Dear Client,

Ten days ago, we sent you a market update after the first week of the New Year produced the worst "first-week" results in stock market history.[1] Although we noted that volatility would likely continue for a while, we reassured you about your diversified, long-term strategy in the Edelman Managed Asset Program.®

Sure enough, the markets have continued to fall in value since you received our letter. It's natural to be concerned, so we want to again offer you this note of reassurance. If you need it, you're not alone – in its latest survey, the American Association of Individual Investors shows that only 18% of investors surveyed believe stock prices will rise. That's the lowest score in almost 11 years! The good news: History tells us that when so many people are convinced prices will fall, prices usually start to rise instead – something Wall Street calls "climbing the wall of worry."

The media is offering bad news, so you might not be aware that there's lots of good news, too. Consider these facts:

- New data from the Institute for Supply Management data shows the U.S. service sector is stronger now than it was when oil prices peaked two years ago. This is important since the service sector is over 80% of the U.S. economy.
- Although U.S. exports get lots of media attention, the U.S. economy is less dependent on exports than virtually all other large economies. In fact, according to the Export-Import Bank, exports account for only 13% of our overall economy – and only 7% of *that* goes to China. (In other words, less than 1% of our total economic output is exported to China.) So even if all exports to China completely stopped (an extreme scenario), the impact on our economy would be quite limited.
- Consumers represent two-thirds of the U.S. economy, and we all benefit from lower oil prices. Remember when gas cost $4 a gallon? It's now closer to $1 – and still falling. Great news for consumers! (It's also great news for every industry that buys oil. No wonder airlines have posted in Q4 their biggest profits in decades!)
- Despite lamentations of price reductions, the U.S. economy is still growing; it's just that our growth isn't as high as it was. Regardless, many analysts still expect the economy to grow 2% to 3% in 2016. There's no recession in sight.[2]
- The lower stock prices go, the cheaper they get – meaning the better the bargain to buy them. If you have the ability to add to your accounts, now is an excellent time to consider doing so.

So, we believe the long-term prospects remain favorable. What should you do? Here are our recommendations:

EDELMAN map managed asset program

<u>If you do not plan to spend the money in your accounts for three years or more:</u>
Take no action. Remember that your portfolio in the Edelman Managed Asset Program® is highly diversified. That approach, along with our rebalancing strategy, will continue to help control volatility for you. We believe these times represent a great opportunity to buy additional shares.

<u>If you plan to spend the money or start withdrawals in less than three-to-five years:</u>
If you have told us of your plans, then you need to take no action. We have analyzed your EMAP portfolio to confirm that your allocation is appropriate for you, and we will either make adjustments if needed or contact you to discuss the matter. However, if your situation has changed since the last time you've talked with us, please contact your Edelman planner.

<u>If you are already withdrawing money on a monthly or annual basis:</u>
Withdrawing money means selling shares — and shares sold won't exist when prices recover. But remember your plan anticipated your need for income. Discuss your current rate of withdrawal with your planner to determine if needed and where possible; you may consider reducing the amount and frequency of withdrawals from your EMAP portfolio during periods like this. It is better to reduce expenses where possible and use other resources, such as cash reserves, to supplement spending needs. If you need assistance with this, please contact your Edelman planner.

<u>If you are glued to the TV, radio or Internet, watching events unfold by the minute:</u>
Stop it! The media is feeding the fear and their news reports serve you no useful purpose. Binge on past episodes of *Downton Abbey* instead (and when Lord Grantham gambles his wife's fortune on a Canadian railway scheme, you'll be able to say, "*tsk tsk"* at his foolishness).

You can be certain we will keep you informed. As always, let us know if you have any questions or concerns.

Regards!

Ric Edelman
Chairman and CEO

P.S. If your friends or family members have expressed worry about their investments, please invite them to call us. During times like these, people need solid financial advice and we're happy to help them.

Ric Edelman, Chairman and CEO of Edelman Financial Services LLC, a Registered Investment Advisor, is an Investment Advisor Representative who offers advisory services through EFS and is a Registered Principal of and offers securities through Sanders Morris Harris LLC., an affiliated broker/dealer, member FINRA/SIPC.

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.

[1]Vigna, P. (2016, January 8). Stock Market Puts in Its Worst Opening Week Ever. Retrieved January 21, 2016, from http://blogs.wsj.com/moneybeat/2016/01/08/stock-market-puts-in-its-worst-opening-week-ever/

[2]Smoothed U.S. Recession Probabilities. (n.d.). Retrieved January 21, 2016, from https://research.stlouisfed.org/fred2/series/RECPROUSM156N