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MARKET COMMENTARY

This quarter stocks fell out of the range they had been trading in for most of the year producing their worst quarterly performance since 2011. Large cap stocks in the S&P 500 and DJIA entered correction territory by losing more than -12% from their highs. They retested their lows from last October's drop and ended the quarter near those levels. The S&P 500 is down -5.3% year-to-date. Small cap stocks in the Russell 2000 are down -7.7% so far this year. International stocks also suffered with developed market stocks in the MSCI EAFE also posting a -5.3% loss and emerging market stocks posting an even worse loss of -17.2%. Bonds became a safe haven pushing bond prices in the Barclays Aggregate Bond Index up and back into positive returns year-to-date.

Earnings projections have continued their recent trend of being revised lower. Corporate earnings growth again was negative for second quarter 2015 compared to the same quarter last year. The energy sector continued to depress earnings of the S&P 500 Index. However, when the energy stocks were excluded, earnings showed growth reflecting the strength of other sectors. Interestingly, after being a top performing industry the past couple of years, healthcare stocks, especially biotech, took a turn for the worse after Presidential candidate Hillary Clinton unveiled her plan to reform pharmaceutical companies.

GDP growth has been improving. After initially reporting a disappointing decline of -0.2% for first quarter, the Bureau of Economic Analysis has now revised the figure to positive growth of 0.6%. Second quarter growth has also been revised up several times from earlier estimates to the current 3.9%. The Federal Reserve had previously lowered their full year estimate for GDP growth to 1.9% but it now seems possible that that figure will also be revised higher as they still expect growth to be stronger in the second half of the year.

2015 BENCHMARK RATES OF RETURN

INDEX	THIRD QUARTER	YTD
S&P 500	-6.4%	-5.3%
DJIA	-7.0%	-7.0%
NASDAQ	-7.4%	-2.5%
Russell 2000	-11.9%	-7.7%
International	-10.2%	-5.3%
Fixed Income	1.2%	1.1%

The initial disruption in stock returns was mostly blamed on China who is experiencing slower economic growth. Investors became concerned that a slowdown in one of the world's largest economies would spread globally. In an attempt to spur growth, China devalued their currency slightly to make the prices on their goods more competitive. A slowdown in China will likely have a larger impact on other developing nations who are more dependent on commodities like oil or copper rather than mature economies like the US, Europe and Japan. For that reason, emerging market stocks have been hit harder. Although these stocks may go lower, it may be better to hold positions rather than selling them now and trying to time the market correctly for when to get back in. Some analysts expect China to devalue their currency another 5% to 8% but these are really minor moves compared to the devaluations of 50% that were happening in the late 1990's during the Asian Contagion. Alternatively, Europe and Japan have been implementing monetary easing policies over the last year and could see their stock indices do well from current levels if the results are similar to what the US experienced through quantitative easing.

The Federal Reserve had been citing that they would raise rates when inflation was near their target and economic conditions were stronger. These measures seemed to be met by the September meeting as the economy had 3.9% GDP growth and unemployment had fallen to 5.1%. When the Fed didn't raise rates, they cited global economic concerns. This new language introduced more confusion and stocks retreated to near their August lows. The yield on the 10-year Treasury bond is currently 2.06% down from the 2.34% at the end of last quarter.

We expect volatility to continue while investors are uncertain about what the Fed will do. Valuations are a little more reasonable as a result of the pullback and we see opportunities to buy select stocks at attractive prices. We do not currently expect broad stock indices to experience a large decline but continue to recommend a diversified approach to asset allocation.

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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FINANCIAL PLANNING

Social Security

For many people approaching retirement age, social security will be an important component of their income in retirement. Although tempting, electing to take benefits as soon as you are eligible, may not be the best choice. There are many other factors that come into play when determining at what age to begin receiving benefits including life expectancy, accumulated savings, and marital status.

Although there is an option to take benefits as soon as age 62, if you haven't saved sufficiently, retiring early and using social security to fund your living expenses can limit your standard of living. Even if you work until your full retirement age – somewhere between 66 and 67– it may make sense to delay receiving benefits until age 70. Just as you are penalized for taking Social Security early, you are rewarded the longer you wait. In fact, for each year you wait, your benefit will go up by 8% per year. This means that if your full retirement age is 66 and you wait until age 70 to receive benefits, your benefit will be 32% higher. If you live to age 83, you will breakeven in terms of the total benefits you will have received from social security whether you started at age 66 or age 70. If you live past age 83, you'll come out ahead. The higher social security income can also help if you've depleted your other investments as it will continue for your entire lifetime.

Additional strategies involve filing for benefits at retirement age and then immediately suspending payments. Your benefit continues to grow at 8% per year but if you needed money before age 70, you can request retroactive benefit payments which could result in a sizable windfall. If you are married, you can file and suspend and at the same time, your spouse could start receiving a 50% spousal benefit.

If you are nearing retirement and would like help exploring your options with social security, please do not hesitate to contact us. We would be happy to help you decipher the complex strategies available and determine which solution is best for your situation.

QUESTION: *Are stocks going to enter a bear market?*

ANSWER: When stock prices pull back like they have recently, it's easy to forget that a 10% decline once a year is normal. Some quickly fear that we are entering a bear market. The two large declines we had in 2000-2003 and in 2008-2009 are still fresh in people's minds, so some even worry that stocks will lose half their value again. However, the US has only had four such declines since 1900 so those magnitudes of decline are not typical.

JPMorgan points out in their Guide to the Markets, that conditions during the last ten bear markets dating back to 1930 are quite different than what is happening now. In eight of those corrections, the US was in a recession. Now, with 3.9% GDP growth, the US is not near recession with some analysts predicting that a recession would be more than a year away. Commodity spikes were the culprit in four of the last ten bear markets but we are experiencing the exact opposite with oil and gold prices plummeting. Aggressive Fed tightening was also a part of four of the bear markets but this Fed has been very accommodative and when they do raise rates, they expect to do so slowly. Extreme valuations were the last characteristic cited in four of the bear markets. Although stock prices were at highs, when compared to earnings, those prices were reasonable and valuations were within one standard deviation of 25-year averages—hardly extreme.

So, although we would expect volatility to continue and some individual stocks may be in bear market territory, we are not expecting broad market indices to sink into bear market territory unless new issues emerge.

Each year, we are required to offer you the most recent version of our From ADV Part II which describes our business and how we work for our clients. When you first became a client, you received a copy. Each year in March, we send you a report of anything that has changed on our ADV Part II. If you would like to receive a complete copy, please give us a call. A copy of our Proxy Voting Policy is also available upon request.

CAMBRIDGE ADVISORS NEWS

Throughout our 25 year history, Cambridge Advisors has placed great importance on keeping up with technology. This year, we have begun the process of switching to new portfolio accounting software that will enhance our reporting capabilities and provide more information to clients. We hope to complete this transition by year-end and begin rolling it out in 2016.

Serious about your future