August 24, 2015

Dear Client:

In my last market update letter, which we sent to you only six weeks ago, I warned that the year's flat markets (at that point) might devolve into a decline before stock market prices again rise.

As you've certainly noticed, the stock market fell dramatically on Thursday and Friday, and it's down again so far today. We've seen this type of activity before – and that's the good news, because it means that you know how it will play out. With that in mind, we're sending you this letter to give you an update on events of last week. You probably don't need to read this, because the market's performance likely isn't concerning you (of our 27,000 clients, fewer than three in a hundred have contacted us – and many, it should be noted, are expressing interest in adding to their accounts while prices are down). Regardless, whenever the stock market dominates the news, an update on the market's performance is appropriate.

So here it is: As a result of this past week's performance in the U.S. stock market, according to Ibbotson Associates, the average annual return for the S&P 500 Stock Index since 1926 is 10% per year – just as it was the week before last, and the week before that, and…

Of course, you don't typically receive, nor should you expect, a 10% annual return. That's because you're not invested 100% in the stock market. Instead, as you know, your portfolio is highly diversified on a global basis. Diversified portfolios aren't expected to generate 10% per year - but when the stock market drops like it did last week, they don't typically fall in value as much, either.

Nevertheless, you might be wondering what Thursday-Friday's drop of 888 points in the Dow Jones Industrial Average means for you. Well, it means….nothing. This is true whether you're investing for the future or making current withdrawals to generate income.

I realize this answer might not be satisfying to you, and truly, I do not wish to appear cavalier or condescending about last week's market performance. This point is especially important if you've been with us only since 2009; I don't think such relatively new clients have ever seen their accounts fall like this past week. And if you're a brand-new client (having joined us this year), you've *only* seen your accounts fall (since that's pretty much all that the financial markets have been doing all year) – and this can be disconcerting, to say the least.

For sure, we know your accounts are vital to you, and whether you've been a client of Edelman Financial Services for decades, a few years, or just a few months, please be assured that we take very seriously our fiduciary obligation to give you the very financial planning and investment advice that is in your best interests. And that is why I want you to focus on the fact that, since 1926, the stock market has averaged a 10% gain per year – meaning that while some years (like this one, so far) aren't so good, in the long run you can have confidence.

Still, you might prefer some data that's a little more recent than 1926. Okay, then. Consider this: from 2009-2014, the S&P 500's average annual return was nearly 18%. That's nearly double the return since 1926.

In that context, it's hard to be upset about the fact that the S&P 500 is down 4.27% so far this year. After all, no one can realistically expect the stock market to generate double-digit returns *all* the time. You know that down markets occasionally occur. It's important to remember that such periods are nothing to be frightened about.

And yet, a few people are. They point to the news, which they say hasn't been good lately. The Chinese have cut the value of their currency, oil prices are falling, earnings reports from some big companies have been disappointing, the Fed is threatening to raise interest rates, Greece is threatening to default on its debt, and Puerto Rico already did. It's easy to be frightened into thinking that further market losses might occur.

But there's more to these stories that you need to be aware of:

- Yes, China has cut the yuan. But many economists note that the impact on the U.S. economy will be minimal. As a consumer, you'll likely notice that products made in China will become cheaper – which is good news for you.
- Yes, oil prices are falling – but that means you'll save even more money at the gas pump. Everyone who buys fuel wins – trucking companies, airlines, and homeowners reliant on oil to heat their homes. There are losers, too – mostly the energy companies that make money selling oil. (And here's the most ironic aspect of today's oil prices: when oil was trading over $100/barrel, some people were scared that the high prices would hurt consumers stuck with high gas bills. Now that oil is $40/barrel, those same people are fretting that drilling companies will lay people off. Some people just choose to always be unhappy.)
- Yes, some companies have released disappointing earnings reports. But these companies are nevertheless earning huge profits; Wall Street analysts simply expected them to be earning even more. Consider one big-name stock: it reported a 3-month profit of $11 billion, but its stock fell 7% on the news because analysts were expecting the company's profits to be even higher. You just can't please some people!
- Yes, the Fed says it's planning to raise interest rates – and that's why we've already positioned the bond portion of your EMAP account almost entirely into short-term and intermediate-term bonds. Our goal is to be a "step ahead" of the Fed, to help your account avoid losses due to increases in interest rates.
- Yes, Greece is threatening to default. But so what? They've been making that threat for nearly a decade. And so what if they do? Greece's economy is smaller than Connecticut's. You won't notice unless you're vacationing in Greece.
- Yes, Puerto Rico is in default. Unless you own that island's municipal bonds – which you don't, if you've been taking our advice – this will have no effect on you.

And yes, there's a lot of other news you probably don't even know about. The housing industry is one of the most important to our economy, so you ought to be aware of what's happening there:

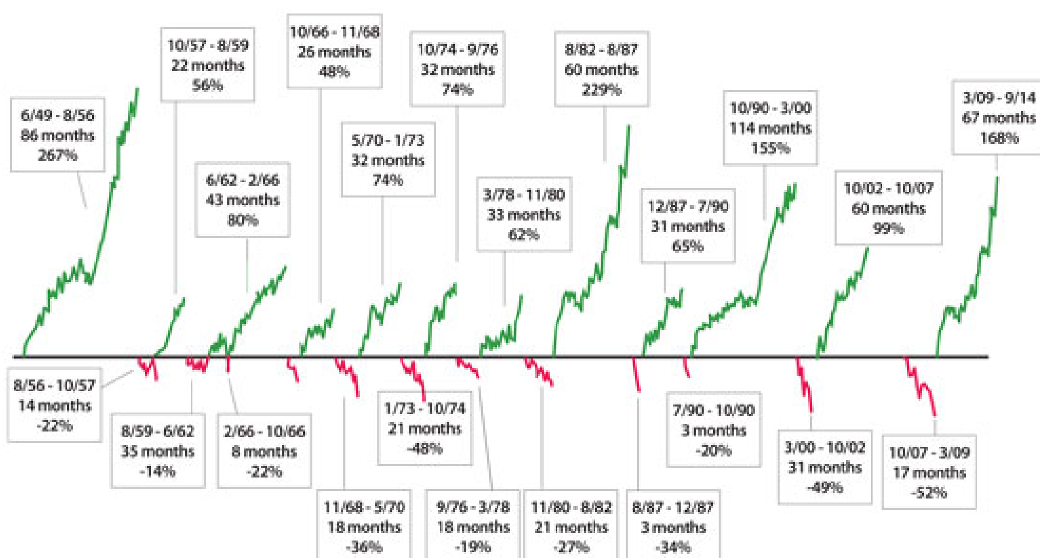
- According to the National Association of Home Builders, home builder sentiment is at the highest level since 2005.
- According to the National Association of Realtors, sales of existing homes are at the strongest pace since February 2007.
- According to the Commerce Department, housing starts are up 13% and now at the highest level since December 2007. Also, applications for permits to build more homes is up 16%.

In other words, Americans have been buying lots of houses. Builders are building lots more, and have filed paperwork to build even more after that. No wonder Barclay's has issued a research report saying that "construction activity is rising across the country, a positive signal about the health of the U.S. consumer and the overall economy."

If you need further reassurance, consider the chart below.* It shows the performance of the S&P 500 since 1926, highlighting periods when the market is rising and those when the market is falling. As you can see, bull markets last a long time and prices rise a lot, while bear markets are short-lived and incur only small price declines in comparison.

The Most Important Chart on Investing You'll Ever See

Change in the S&P 500 (1949-2014)



There's something else that this chart shows you. Every bull market is followed by a bear market. And every bear market is followed by a bull market.

In other words, since 2009 we've been enjoying rising prices. Now, for the moment, we're experiencing falling prices. Guess what will happen next?

Yes, you've seen this movie before, and you know how it ends.

Oh, and by the way, let's keep this most important fact in mind: you don't have all your money in the stock market. Thanks to the extensive diversification provided for you by the Edelman Managed Asset Program, your exposure to any one asset class is limited. This should give you additional confidence so you don't have to worry. This is even (or especially) true if you're retired and receiving monthly income from your EMAP accounts.

Meanwhile, we are taking advantage of today's market activity by rebalancing. In the past two weeks two-thirds of all our clients have had one or more of their accounts rebalanced, and recent market movements will likely create additional rebalance opportunities. In other words, we're working hard for you: we're closely monitoring your accounts and rebalancing opportunistically for you – taking advantage of current events. Your portfolio is designed to help you achieve your long-term financial goals, and we remain completely confident in this approach – even if prices fall further before resuming their usual upward trend.

So what should you do now? Focus on your situation and your long-term goals. Make sure you have the right amount in cash reserves, and please call your Edelman advisor if you have any questions, or if your goals or circumstances have changed. You should also consider adding to your accounts while prices are lower than they have been. And you can be certain that we will continue to keep you informed.

Thank you for allowing us to serve you.

Regards!

Ric Edelman
Chairman and CEO

P.S. Please share this letter with friends and family who might be nervous and invite them to call us – we're here to help!

*An index is a portfolio of specific securities (common examples are the S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance does not guarantee future results.

Investing strategies, such as asset allocation, diversification, or rebalancing, do not assure or guarantee better performance and cannot eliminate the risk of investment losses. All investments have inherent risks. There are no guarantees that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies.

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