A Newsletter from M.K. Brown Wealth Advisory

M.K. BROWN WEALTH ADVISORY

An Independent Registered Investment Advisor.

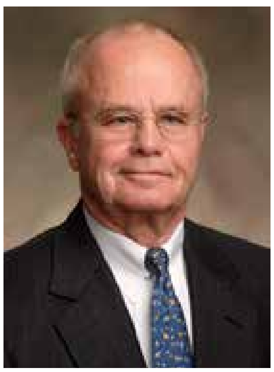
Winter 2015

Investor's Quarterly

Market and Economic Commentary

"Each night when I go to sleep, I die. And the next morning, when I wake up, I am reborn."

– Mahatma Gandhi



New Year Rings with (Cautious) Optimism

Investors who weathered the volatility of the domestic stock market in 2014 were rewarded come year-end. The Nasdaq and S&P 500 ended up more than 10% each, and the Dow Jones finished with a respectable 7.5% gain. The final three months were a boon, as well. The fourth quarter saw the Nasdaq leading with a 5.4% gain; the Dow gain 4.6%; and the S&P 500 climb 4.4%. These numbers indicate an economy steadily growing over the long term.

December's so-called Santa Rally was buoyed by economic data. For example, consumer sentiment hit a seven-year high; consumer spending was up on the back of unexpectedly lower oil prices; unemployment was down; and third-quarter real gross domestic product (GDP) wowed at 5%. Investors seemed to focus on this string of good news, and ignored the mediocre housing numbers and a disappointing durable goods report.

	12/31/14 Close	12/31/13 Close	Change	Gain/Loss
DJIA	17,823.70	16,576.66	1,246.41	7.5%
NASDAQ	4,7365.05	4,176.59	559.46	13.4%
S&P 500	2,058.90	1,848.36	210.54	11.4%

*Performance reflects price returns as of September 30, 2014.

Chief Investment Strategist Jeffrey Saut cautions, though, that we've experienced 38 months of upside without a 10% correction (we've come close, but haven't quite hit the mark); in a typical cycle, we'd see a pullback of that magnitude every 18 months or so. This particular rally is "long in the tooth" by his reckoning, but isn't unprecedented. His outlook for 2015 suggests a difficult period in the first quarter, though in a longer-term bull market any pullback could provide an opportunity for rebalancing or starting new positions. So far, we've seen lower gas prices take a toll on energy names in the first few

Market and Economic Commentary continues on next page.

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Market and Economic Commentary *(continued)*

trading days of January, and that sector's slump has broadened to other sectors. Taking the longer view, however, Saut believes this secular bull market still has years left to run.

Looking ahead, Chief Economist Scott Brown notes that the sharp drop in gasoline prices should provide strong support for consumer spending growth in the first half of 2015. Businesses, too, will benefit from lower transportation costs, which could get passed on to consumers and/or employees in terms of higher wages. Job growth was strong in 2014, and employment gains should remain brisk throughout the year. However, growth in average hourly earnings has been relatively lackluster. Wage growth should pick up as the job market tightens, and the Fed has indicated that it will be patient before deciding when to begin raising short-term interest rates. Policymakers also remain watchful of geopolitical risks and soft global economic growth; however, the fundamentals of the U.S. economy are in good shape.

I'll continue to monitor developments from the Fed and the latest economic data, as well as any news from the domestic and emerging markets. And, I'll be sure to share any trends that could affect your long-term financial plan.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The performance noted does not include fees or charges, which would reduce an investor's returns. There is no assurance the trends mentioned will continue. Market letter data and information is compiled from a variety of reputable resources, including Raymond James financial experts, such as Chief Economist Scott Brown and Chief Investment Strategist Jeff Saut. Our research also uses third-party sources, such as Federal Reserve publications, CNBC, CNNMoney, Bloomberg and Yahoo Finance. The information is then vetted through the relevant product areas, as well as compliance and editing before being distributed. The process of rebalancing may result in tax consequences.

Personal

Made it through December with minimal damage. Family together at one time or another, exception being Steffen who couldn't get away from lovely Montana. Winter is here, but nothing like last year, hope it continues so. With the lack of snow, might be able to practice my golf swing! Congratulations to Matt and Elizabeth, Croix A. Kussman, born January 9. Everybody in good shape. Elizabeth back to work, when? Sukey and I looking forward to vacation the first of March, British Virgin Islands.

Respectfully,

Martin K. "Bo" Brown, CFP®, CIMA®
Financial Consultant

Financial Planning

Key Estate Planning Documents You Need

There are five estate planning documents you may need, regardless of your age, health, or wealth:

1. Durable power of attorney
2. Advanced medical directives
3. Will
4. Letter of instruction
5. Living trust

The last document, a living trust, isn't always necessary, but it's included here because it's a vital component of many estate plans.

Durable power of attorney

A durable power of attorney (DPOA) can help protect your property in the event you become physically unable or mentally incompetent to handle financial matters. If no one is ready to look after your financial affairs when you can't, your property may be wasted, abused, or lost.

A DPOA allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective immediately (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you have become incapacitated.

Caution: *A springing DPOA is not permitted in some states, so you'll want to check with an attorney.*

Advanced medical directives

Advanced medical directives let others know what medical treatment you would want, or allows someone to make medical decisions for you, in the event you can't express your wishes yourself. If you don't have an advanced medical directive, medical care providers must prolong your life using artificial means, if necessary. With today's technology, physicians can sustain you for days and weeks (if not months or even years).

There are three types of advanced medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment. (Just make sure all documents are consistent.)

First, a living will allows you to approve or decline certain types of medical care, even if you will die as a result of that choice. In most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death." In those states that do not allow living wills, you may still want to have one to serve as evidence of your wishes.

Second, a durable power of attorney for health care (known as a health-care proxy in some states) allows you to appoint a representative to make medical decisions for you. You decide how much power your representative will or won't have.

Financial Planning continues on next page.

Financial Planning *(continued)*

Finally, a Do Not Resuscitate order (DNR) is a doctor's order that tells medical personnel not to perform CPR if you go into cardiac arrest. There are two types of DNRs. One is effective only while you are hospitalized. The other is used while you are outside the hospital.

Will

A will is often said to be the cornerstone of any estate plan. The main purpose of a will is to disburse property to heirs after your death. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are two other equally important aspects of a will:

1. You can name the person (executor) who will manage and settle your estate. If you do not name someone, the court will appoint an administrator, who might not be someone you would choose.
2. You can name a legal guardian for minor children or dependents with special needs. If you don't appoint a guardian, the state will appoint one for you.

Keep in mind that a will is a legal document, and the courts are very reluctant to overturn any provisions within it. Therefore, it's crucial that your will be well written and articulated, and properly executed under your state's laws. It's also important to keep your will up-to-date.

Letter of instruction

A letter of instruction (also called a testamentary letter or side letter) is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor. Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Living trust

A living trust (also known as a revocable or inter vivos trust) is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it's meant to function while you're alive. You control the property in the trust, and, whenever you wish, you can change the trust terms, transfer property in and out of the trust, or end the trust altogether.

Not everyone needs a living trust, but it can be used to accomplish various purposes. The primary function is typically to avoid probate. This is possible because property in a living trust is not included in the probate estate.

Depending on your situation and your state's laws, the probate process can be simple, easy, and inexpensive, or it can be relatively complex, resulting in delay and expense. This may be the case, for instance, if you own property in more than one state or in a foreign country, or have heirs that live overseas.

Financial Planning continues on next page.

Financial Planning *(continued)*

Further, probate takes time, and your property generally won't be distributed until the process is completed. A small family allowance is sometimes paid, but it may be insufficient to provide for a family's ongoing needs. Transferring property through a living trust provides for a quicker, almost immediate transfer of property to those who need it.

Probate can also interfere with the management of property like a closely held business or stock portfolio.

Although your executor is responsible for managing the property until probate is completed, he or she may not have the expertise or authority to make significant management decisions, and the property may lose value. Transferring the property with a living trust can result in a smoother transition in management.

Finally, avoiding probate may be desirable if you're concerned about privacy. Probated documents (e.g., will, inventory) become a matter of public record. Generally, a trust document does not.

Caution: *Although a living trust transfers property like a will, you should still also have a will because the trust will be unable to accomplish certain things that only a will can, such as naming an executor or a guardian for minor children.*

Tip: *There are other ways to avoid the probate process besides creating a living trust, such as titling property jointly.*

Caution: *Living trusts do not generally minimize estate taxes or protect property from future creditors or ex-spouses.*

How to Reach Us

Please note that we are not able to initiate security or investment purchases or sales via e-mail or voice mail. You must speak to a representative of our office for any trades to occur. For other communications, our e-mail addresses and phone extensions follow. Our phone number is (937) 298-8904.

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Our Opinion

Past Year and Going Forward:

Until very recently, we have witnessed an almost daily occurrence of new all time highs in both the S&P 500 and the Dow Jones Industrial Averages. (Set 53 and 48 new record highs, respectively, during the year.) But many investors were disappointed: a year end statement that shows an annual return less than the major index - and less than what the investor expected. Why? The reason may surprise you: ***Diversification.*** I know, diversification is good, but it held us back last year.

We all go by the news we read and hear and the financial news is most always focused on the large cap indices, the DJIA, the S&P 500. Consequently, many investors forget to look at other parts of the stock market, which in many cases did not perform nearly as well last year as their large cap brethren. A look at some of the major asset classes that were either barely up in 2014 or were negative: high yield bonds, small cap, commodities, metals, energy and international and emerging market equities all performed poorly. And so if you are using any kind of standard pie chart of asset allocation (and we are), you may be feeling left out on what could have been a very good year for investment returns. Making it worse, shares of some of the largest companies were flat or negative as well, this is obvious in the energy sector. And if you separate the value stocks from the growth stocks in the S&P 500, value lagged growth by nearly 50%.

So, investors' patience is tested when some of their holdings are not keeping up with the major averages. But don't think diversification a hindrance to performance. Investing is not solely about making as much money as you can in the up market, but maintaining and building wealth over time.

It's all about Risk-Adjusted return.

We are looking for a return level that is appropriate for you based on your risk tolerance, time horizon and investment goals, not one designed to beat the index. The keyword is risk. Yes, the more risk you take means the higher your potential returns should be. But there are limits to that, because eventually you'll need to start cashing in on your investments, which shortens your time horizon.

The Benefits of Diversification:

What does it mean to be diversified and why should investors stay the course with a fully diversified portfolio? While it's important to always own investments that are performing well in your portfolio, owning a variety of asset classes is just as important, as they all respond differently to market events.

It may sound counterintuitive to include investments that aren't currently producing positive returns, but the intent is to own more of the investments that are currently performing well while protecting your overall portfolio with investments that react differently.

Being diversified is all about placing your chips around the table and avoiding bets on just one number (think roulette). No investment produces positive returns every year and, on many occasions, the best investment for the last year or two will ultimately cycle to become one of the worst performers. For example, over time, investment grade bonds tend to be the best way to diversify equity risk. However, that doesn't mean owning both investments will net a zero return. What it

Our Opinion continues on next page.

Our Opinion *(continued)*

does mean is that when the stock market is having a bad quarter, down 10% or so, investment grade bonds will normally rally and provide the diversification to balance out the portfolio over time.

While a diversified portfolio won't be the best investment in any given year, it should perform well at all times to help investors reach their goals with a more balanced approach than the higher highs and lower lows that come with the lack of diversification.

Thoughts on 2015

The S&P 500 is subject to a pullback this year, with some blaming weak oil prices and rising Euro Zone concerns as the drivers. We believe this will simply be an overdue pullback within the context of a strong cyclical bull market. Corrections and or pullbacks should be expected (the S&P 500 experiences, on average, three pullbacks (5%) and one correction (10%) each year) and is healthy to sustain up markets. As Jeff Saut likes to say, "it helps to reset the internal energy" of the bull market.

With the U.S. economic activity improving, the likelihood of strong corporate earnings, reasonable market valuations, low inflation and positive technical trends, we remain bullish on equities in 2015.

Office News

As a reminder, our regular office hours are from 8:30 AM to 5:00 PM, Monday thru Thursday. Note that the office will be open from 8:30 a.m. to 12:00 p.m. on Fridays.

Be aware that requests to buy or sell securities cannot be accepted by voice mail but must be made by direct phone contact or in person. Please do not leave time sensitive instructions on voicemail. As always, you may access your account online through Investor Access or call Raymond James Client Services at (800) 647-7378 for immediate attention.

Follow us on Twitter and Facebook ! Search for us using our new name in Facebook (M.K. Brown Wealth Advisory) and find us on Twitter using @mkbrownwealth.

We are fortunate to have received many referrals.

Thank You!

Please ask about our Tiffany Gift Program for referrals.

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Portfolio Investment Strategy

Asset Class Target Allocations (Current)

	Portfolios*							
Asset Class	1		2		3		4	
	Current Weight	Change	Current Weight	Change	Current Weight	Change	Current Weight	Change
Investment Grade Bond	12%	0	7%	0	2%	0	0	0
Multi-Sector Bond	15%	0	7%	0	0	0	0	0
High Yield	5%	0	7%	0	5%	0	0	0
Global Market Bond	13%	0	15%	0	11%	0	0	0
Large Cap Equity	27%	0	29%	0	40%	0	45%	0
Small/Mid Cap Equity	3%	0	5%	0	9%	0	10%	0
International Equity	11%	0	16%	0	21%	0	19%	0
Alternative Investment	11%	0	11%	0	9%	0	5%	0
Cash	3%	0	3%	0	3%	0	3%	0
	100%		100%		100%		100%	

Portfolio*	Name	Neutral Allocation %
1	Conservative Balance	60% Bonds, 40% Equity
2	Balance	40% Bonds, 60% Equity
3	Equity Balance	25% Bonds, 75% Equity
4	Equity	0% Bonds, 100% Equity