DEAVEL WEALTH ADVISORS
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Dear Valued Clients,

The first half of 2015 continued a long run of calm markets. Equity returns were generally positive. Global economies continued to improve. The Ukraine invasion, the Ebola scare and other crises faded from collective memory. As we have seen many times before, calm is fleeting in global headlines as well as in the minds of many investors. Toward the end of the second quarter, things turned choppy on a number of fronts.

% Return as of 06/30/2015			
Equity Indexes	**2nd Q**	**YTD**	**3 Yr**
S&P 500	0.3	1.2	17.3
Russell 2500	-0.3	4.8	18.7
MSCI EAFE	0.6	5.5	12.0
Emerging Market	0.7	2.9	3.7
Wilshire REIT	-9.9	-5.7	9.0
Bond Indexes			
TIPS	-1.1	0.3	-0.8
Aggregate	-1.7	-0.1	1.8
Governments	-1.5	0.1	0.9
Mortgages	-0.7	0.3	1.9
Investment Corporate	-3.2	-0.9	3.2
Long Corporate	-7.8	-4.7	3.5
Corporate High-Yield	0.0	2.5	6.8
Municipals	-0.9	0.1	3.1
Cash Equivalents			
3-Month T-Bill	0.0	0.0	0.1
Consumer Price Index	0.5	0.3	1.2

Greece, a member of the common euro currency, balked at terms for an extension of its original bailout with creditors. This, it was feared, threatened European stability and growth. Through broken deadlines, posturing and brinkmanship, the matter has continued to deteriorate. In Asia, after a long period of strong returns, Chinese stocks began to drop precipitously. The Chinese government intervened. So far, that has had mixed results. Closer to home, Puerto Rican officials announced that the territory's debt was unsustainable and sought a bailout of their own.

Media headlines have been awash with news of these triple threats. Pundits offered conflicting predictions of potential outcomes and repercussions. Interestingly, a study has shown that there is an inverse relationship between the number of times a person appears on TV and the accuracy of their predictions*. It seems clear that regarding the economy, foreign affairs and global politics, "experts" have strong opinions. Equally clear is that their short-term opinions often have little value to serious investors.

As mathematically-based stewards of wealth, we take a different approach. We prefer to make important decisions with the TV turned off. Often, an examination of market history, application of mathematics and a thorough knowledge of a client's risk tolerance are more productive. While we do not downplay these events, we do note that similar situations have happened.

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The possibility of a Greek default is an example. In Europe and Latin America, since 1975, 20 countries have defaulted or restructured their debt. Some, like Argentina, have done so several times. There have been 44 default events among those 20 countries since 1975. It should also be noted that Greece is a very small economy. Greece represents less than 2% of the European Union as measured by nominal Gross Domestic Product. Compared with the level of GDP among U.S. states, Greece's entire economy would be considerably smaller than Tennessee's.

While the news of a "plunging" Chinese market may be alarming, a closer examination could provide some additional perspective. While the Shanghai Composite Index did drop about 30% from the highs, this merely reversed massive gains from earlier in the year. This leaves the index roughly unchanged for the year-to-date as of the date of this letter. Of course, a headline reading, "Chinese Stocks Go Up And Down - End Where They Started," doesn't sell newspapers or drive ratings. Our interest is on you. This way of thinking is uncommon and vital to successful investing. Again, we are not downplaying these events. While recent reports indicate the Greek and Chinese situations are settling down, they could flare up again. We take each event and its effect on your portfolio seriously. We don't ignore the possibility of repercussions and unintended consequences. We do know that through our own financial crisis and recovery, we have likely seen far worse than this.

<u>Domestic Equities:</u> Equities were stronger earlier in the quarter. As the macroeconomic news turned darker, shares retreated. In the end, equities were mixed for the second quarter. The S&P 500 eked out a 0.3% return. For the calendar year, the index is up 1.2%. Smaller companies, as measured by the Russell 2500, edged down 0.3%. For the year, the index is up 4.8%.

<u>International Equities:</u> As with the domestic markets, there was a lot of news and churning about with little overall movement during the quarter. The MSCI EAFE Index, an index of stocks in developed international markets, rose a modest 0.6%. For the year the index is up 5.5%. As noted above, emerging markets stocks have experienced considerable volatility. Returns overall have been positive. For the quarter the emerging market index was up 0.7%. For 2015, it is up 2.9%.

<u>Fixed-Income:</u> For years, many have predicted that interest rates had to go up from historic lows. They did not. Finally, due to a stronger economy, rates rose. The Barclays Aggregate Index, a basket measuring the total bond market, dropped 1.7% for the quarter. The decline for the year is a less than dramatic 0.1%. It should be noted that rising rates could, in fact, be a good thing. It means that the economy is improving and needs less support to stand on its own. While there may be some pressure on prices as rates move up, for many, the prospect of higher coupons going forward will make the transition worth it.

<u>Real Estate:</u> As interest rates gradually rose, some interest rate sensitive areas came under pressure. While real estate is certainly a different asset class than bonds, both generally produce a stream of income over time and therefore can be affected by rate movements. The Wilshire US REIT Index, an index of publicly traded real estate investment trusts, fell 9.9% for the second quarter. For the year, the index is down 5.7%. Given the strong performance last year, real estate still produced a positive 5.2% return of the last 12 months.

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We know it is tempting to "do something" in the face of considerable uncertainty. In fact, with your help, we have been doing something all along. All of our discussions, knowledge of your goals and modeling have gone into your portfolio. We typically design portfolios that are diversified across many asset classes. These often include bonds, domestic equities, and many other types of securities. Concentrations in specific stocks or countries are often discouraged. We like to design portfolios in advance of volatility not in reaction to it. Making drastic changes during times of great volatility and with incomplete information is often the wrong thing to do. This is not to say we will "buy and hold" and hope for the best. You deserve more than that. Just as in previous uncertain times, we will be following these situations and any effects on your portfolio and goals.

Please let us know if there is anything you need. We are here to help.

Sincerely,

Cindy H Deavel

Cindy Deavel, CFP

*Dr. Philip Tetlock, University of California Berkley

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Source of data – – Morningstar, U.S. Department of Commerce, Wall Street Journal, St. Louis Federal Reserve, Bloomberg, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

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