Dear Client:

Here is our annual Year in Review letter for you. The entire letter follows, or you can just quickly scan this brief summary:

- Last week's decline in the U.S. stock market was largely blamed on news about the Chinese stock market, declining oil prices and news from Apple.
- We consider the U.S. market's reaction to these news stories to be illogical, and thus we expect the impact to be short-lived.
- Economic data, by contrast, shows our economy to be strong and growing.
- EMAP's investment results, while disappointing last year, were not nearly as bad as the returns produced by the world's financial markets, including stocks, bonds, metals & minerals and commodities.*
- EMAP's extensive diversification doesn't guarantee portfolio declines will never occur, but the diversification, along with our strategic rebalancing approach and careful management of your account, meant that your portfolio didn't fall in value as much as it otherwise would have.
- We introduced several new funds to your portfolio last year and made other changes that we believed proved worthwhile (details below).
- Expect volatility to persist for some time, and use this opportunity to stay focused on your goals. Talk to us about adding to your accounts or reducing withdrawals.
- See our list of 10 Action Steps below that you can take now to improve your personal finances during this volatile period.

Now, on to the letter!

At the start of each New Year, we always like to give you a review of the year just ended. But events of this past week force us to discuss last year later in this letter so we can focus first on what's happening right now. This letter, therefore, will tell you why the stock market fell last week, what we expect for 2016 and what all this means for you – and, most importantly, the action steps you should take right now to help you achieve your financial goals.

Last week amplified the fact that the past 24 months have not been kind to the financial markets. In fact, there has been more volatility in the past two years – and the last two weeks – than we saw in the four years prior to that. We realize that last week's decline – the S&P 500 fell 6% – has left more than a few people concerned.

Three primary events caused the market's decline last week: China, oil and Apple. Let's review each for you.

China. Its stock market is a capitalist system operating under the rule of a Communist government – an inherently conflicting environment. Capitalists believe in letting the market solve its own problems; Communists insist on controlling everything – through force if necessary. So when the Chinese stock market fell 7% last Tuesday, the regulators prevented further losses by simply closing their market. When prices again fell 7% on Thursday (just 30 minutes after opening!), the government again closed their stock exchange. Realizing the futility of playing whack-a-mole, Chinese regulators decided to let the exchange remain open on Friday even if prices fell more than 7% – and prices rose 2% that day. The Chinese stock market ended the first week of the year down 10%.

Should this affect U.S. investors? Not really. Although there are 1.4 billion people in China, compared to 320 million Americans, the U.S. economy is nearly twice as big as China's economy. And only 5% of our goods and services are bought by the Chinese – so even if China's economy completely stopped buying our goods and services, we'd experience only a small reduction in our Gross Domestic Product.

And is it possible that Chinese investors will continue to sell their stocks, causing further price declines? Quite possibly, and for a basic reason: their lack of investment experience. The Chinese stock market has been open for business only since 1990. It's one of the newest stock exchanges in the world. (The exchange is actually much older, but the Communists shut it down when they came to power, reopening it only 25 years ago.) In a nation of 1.4 billion people, only 400,000 owned Chinese stocks in 1990. Even today, only 7% of the Chinese population own stocks, according to Bloomberg, and most of them for only a few years.

By contrast, about 80 percent of American households own stocks, directly or indirectly via mutual funds, retirement accounts or pension plans. And, Americans have been investing for decades, far longer than the average Chinese investor. Our experience helps us understand volatility and not fear it. You remember the Crash of 1987. You remember the 2000 Dot-Com Tech Bubble. You remember the 2008 Credit Crisis. Your experience has taught you that the best course of action during occasional market blips is to…do nothing (meaning, stick with your plan). Don't panic. Don't sell. Instead, just wait (or take advantage and buy more) as history tells us that the crisis will pass, stock prices will return to prior levels and even beyond, and eventually, your account values should rise to new all-time highs.

But Chinese investors don't have the benefit of your experience. They lack context when they see the stock market fall 7% in a day. They get scared when they hear the government is shutting down the exchange. So when the exchange reopens the next morning, they quickly resume their selling – before the government shuts it down again.

Such are the growing pains of introducing a capitalist economy into a country governed by Communists. And it's quite possible that they will experience more pain before they learn how to benefit from their experiences.

All this suggests the possibility of big problems – if, that is, you are Chinese living and investing in China. But it's not so significant if you're an American living in the United States investing in American securities. Although we don't know how long the Chinese markets might be in turmoil, or how low their securities prices might go, we do know there's no reason to conclude that China's problems constitute a problem for you.

Oil. Everyone on Wall Street seems to be upset that oil prices are low. Declining oil prices are being blamed for part of the decline in the U.S. stock market. Frankly, we don't understand the angst. A few years ago, when gasoline was $4/gallon, Wall Street was complaining that high energy prices were going to destroy the American economy. Oil reached $145 a barrel. Today, the price is $33/barrel and falling. As a result, you're paying less than $2/gallon for gasoline. Home heating oil is the cheapest it's been since you can remember. Airlines are saving billions of dollars in fuel costs. Ditto for industrial companies that buy oil to operate their businesses.

True, oil drillers and related companies are experiencing reductions in profit, but is that justification for causing the entire U.S. stock market to fall in value? We don't think so.

And consider this: Do you remember when the federal government mailed you a $300 check in 2008? The payment was part of the government's stimulus package to help us recover from the 2008 Credit Crisis. Uncle Sam spent $108 billion on that program.

By comparison, today's low gasoline prices are saving the average U.S. household $750 per year in gasoline costs – 25% more than the amount the government sent to jump-start the economy in 2008. If a $300 gift was good then, shouldn't $750 be great now?

Wall Street was unhappy when oil prices were high, and Wall Street is unhappy now that prices are low. Sorry, but Wall Streeters can't have it both ways. It's as if Wall Street is simply in a bad mood, and its glass-half-empty attitude leaves it no ability to be content even when there's little economic justification for its attitude. Eventually, Wall Street will come to its senses; we just have to wait it out.

Apple. The company announced last week it is cutting production of iPads by 30%. Its stock fell 8%. Ok, we get that: bad news = a lower stock price. But does it make sense that Colgate would fall 6%? What does lower sales of tech products have to do with toothpaste sales?

Obviously, the answer is not economic; it's psychological. *Herd mentality* causes people to move in tandem – whether or not they should. When Apple made its announcement, investors heard the message, "Sell your stocks!" when the message they should have heard is, "Don't own one or a few individual stocks! Own thousands of them in case one has bad news!"

China. Oil. Apple. All are contributing to current declines in U.S. stock prices. But none warrant the attention they are getting, and none will remain in the news for long. Just as Greece once dominated economic worries, some other issue will replace China, oil and Apple. (And by the way, the global catastrophe that Greece was supposed to create never happened. It will be the same with China, oil and Apple.)

One thing is certain though: China, oil and Apple helped create volatility in your account last week. Volatility can be unnerving, so we want to reassure you of something important: *Volatility does not translate into "loss."*

Here's what we mean: Your account value today is lower in value compared to last week. But you haven't incurred a loss. A loss happens only if you sell while prices are lower. If you wait and prices recover, you'll have experienced no loss at all.

So here's our message for you: Despite this period of volatility, the U.S. economy is doing well. Consider these data:

- Unemployment levels are dramatically lower than they were in 2009, and the December jobs report (which indicates nearly a quarter of a million more Americans got jobs last month) shows that this upward trend is continuing;
- Home values are sharply higher: Single-family home prices in 40% of the nation's metropolitan areas have reached all-time highs, according to the CoreLogic Case Shiller Home Price Index – the first time this has occurred since 2007;
- Consumer confidence is also very high, demonstrated by data from MasterCard revealing that 2015 holiday spending was 8% higher than 2014 – suggesting that Americans have more money than they did a year ago and greater confidence about their job security; and
- Inflation remains very low – at 0.5%, the 2015 inflation rate ended far below the average of 4% over the past 50 years. There's no evidence inflation will be much different in 2016.

Unfortunately, the financial markets didn't care about any of this last year – or last week. Despite the positive economic data shown above, pretty much every asset class has performed poorly. Consider these 2015 results:

- U.S. Stocks:
    - The NYSE Composite Index (a list of 1,900 U.S. and foreign companies tracked by the New York Stock Exchange) ended the year down 4%.
- Foreign Stocks:
    - Of the 88 countries with established stock markets, 70% of them lost money in 2015, according to Bloomberg. The average loss was 4.4%.
- Bonds:
    - The Barclay's Global Aggregate Bond Index fell 3.5% for the year, the 10-Year U.S. Treasury Note fell about 1%, and U.S. High-Yield Bonds fell 4.5%, according to Morningstar.
- Minerals and Precious Metals:
    - The average return for the seven major minerals and metals (aluminum, copper, gold, lead, nickel, silver and zinc) was -19%, according to Bloomberg.

- Commodities:
  - The average return for the nine most liquid commodities (bean oil, cocoa, coffee, corn, cotton, live cattle, soybean, sugar and wheat) was - 11% according to Bloomberg.
- Energy:
  - Natural gas fell 19% last year, while oil prices were down 30%, according to Bloomberg.

So, add it all up: Globally, stocks were down 4.3%. Bonds were down 3.5%. Metals were down 19%. Energy down 25%. Commodities were down 11%. If you owned all these in equal amounts, your portfolio would have lost 13% last year.

If you were fully invested with us for all of last year, your EMAP portfolio did not experience losses like that. Even so, we're not thrilled with the return of your portfolio last year. And I say that as a fellow investor, because Jean and I (and all the financial planners of Edelman Financial) have our personal investments in EMAP alongside you. But compared to the global markets, we're pleased with how EMAP fared and we remain as confident as ever that EMAP will deliver the returns we want long-term.*

And that really is the most important point – although it took me 24 paragraphs to get here. While it's natural to look each January at the year just ended, we need to remind ourselves that looking at the last 12 or 24 months is really rather pointless – and can even be dangerous.

First, a year-end look is arbitrary. I bet you didn't look at "the last 12 months" as of your birthdate. So why are we looking at the last 12 months as of December 31? There's no real logic to it. (For example, the stock market's return for the 12 months ending July 2015 was +4%, but the 12 month period starting/ending just one month later was -6%! Instead of $100 growing to $104, it fell to $94! Quite a difference!)

Second, and more importantly, looking at *any* 12 or 24 month period is dangerous. As the 2008 Credit Crisis proved, anything can happen in a year or two. That's why it's vital you maintain a long-term perspective when looking at investment results.

Third, remember history tells us that your portfolio will rise and fall in the short-term *as it rises long-term*.

This message is particularly important if you opened your EMAP account in the past year or two, or if you've added money to your accounts in the past 24 months. Anyone with a short history can get accidentally swayed by short-term data – and if you don't guard against this tendency, you might make a bad decision. You're far better off staying focused on your goals and sticking to your plan.

This message is also important if you are retired and concerned that you can't afford to wait for markets to recover. Don't place too much emphasis on recent results, or extrapolate them by imagining that last week will be repeated every week for the entire year. So if you have any concerns, call us. (There's no need to fret alone – that's why you have us.)

No one can predict what will happen in 2016. But we can say with certainty that many issues will dominate the news and the markets this year. And two are certain to capture lots of attention: interest rates and the Presidential election. Let's talk about them.

Interest Rates. We have long warned you that the Federal Reserve would raise interest rates, and it did so last month. There is broad consensus among economists and market analysts that interest rates will continue to rise. This will cause further losses in long-term bonds and put pressure on other aspects of the economy – and in future updates we'll share more about these developments with you. For now, we want to reassure you that we have already reduced interest-rate risk in your EMAP portfolio by shortening the maturity and duration of the bonds held in your portfolio. This minimizes your exposure to long-term bonds while maintaining a diversified exposure that includes U.S. Government Securities, corporate bonds and foreign bonds. As a result, further interest rate increases, if any, won't cause substantial declines in the fixed-income portion of your portfolio.

The Election. The markets will want to know that the next president supports economic and business growth. That said, and as I explained in detail in my book, *The Truth About Retirement Plans and IRAs,* presidents don't affect the markets nearly as much as people think. And no matter who wins, about half the country (maybe including you) will be unhappy. If your candidate doesn't win, please don't conclude that the stock market will crash. It won't (at least, not solely for that reason) and you should avoid taking rash actions – like putting all your money into gold and burying it in the backyard (yes, we've already had calls from some clients worried about the election, with one swearing he'll move overseas if so-and-so wins).

So, our New Year's message for you is simple: **Don't let last year's (or last week's) market activity cause you any undue concern.** Be reassured that the extensive diversification we provide you is helping you achieve your long-term goals. And although the returns for 2015 weren't what anyone wanted, it's important to put last year into proper context.

And, you can be sure that we're not idle during these times. As we have reported to you, 2015 was a very busy year for us in the management of your portfolio. Here are some highlights for you:

- Always concerned that your portfolio features the market opportunities you need, we were instrumental in the creation of two new Exchange-Traded Funds that we ultimately added to many EMAP portfolios:

- **iShares Exponential Technologies ETF** (ticker: XT), launched by BlackRock last March. We sought to have XT created as a result of my studies in the field of exponential technologies over the past five years. Although there are many funds investing in the Information Technology sector, they are invested solely in IT *developers* like Microsoft, Intel and IBM, according to Morningstar. None invest in the *users* of IT, and none emphasize exponential technologies. XT is being hailed in the investment community as a truly unique investment opportunity.
- **SPDR S&P North American Natural Resources ETF** (ticker: NANR), created by State Street in December. Creation of NANR resulted from our analysis that your EMAP portfolio had become too heavily weighted in energy, because 85% of the natural resources fund previously used by EMAP consisted of oil stocks. By contrast, NANR has just 45% of its portfolio in oil. When we looked for a fund with better diversification across natural resources, we could not find one, so we sought to have a fund created that would be more appropriate for your needs. Getting it created and using it to replace your former holding allowed us to achieve a goal otherwise unavailable: A material reduction in exposure to oil stocks for you, along with a simultaneous increase in exposure in other natural resource sectors while those prices are down.

Whenever we add or change funds to your EMAP portfolio, we strive to improve your diversification, lower your risk and reduce portfolio expenses. Neither I nor Edelman Financial earns any fee from iShares or State Street for the development or management of the new ETFs. We simply wanted these funds brought to market because we consider them important for your portfolio and we could not find anything like them in the marketplace.

- At the same time we introduced XT, we also improved EMAP's international line-up. For almost all our clients, we replaced the DFA Emerging Markets I (ticker: DFEMX) with the DFA Emerging Markets Core Equity I (ticker: DFCEX). We also added exposure to the Emerging Market Small Cap sector for many clients by adding the DFA International Small Cap Value I (ticker: DISVX).

As with the addition of XT and NANR, these improvements were designed to broaden your diversification and reduce your investment risk. Of course, we cannot promise that there will be such benefits in the future, as past performance does not guarantee future results.

- Because we examine your EMAP accounts every business day, we were able to identify opportunities to rebalance your portfolio last year during periods of volatility. In doing so, we were able to sell shares of the best performers and buy shares of the underperformers. Our daily strategic rebalancing review is designed to help us do this for you.

- The addition of NANR created a "tax-loss harvesting" opportunity for some clients, for whom we were able to generate tax deductions. This couldn't be done for all clients, but we evaluated every EMAP account, including yours, to see if the strategy was viable. When it was, we executed it for you. It's another way we seek to reduce taxes for you while maintaining your portfolio's integrity. (Be aware that 2015 capital gains distributions from your taxable EMAP account might be higher than usual, both because of trading that resulted by adding XT & NANR, and market volatility. If you have any questions about what to expect, talk with your Edelman planner.)

Looking ahead to 2016, here are actions you can take to improve your personal finances. Please consider these ideas and talk with your Edelman planner about them:

1. **Make sure you're contributing the maximum to your retirement plan at work**. If you're unsure of how to best handle your workplace plan, call us.
2. **Likewise, add to your EMAP accounts**. Prices are down or flat from a year ago – a perfect opportunity to invest before prices rise. One could even say that the markets are "on sale!"
3. **Refinance before interest rates rise further**. You still have the chance to lock-in a 30-year fixed rate mortgage at 4% or thereabouts. You're unlikely to see such low rates again, so talk to us about your home and mortgage so we can evaluate your situation for you and provide advice that's in your best interest.
4. **Review your estate documents**. If you haven't read your will and trust documents in five years, go read them. You might be surprised by what they say! Also make sure you have the proper ancillary documents, including a living will and powers of attorney. Also verify that your beneficiary designations are current, correct and complete on your retirement plans, IRAs, annuity contracts and life insurance policies.
5. **Where are your legal documents**? Make sure your executor, trustee or attorney-in-fact has copies or knows where the originals are located. And give them – your tax preparer and your attorney – our contact information because they'll need our help to manage your estate.
6. **You can donate money to charity directly from your IRA**. Congress extended these rules, which can save money for those over age 70½ if you make annual gifts to charity. Talk to us about how to do this.
7. **Maintain adequate cash reserves**. A year like 2015 reminds us of the need to have cash on hand to reduce the risk you might need to make a withdrawal while prices are down. If you're not sure your reserves are sufficient, call us.
8. **Are you regularly withdrawing funds from your portfolio?** If so, see if you can reduce those withdrawals during periods of volatility like this. We can help you figure this out.
9. **Social Security changes coming in May**. One strategy that can increase your retirement benefits disappears soon, so if you will be age 66 by April 30 and haven't yet filed for benefits, or if you recently filed for benefits, please call us to discuss your options.

10. **Tell your children about the Tax Savers Credit**. This law, passed last year, lets single filers and lower-income families cut their taxes when making contributions to an IRA or workplace retirement plan. If you have kids or grandkids new in their careers, have them call us to learn more.

We wish the first week of the year started on a more upbeat note. Although it didn't, we remain upbeat – upbeat about our commitment to serving you and our gratitude for the privilege you've granted us. Be assured we will continue to monitor your investments closely, make changes as warranted and keep you informed. We'll stay in touch with you, and in the interim please let us know if you need anything.

Regards!

Ric Edelman
Chairman and CEO

* The S&P 500 index, MSCI EAFE Index, and the Barclays Aggregate Bond Index are used when evaluating individual account performance. To get a copy of the benchmarks and performance of your individual account please contact your planner.
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