge sooner. If you know someone who could benefit from a relationship with Cambridge Advisors, please encourage them to check out our website and contact us to learn more. An initial meeting is always free of charge or obligation. And, please know that we will always keep your information private.

We are looking forward to the next 25 years and are continually updating our technology and services to help you and those you care about reach your goals. Thank you again for your contribution to our growth over the past quarter of a century.

Serious about your future