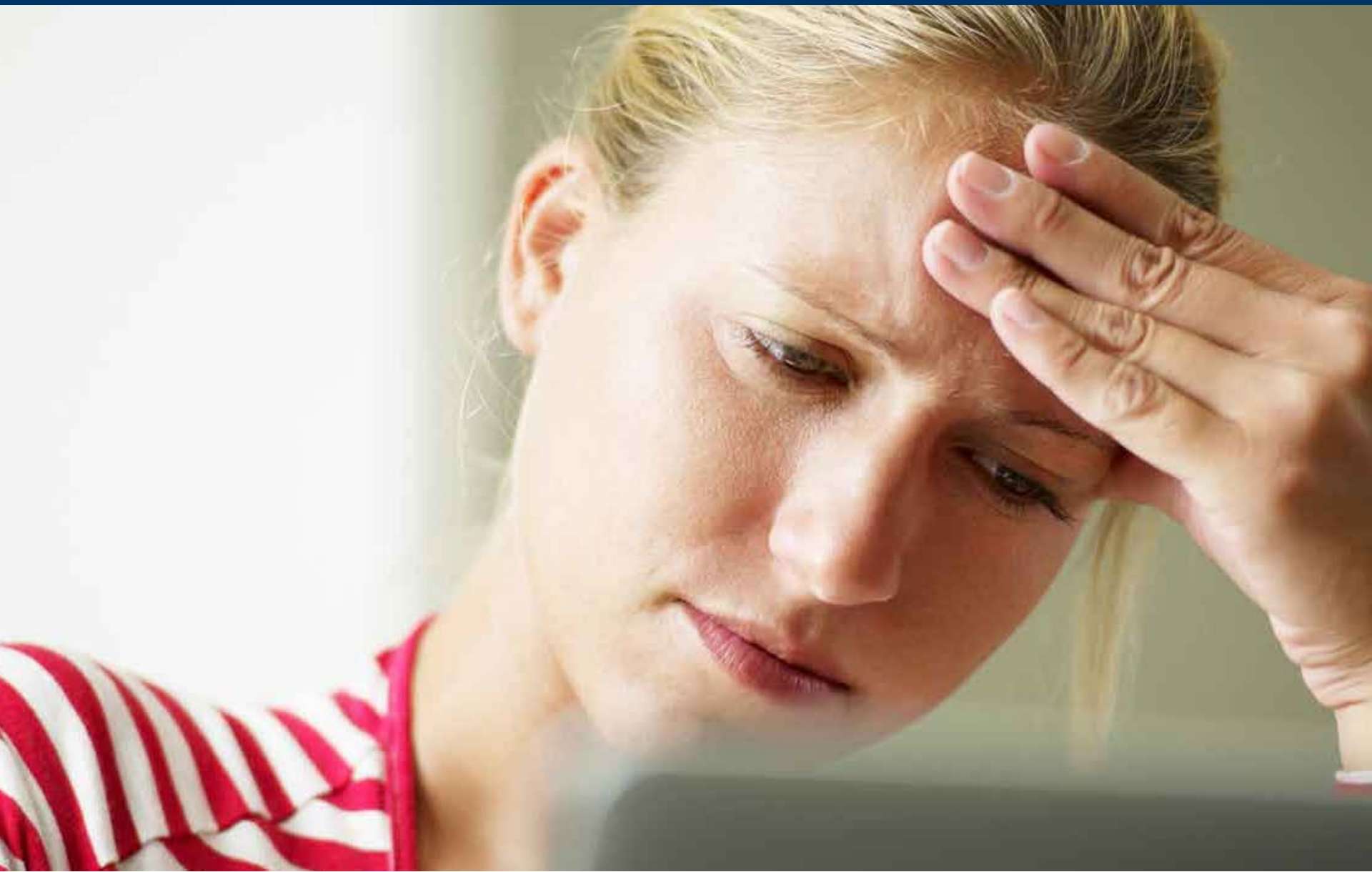


# BEYOND THE NUMBERS

Brad McMillan, CFA<sup>®</sup>, CAIA, MAI  
Managing Principal, Chief Investment Officer  
Commonwealth Financial Network<sup>®</sup>

# THINGS WE WORRY ABOUT



# WEAK DOLLAR





# HIGH OIL PRICES



# CHINA: RISING



# **U.S. RECESSION**





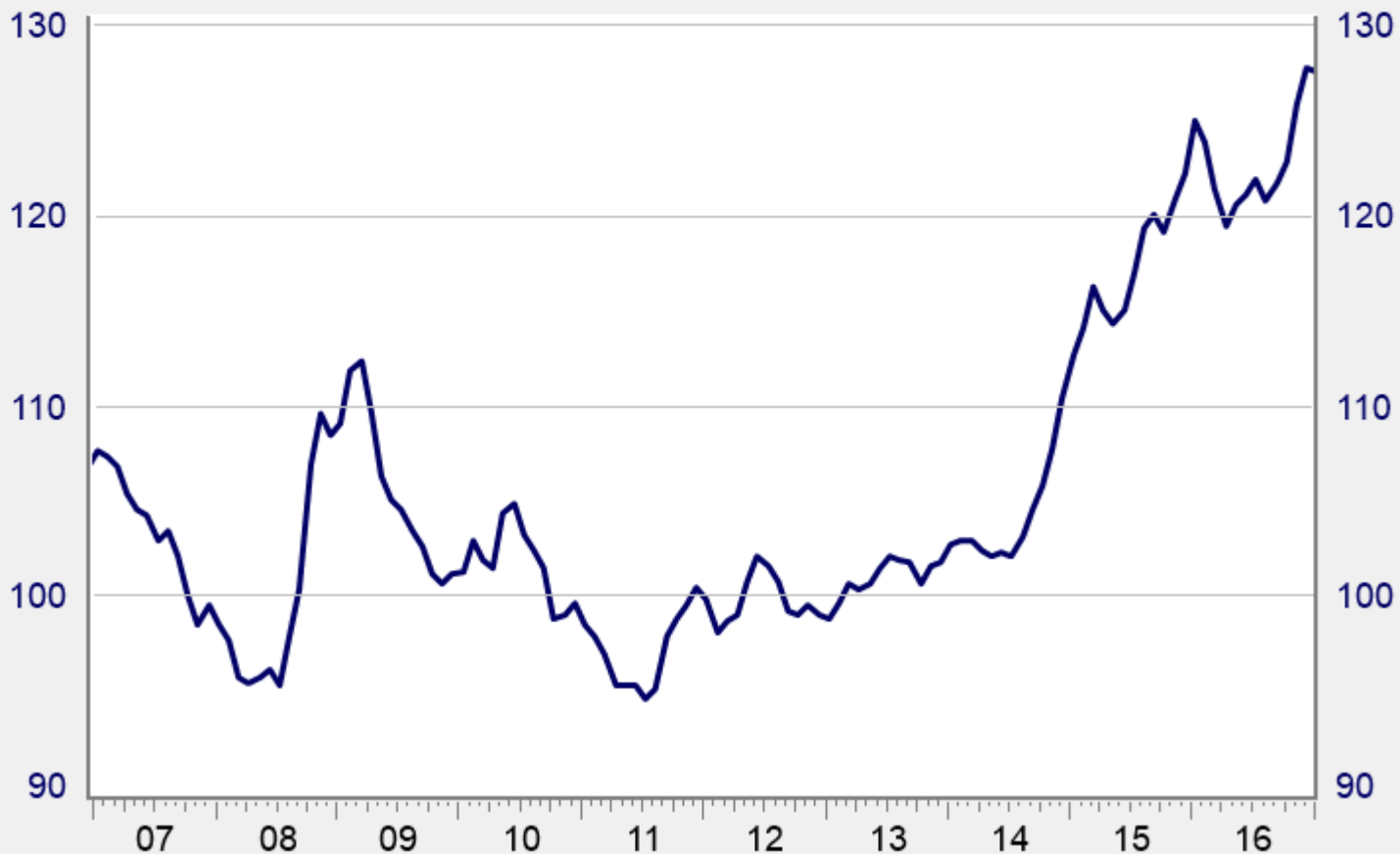
**MORE  
THINGS  
WE WORRY  
ABOUT**



# STRONG DOLLAR

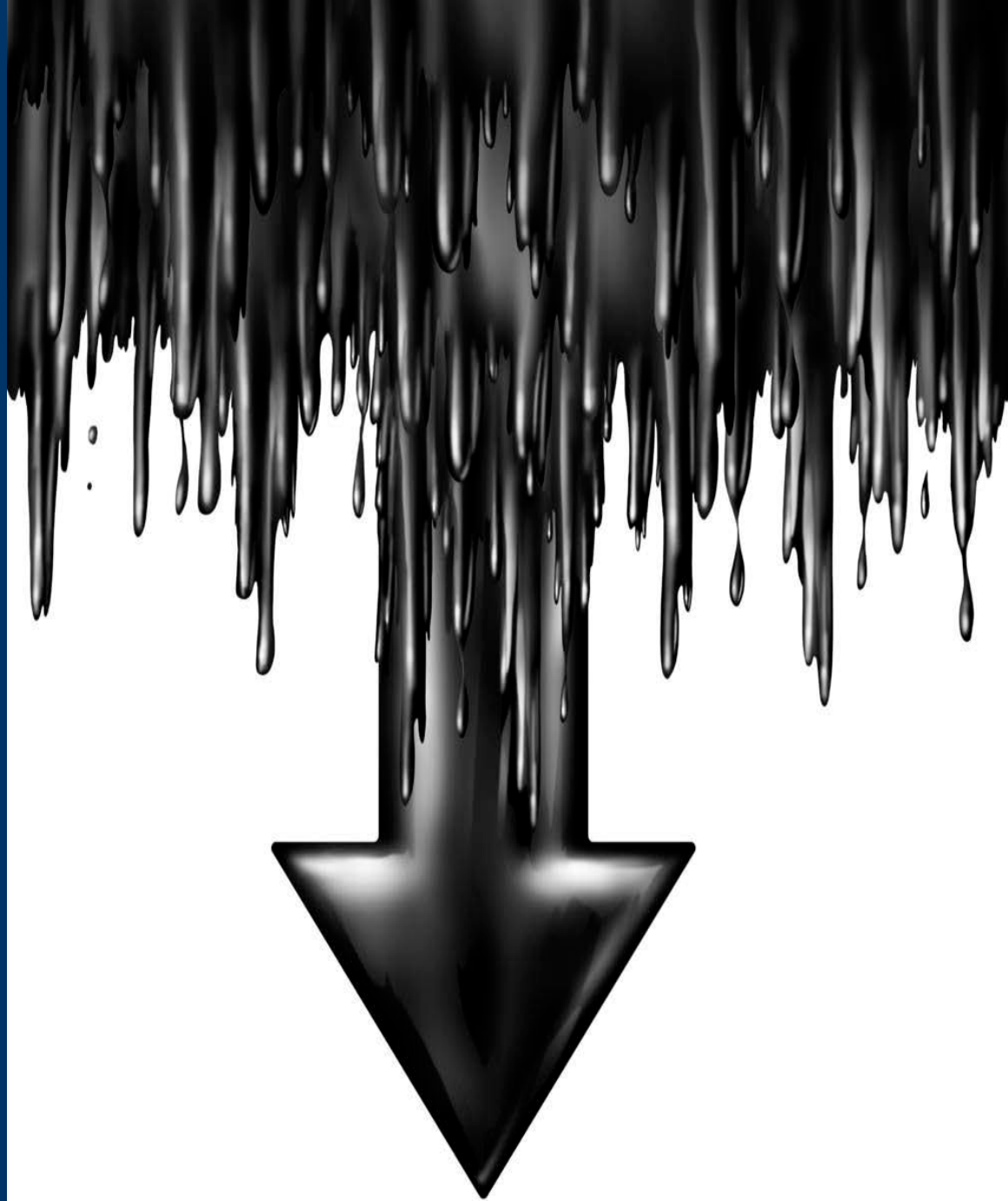
Nominal Broad Trade-Weighted Exchange Value of the US\$

Jan-97=100

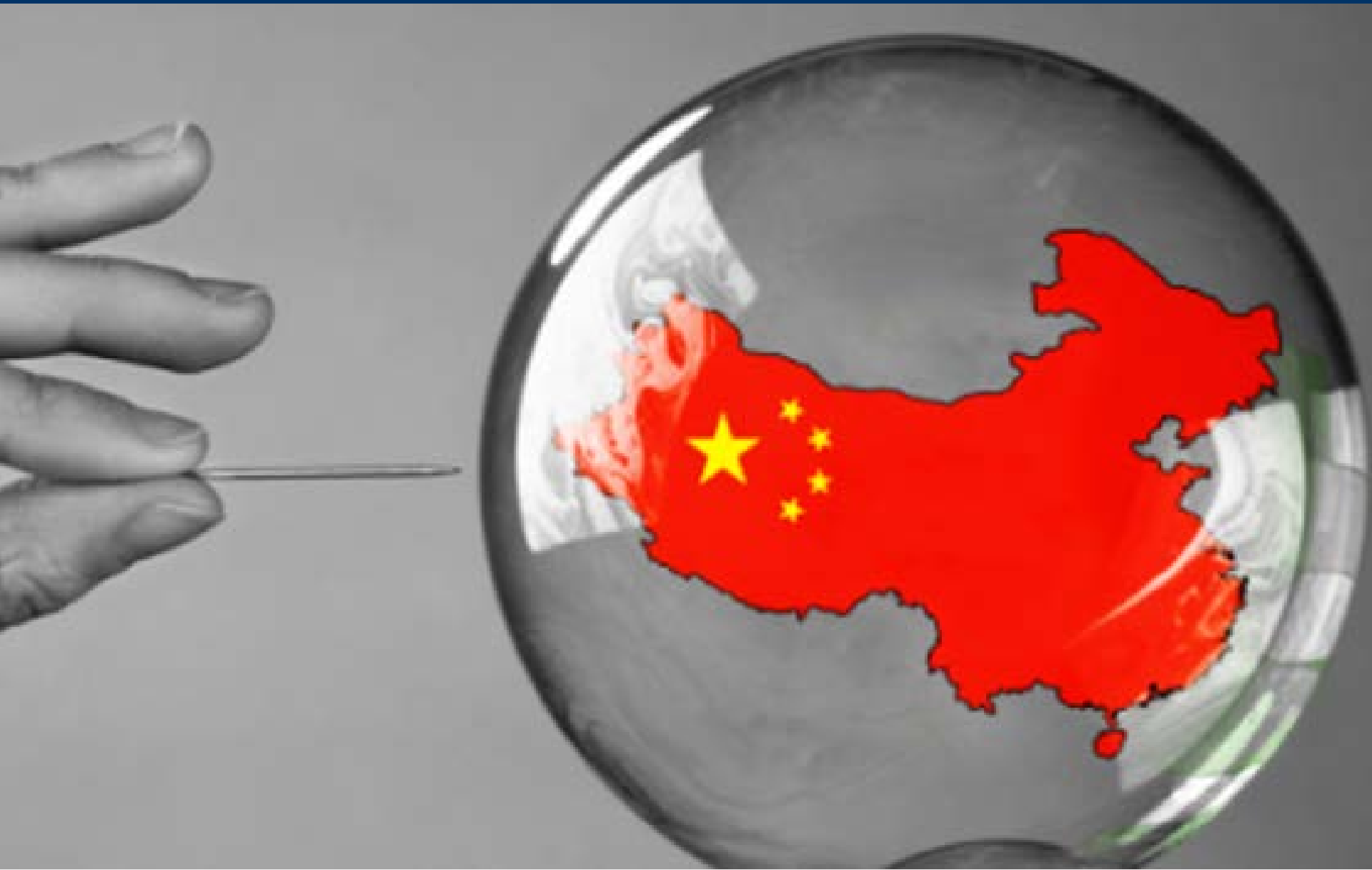




**LOW OIL PRICES**



# CHINA: FALLING



# GLOBAL RECESSION



IT'S NOT  
*SHOULD* WE  
WORRY . . .





IT'S *WHAT* WE SHOULD WORRY ABOUT



**WATCH OUT FOR BEAR MARKETS**



# WHERE BEAR?

## Characteristics of Bull and Bear Markets

MARKET CORRECTIONS	BEAR MARKETS			MACRO ENVIRONMENT				BULL MARKETS		
	Market Peak	Bear Return*	Duration (months)*	Recession	Commodity Spike	Aggressive Fed	Extreme Valuations	Bull Begin Date	Bull Return	Duration (months)
<b>1. Crash of 1929:</b> Excessive leverage, irrational exuberance	Sep 1929	−86%	33	◆			◆	Jul 1926	152%	38
<b>2. 1937 Fed Tightening:</b> Premature policy tightening	Mar 1937	−60%	63	◆		◆		Mar 1935	129%	24
<b>3. Post-WWII Crash:</b> Post-war demobilization, recession fears	May 1946	−30%	37	◆			◆	Apr 1942	158%	50
<b>4. Flash Crash of 1962:</b> Flash crash, Cuban Missile Crisis	Dec 1961	−28%	7				◆	Oct 1960	39%	14
<b>5. Tech Crash of 1970:</b> Economic overheating, civil unrest	Nov 1968	−36%	18	◆	◆	◆		Oct 1962	103%	74
<b>6. Stagflation:</b> OPEC oil embargo	Jan 1973	−48%	21	◆	◆			May 1970	74%	32
<b>7. Volcker Tightening:</b> Whip Inflation Now	Nov 1980	−27%	21	◆	◆	◆		Mar 1978	62%	33
<b>8. 1987 Crash:</b> Program trading, overheating markets	Aug 1987	−34%	3				◆	Aug 1982	229%	61
<b>9. Tech Bubble:</b> Extreme valuations, dot-com boom/bust	Mar 2000	−49%	31	◆			◆	Oct 1990	417%	115
<b>10. Global Financial Crisis:</b> Leverage/housing, Lehman collapse	Oct 2007	−57%	17	◆	◆	◆		Oct 2002	101%	61
<b>CURRENT CYCLE</b>								Mar 2009	202%	83
<b>AVERAGES</b>	-	−45%	25					-	151%	53

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.

\*A bear market is defined as a decline of 20% or more from the previous market high. The bear return is the peak-to-trough return over the cycle. Periods of "recession" are defined using NBER business cycle dates. "Commodity spikes" are defined as significant, rapid upward moves in oil prices.

Periods of "extreme valuations" are those when the S&P 500's last 12 months' P/E levels were approximately two standard deviations above long-run averages. "Aggressive Fed tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. *Guide to the Markets – U.S.* Data is as of December 31, 2015.

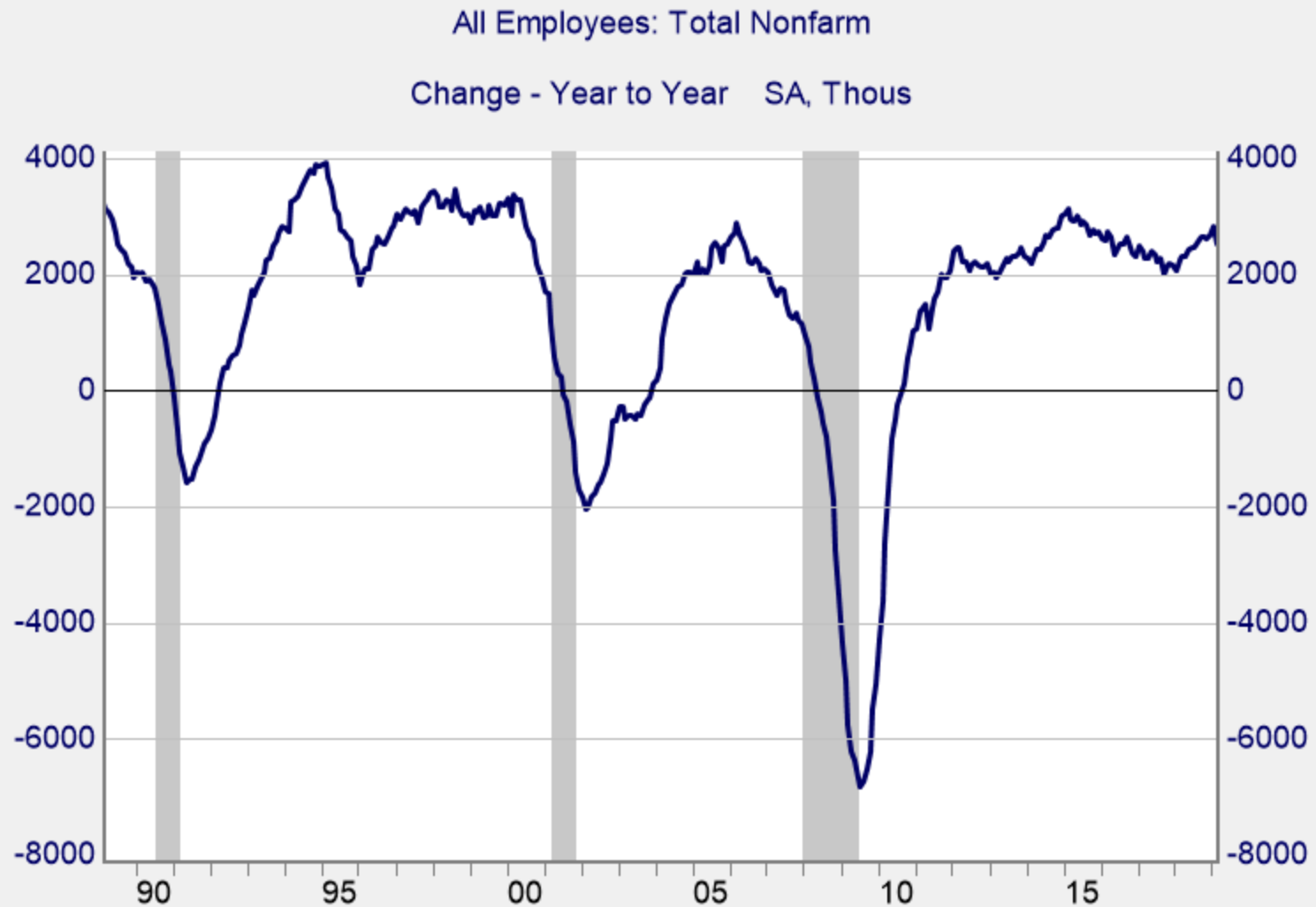
# WHAT REALLY MATTERS (IN ECONOMICS)

- **Jobs**
- **Consumer confidence**
- **Business confidence**
- **Interest rates**

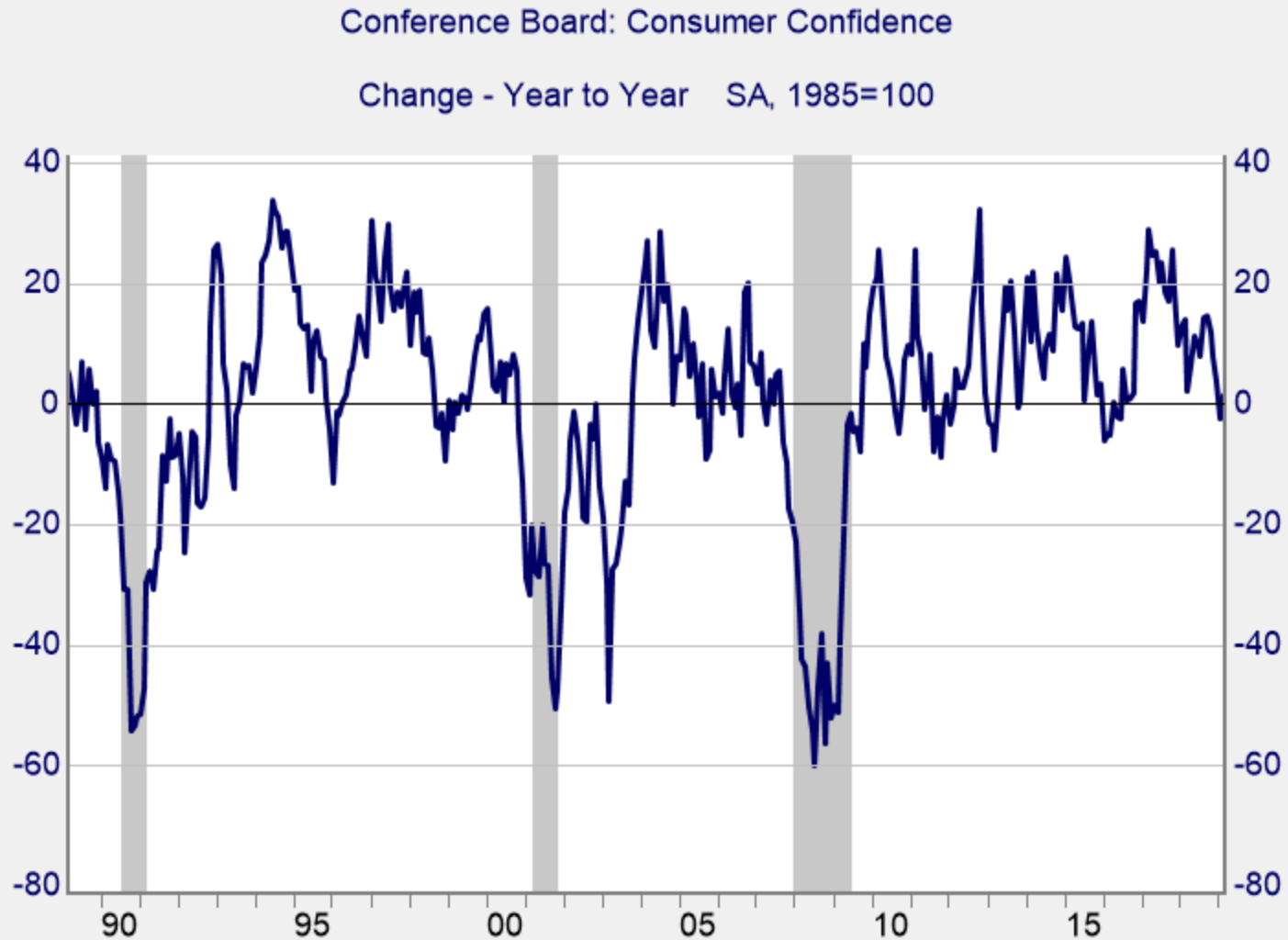




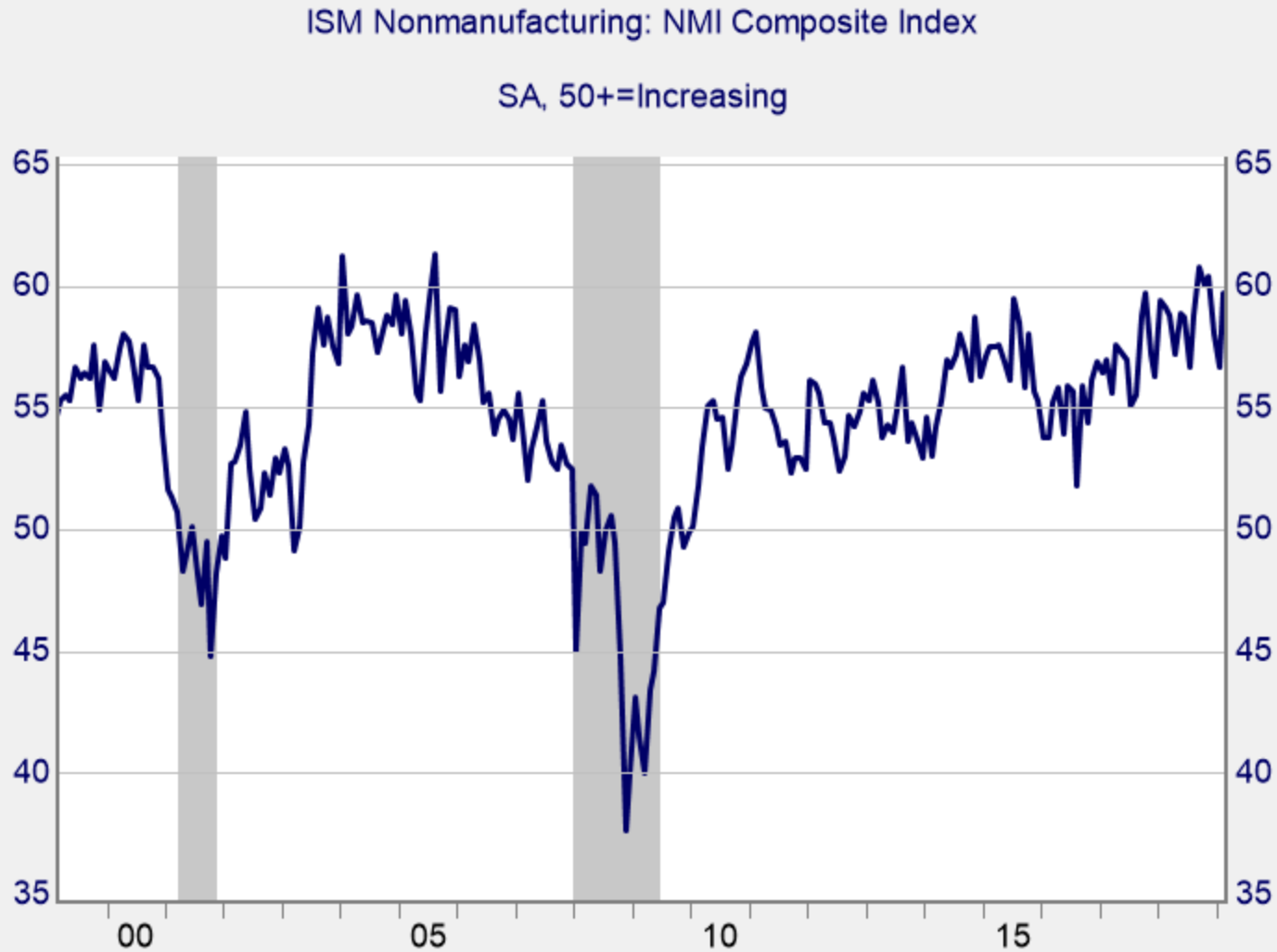
# JOB GROWTH



# CONSUMER CONFIDENCE

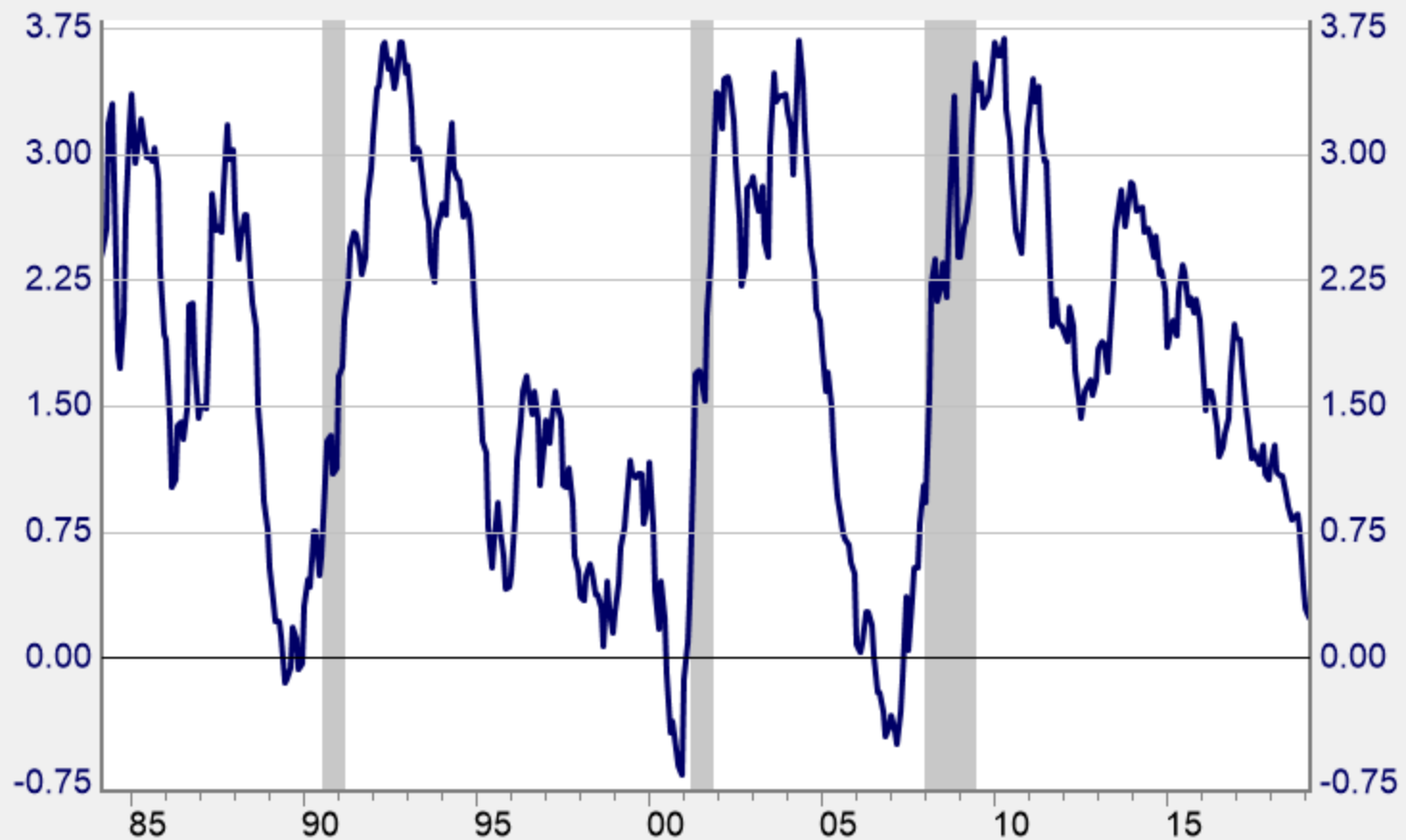


# BUSINESS CONFIDENCE



# INTEREST RATES

Yield Curve (10-year minus 3-month US Treasury rates)





**WHAT DOES  
THIS MEAN  
FOR US?**



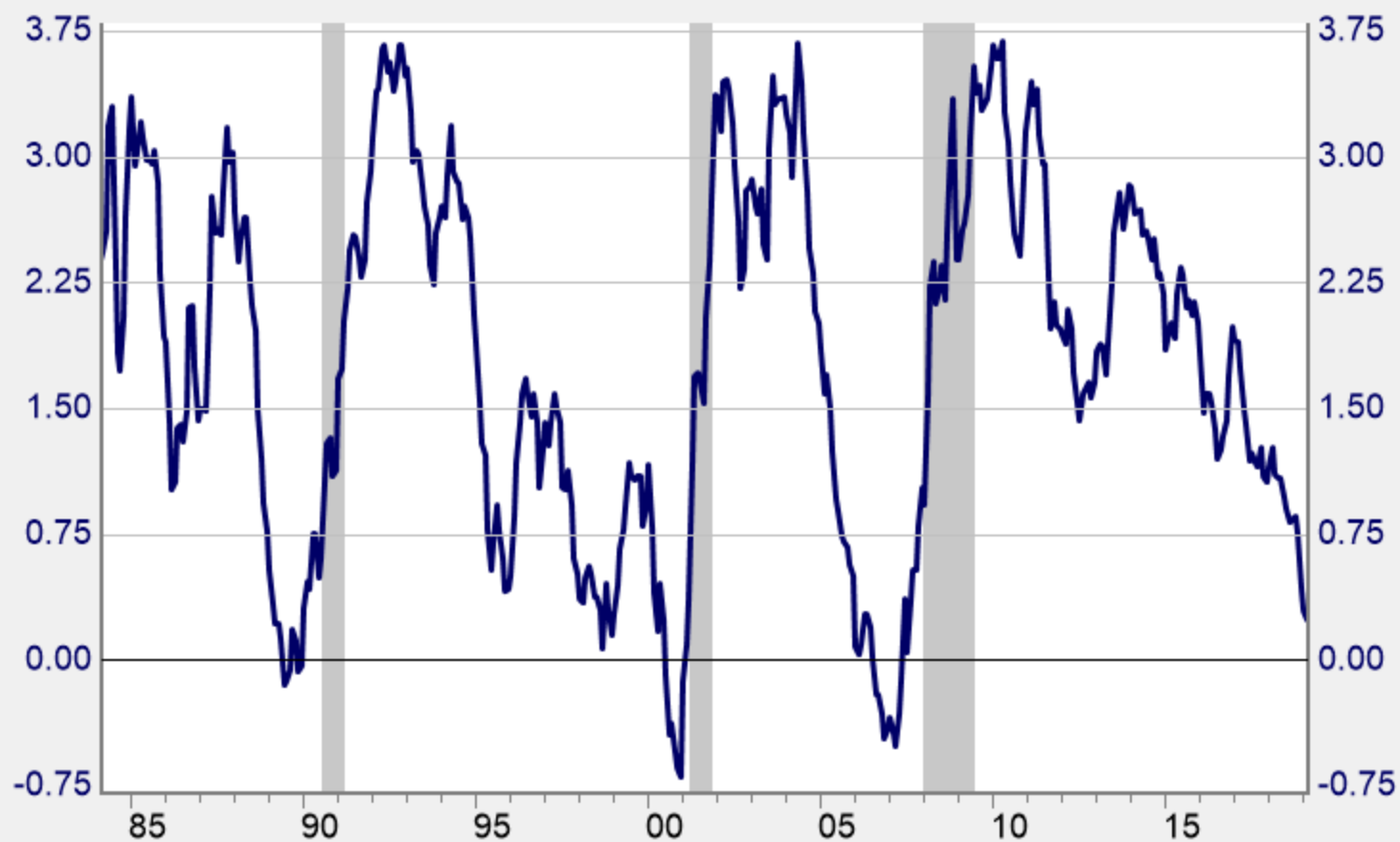
# U.S. ECONOMY: LEADING INDICATORS STILL GREEN

- **Jobs**
- **Consumer confidence**
- **Business confidence**
- **Interest rates**

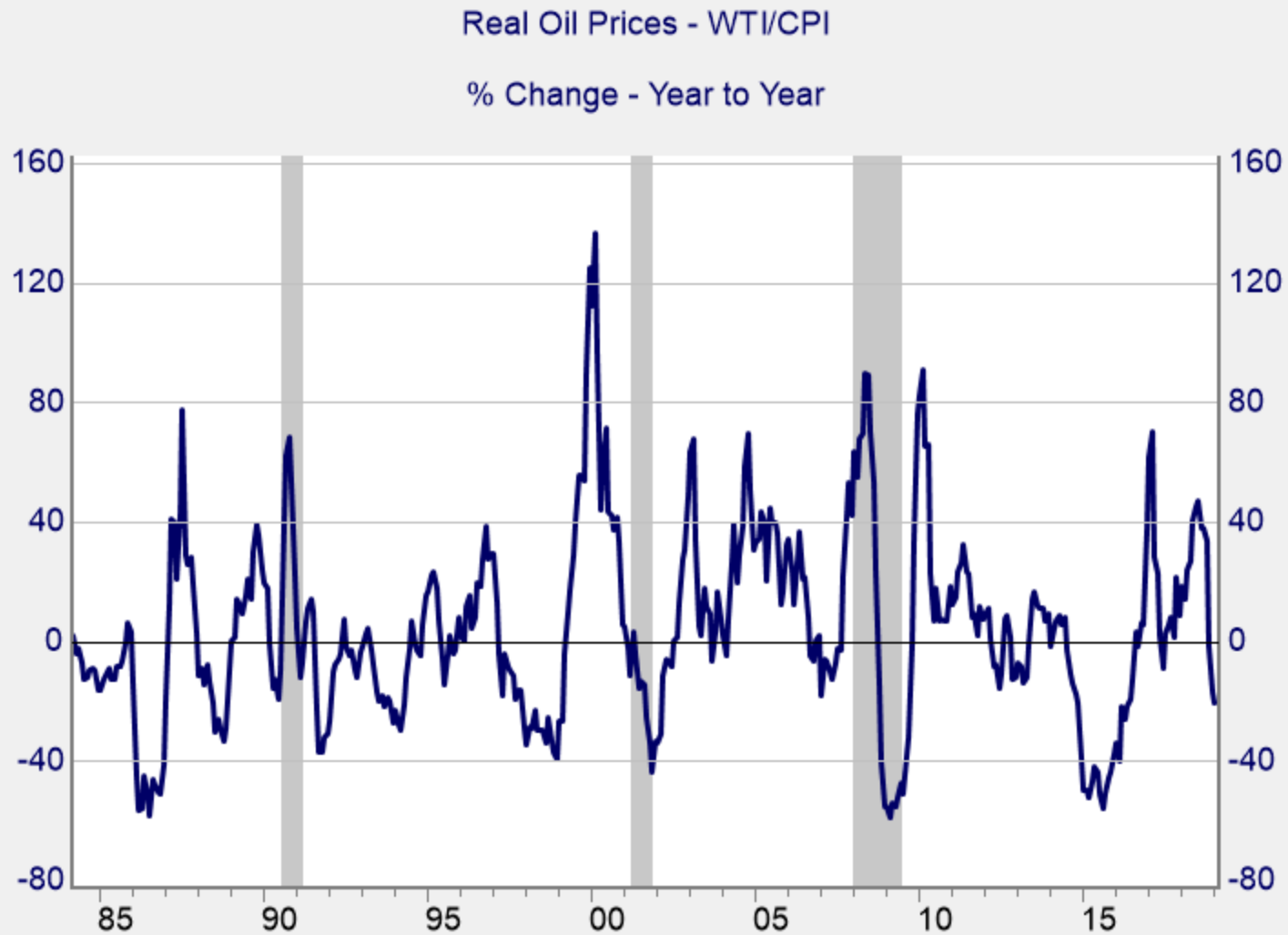


# INTEREST RATES

Yield Curve (10-year minus 3-month US Treasury rates)

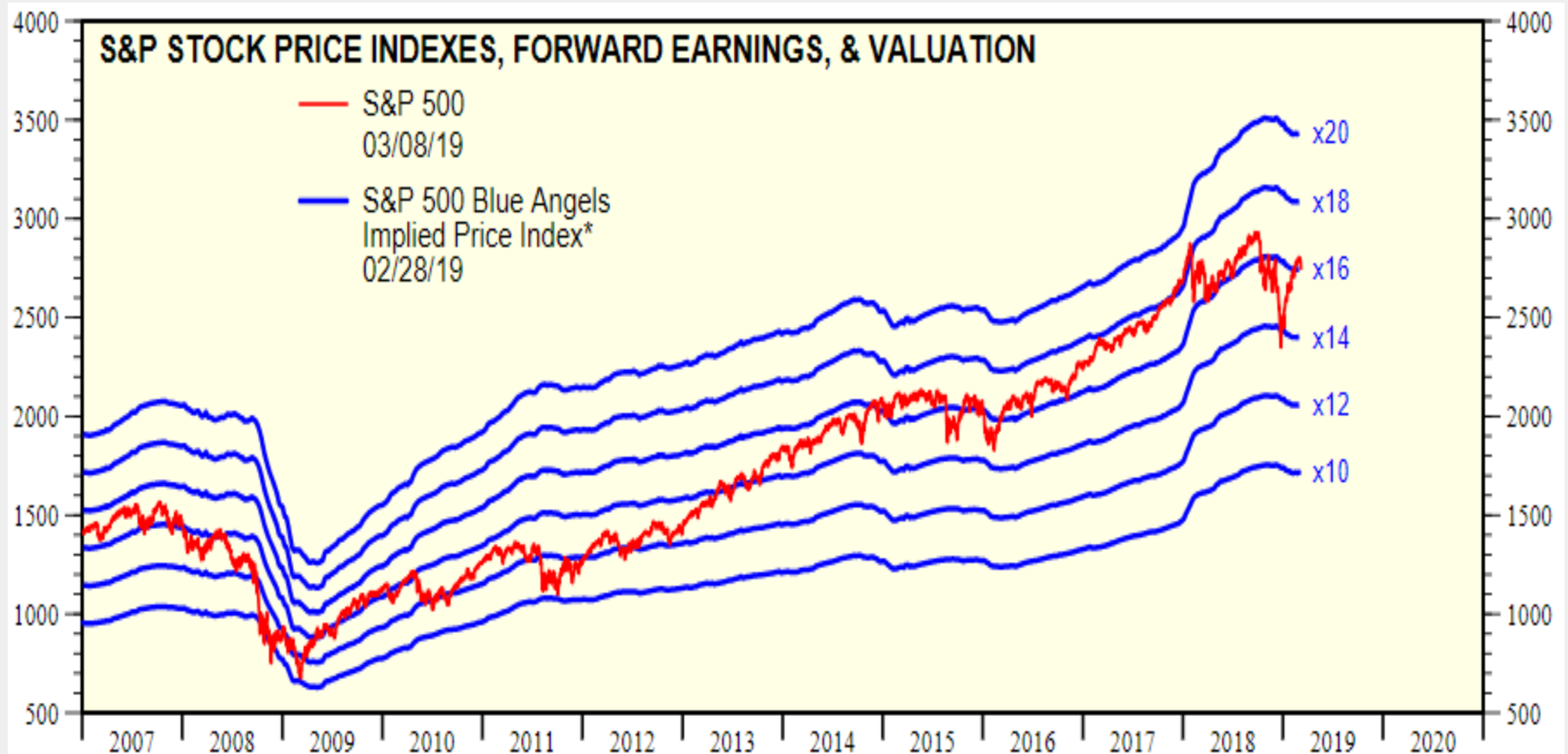


# OIL PRICES





# STOCK MARKET VALUATION



Source: [yardeni.com](http://yardeni.com), Standard & Poor's

# BEAR THERE?

- Recession: No
- Aggressive Federal Reserve: No
- Oil price spike: No
- Extreme valuations: Arguably
- Bear market: Not yet

# CONCLUSIONS

- The U.S. economy is still growing.
- There is no recession in sight just yet.
- Some risks are apparent, but . . .
- Bear market conditions aren't yet in place.

**YOUR ADVISOR IS WATCHING FOR BEARS**



# QUESTIONS?

## BLOG

# The Independent Market Observer

Outlook. Opinion. Insight.

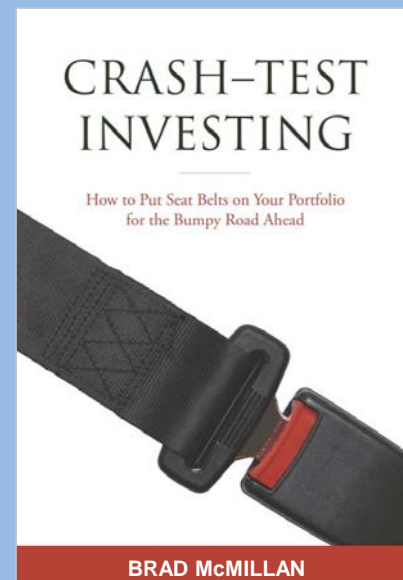
[blog.commonwealth.com/independent-market-observer](http://blog.commonwealth.com/independent-market-observer)

## QUARTERLY WEBINAR

Join an exclusive private webinar.  
Ask your advisor for more information.



## AVAILABLE ON AMAZON





*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. All indices are unmanaged and investors cannot invest directly into an index.*