A Newsletter from M.K. Brown Wealth Advisory

M.K. BROWN
WEALTH
ADVISORY

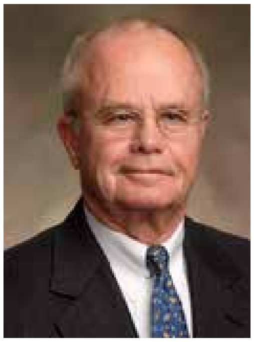
An Independent Registered Investment Advisor.

Winter 2016

Investor's Quarterly

Market and Economic Commentary

"Everything comes in time to those who know how to wait. There is nothing stronger than these two: patience and time, they will do it all." – Mark Twain



The year in review, A flat finish doesn't tell the whole story

The domestic equity markets seemed to be telling investors a story about resiliency in 2015. Despite headline news, geopolitical and global economic concerns – particularly among China and emerging markets – as well as a challenging domestic market environment, the benchmark S&P 500 basically ended the year right where it started. The Dow Jones Industrial Average and the international MSCI EAFE lost a bit more ground. Only the NASDAQ held on to any gains since last January.

A look at the quarter-end numbers tells another part of the story, reflecting the impressive October rebound after a harrowing August and September. In fact, the three major domestic stock indices as well as the EAFE were up at least 4% (the NASDAQ, again, came out on top with an 8.4% gain) for the quarter ending Dec. 31. So, although a lot happened this year, there was little to show for it in terms of absolute stock market performance.

	6/30/15 Close	12/31/15 Close	Change	Gain/Loss
DJIA	17,823.07	17,425.03	– 398.04	– 2.23%
NASDAQ	4,736.05	5,007.41	271.36	5.73%
S&P 500	2,058.90	2,043.94	– 14.96	– 0.73%
MSCI EAFE	1,774.89	1,716.28	– 58.61	– 3.30%

*Performance reflects price returns as of 4:15 p.m. EDT, Dec. 31, 2015.

But market performance is only part of the story. Over the past 12 months, we also saw job market improvements, low inflation, and declining oil prices – all of which spurred consumer spending. Domestic demand was strong this year, but the combination of slowing global economies and a strong U.S. dollar may weigh on future exports, according to Raymond James Chief Economist Scott Brown.

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Market and Economic Commentary *(continued)*

Perhaps counterintuitively, the Federal Reserve's "will they, won't they" stance on raising the fed funds target rate rattled the equity markets more than the bond markets, which may have already priced in the inevitable rate increase. We did see the first tightening (25 basis points) at the December meeting, and further rate hikes may present a potential headwind in 2016. The Federal Reserve is expected to raise short-term interest rates gradually in 2016. Scott notes that officials are signaling an expectation of four rate hikes over the course of the year, one per quarter, but the central bank may move more slowly if conditions warrant.

Chief Investment Strategist Jeff Saut believes the gradual pace shouldn't greatly impact the economy going forward, and he has noted that the markets should accommodate the change, as well. Historically, stock markets peak on average 30 months after the first rate hike, and that is consistent with his belief that we're still in a secular bull market with several years left to run.

As we head into 2016, potential tailwinds include a healthier labor market, low interest rates, continued increases in consumer spending and a housing expansion. We'll soon know more as the new year brings fresh data to the picture, including the monthly jobs report and the official Fed meeting minutes. Manufacturing numbers, which came in just after year-end, fell short of —expectations. Details of the report showed mixed conditions (depending on whether one is a producer or consumer of raw materials), but mild softness overall, Scott noted. It's important to remember that the overall economy can continue to expand even if the factory sector is in a mild recession. However, the report only added to anxiety already present in the domestic markets after the Shanghai Composite Index fell enough to halt trading for the day on China's stock market.

As always, we'll be sure to keep an eye out for changes in factors that could influence the markets, particularly paying attention to Federal Reserve policy, the strength of the U.S. dollar, earnings growth, global economic growth and geopolitical changes. More important, we'll be sure to let you know what impact, if any, these factors could have on your financial plan.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results and there is no assurance that any of the forecasts mentioned will occur. 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 MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. The performance noted does not include fees or charges, which would reduce an investor's returns.

We are fortunate to have received many referrals.

Thank You!

Please ask about our Tiffany Gift Program for referrals.

Financial Planning

New Legislation Makes Many Tax Provisions Permanent

The Protecting Americans from Tax Hikes (PATH) Act of 2015

In one of its final actions for calendar year 2015, Congress passed the Consolidated Appropriations Act, 2016, a massive spending bill that will keep the federal government funded for fiscal year 2016. Signed into law on December 18, 2015, the legislation includes the Protecting Americans from Tax Hikes (PATH) Act of 2015 (Division Q of the Consolidated Appropriations Act), which addresses a host of popular but temporary tax provisions – commonly referred to as "tax extenders" – that had expired at the end of 2014, making many of them permanent. Some of the major provisions addressed are listed below.

Individuals

American Opportunity Tax Credit:
The American Opportunity Tax Credit (a modified version of the original Hope Credit) and the credit rules – including maximum credit amount, number of years of education covered, income phase out ranges, and refundability provisions – are made permanent.

Child tax credit:
The lower $3,000 earned income threshold for determining the refundable portion of the tax credit is made permanent (if the credit exceeds tax liability, an amount equal to 15% of earned income over $3,000 may be refunded).

Credit for nonbusiness energy property:
The credit is extended for two additional years (through 2016); lifetime cap of $500 remains.

Deduction for classroom expenses paid by educators:
The $250 above-the-line deduction is made permanent – the rules that applied in 2014 are retroactively extended for 2015; starting in 2016, the limit will be indexed for inflation, and qualifying professional development expenses will be considered eligible expenses for purposes of the deduction.

Deduction for qualified higher-education expenses:
The above-the-line deduction, worth up to $4,000, is reinstated for 2015 and extended through 2016.

Deduction for state and local general sales taxes:
Individuals who itemize deductions on Schedule A of IRS Form 1040 can elect to deduct state and local general sales taxes in lieu of the deduction for state and local income taxes – this is made permanent.

Discharge of qualified personal residence debt:
The exclusion from gross income of the discharge of debt associated with a qualified principal residence is reinstated for 2015 and extended through 2016.

Earned income tax credit:

Financial Planning continues on next page.

Financial Planning *(continued)*

The increased credit percentage for families with three or more qualifying children and the increased threshold phase out range for married couples filing joint returns are made permanent.

Employer-provided mass transit benefits:
The monthly exclusion for employer-provided transit pass and vanpool benefits will be permanently set to the same level as the exclusion for employer-provided parking (applies retroactively to 2015, increasing the exclusion from $130 to $250 monthly).

Mortgage insurance Premiums:
The provision allowing premiums paid for qualified mortgage insurance to be treated as deductible qualified residence interest on Schedule A of IRS Form 1040 (subject to phaseout based on income) is extended for two additional years, through 2016.

Qualified charitable distributions (QCDs):
The provision allowing individuals age 70½ or older to make qualified charitable distributions (QCDs) from their IRAs, and exclude the distribution from gross income (up to $100,000 in a year), is made permanent.

Qualified conservation contributions of capital gain real property:
Special rules for qualified conservation contributions of capital gain real property are made permanent; new rules for qualified contributions by certain Alaska Native Corporations are added for years after 2015.

Businesses

Bonus depreciation:
Additional 50% bonus depreciation is reinstated for 2015 and extended through 2019; the bonus percentage is reduced to 40% in 2018 and 30% in 2019 for most property types.

Exclusion of gain on qualified small business stock:
The 100% exclusion of capital gain from sale or exchange of qualified small business stock held for more than 5 years is made permanent; it applies to alternative minimum tax as well as regular income tax.

IRC Section 179 expensing:
Increased dollar amounts ($500,000/$2,000,000) associated with Section 179 expensing are made permanent and indexed for inflation after 2015; $250,000 limit on qualified real property eliminated after 2015.

Research credit:
The research tax credit is made permanent, with new provisions effective in tax years beginning after 2015 that will provide additional benefits to some small businesses.

Work Opportunity Tax Credit: The tax credit is extended through 2019 and expanded (after 2015) to apply to employers who hire qualified long-term unemployment recipients.

Other changes

In addition to the tax extender provisions, the Consolidated Appropriations Act contains multiple other tax provisions, including:

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Personal

Big family get together – Thanksgiving, with everyone home, great time, complete chaos, just like old times. Xmas much more subdued, but enjoyable with the two little ones, Croix age 1 and Barrett age 3.

No big plans for the winter. Will be in NYC in February (business). Sukey and I will be going to Sonoma the first part of March, hope to taste a few wines, then off to San Francisco, a favorite city. Possible side trip to Yosemite National Park, if weather cooperates, I've heard it is beautiful.

Respectfully,

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

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.

Martin K. "Bo" Brown, CFP®, CIMA®
Financial Consultant — Bo.Brown@RaymondJames.com

Elizabeth Brown, Financial Advisor — Elizabeth.Brown@RaymondJames.com

Lisa Pry, Client Service Manager — Lisa.Pry@RaymondJames.com

Karen Lewis, Client Service Assistant — Karen.Lewis@RaymondJames.com

Sara Pedro, Administrative Assistant — Sara.Pedro@RaymondJames.com

Financial Planning *(continued)*

- The Act delays imposition of the excise tax on high-cost employer-sponsored health coverage (the so-called "Cadillac tax") for two years; the tax, originally scheduled to take effect after 2017, will now be effective for tax years beginning after December 31, 2019.
- The Act eliminates the requirement that ABLE accounts (tax-favored savings vehicles intended to benefit disabled individuals) be established only in the ABLE account owner's state of residence.
- Rules relating to 529 plans are modified for tax years after 2014, including expansion of the definition of qualified expenses to include the purchase of a computer, peripheral equipment, computer software, and Internet access if used primarily by the beneficiary while enrolled at an eligible education institution.
- The Act permits funds to be rolled over to a SIMPLE IRA from employer-sponsored retirement plans and traditional IRAs once a participant has participated in the SIMPLE IRA for a two-year period (effective for rollover contributions made after December 18, 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 AM to 12:00 PM 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.

Our Opinion

A volatile year ends with a whimper

The Dow Jones Industrial Average is made up of 30 large, well-known companies. It is the best known and oldest of the many indices that measure stock market performance. While not necessarily a household name, the S&P 500 index is made up of 500 larger US companies. It captures about 80% of the entire market capitalization and is the most often quoted measure of performance among analysts.

While the S&P 500 made advances in 2013 and 2014, this past year, action in stocks felt more like 2011. While 2015's ride was not as volatile as that of 2011, the S&P 500 had crossed to close above and below the breakeven point over 30 times from the December 31, 2014 closing price of 2058.90. At its high point in March, the S&P 500 was up 2.68% and at its August low point; the index was down as much as 9.32%

The future exists to keep those who forecast humble. And our so called forecast for last year has done just that. We were wrong. Not only was the US market flat, but other asset classes did poorly as well, eliminating any advantages to the strategy of asset allocation.

Emotional vs. disciplined investing

Last year's lackluster performance in various stock and fixed income sectors is a perfect reason why long-term goals and staying with a carefully crafted investment plan have historically been the best way of managing risk and reaching your financial goals.

As we've discussed in our face-to-face meetings, your personal situation, goals and risk tolerance influence your asset allocation. So, if your personal situation has changed, we may want to make some adjustments to your portfolio. But for most investors, the plan that we designed specifically for you remains the best long term strategy to help you reach your goals.

Let me explain by highlighting a study published by Dalbar, a leading financial research firm and one with a 40 year track record. The study found that over a 20-year period, ending December 31, 2014, the average equity investor* posted an average annual return of 5.19% which compares unfavorably to the average annual return for the S&P 500 index of 9.85%.

Going back 30 years, Dalbar paints an even worse picture, with the average investor earning 3.74% annually vs. the S&P 500 average of 11.06%

As the study shows, investor underperformance is present in all investment classes, therefore proving that the failure is not primarily one of poor asset allocation. My goal has never been to match or outperform the S&P 500 index.

Our goal is to manage risk while providing you a realistic return to reach your objectives. Your happiness is what matters most.

An all-stock portfolio, even one that is fully diversified, is too risky for more investors. I typically recommend a fixed income component that not only reduces overall volatility but helps creates some stream of income.

So what may be the causes of such underperformance?

Some simply have to do with cash needs and unplanned expenses, forcing liquidation. But the study concluded that the largest contributor came under what is called "voluntary investor behavior", which basically says, "panic selling, excessively exuberant buying, and attempts at market timing."

Our Opinion continues on next page.

Our Opinion *(continued)*

It's what happens when emotions get in the way of a disciplined approach. Honestly, I get it. There is a temptation to sell when stocks are going down, like we saw last year and now in the first month of 2016. But as I have said, your financial plan takes into account these downturns, which thus leaves us well positioned when the market inevitably moves higher.

A look ahead

Today's date, January 8, 2016, the Dow fell 1% and is now down 1078 points or -6.2% for the first week of 2016. Time to panic? No. Time for caution? Yes.

To be sure, the headlines are not pretty: Oil at an 11 year low, North Korea reported that they have successfully conducted a hydrogen bomb test, Fed's Fisher claims uncertainty in markets has risen, Iran is considering war with Saudi Arabia, China's numbers are far worse than anybody predicts, Japan will not allow more QE, U.S. economic data continues to come in weak, to mention a few.

We may be in a correction but our long term view has not changed – The US economic recovery has room to grow. Corporate earnings are probably the most important variable in determining the direction of stocks over the medium and long term. Yes, other factors can create volatility shorter term, but profits are the life blood of stocks. Our sources are projecting that earnings will continue to rise in the first quarter of 2016 and accelerate into the year. Of course, if a different set of circumstances presents itself, we will not hesitate to adjust all of our portfolios to a more defensive posture.

In conclusion, our 2016 outlook is supportive of equities driven by global growth, slowly rising interest rates, a stronger U.S. dollar and low inflation. I expect equities to outperform bonds, commodities and alternative investments.

Managing the risks and rebalancing portfolios accordingly (something we will be doing this quarter), should be the key for successful investing in this New Year.

An afterthought:

1. We may have already seen the bear market many investors expect considering the average S&P 500 stock is down almost 20% from its 52 week high.
2. Corporate insiders are knowledgeable groups of investors when it comes to their own companies, right now insiders are buying.
3. The average investor is now selling out of their equity mutual funds at a rate rarely seen over the last 10 years. These periods of negative fund flows have historically been associated with bottoms in the stock market as investors run for the exits at exactly the wrong time.

Per Dalbar: The Average Equity Investor is calculated using results supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. Results capture realized and unrealized capital gains dividends, interest, trading costs, sales charges, fees, expenses, and other costs. Quantitative Analysis of Investor Behavior (QAIB) uses data from the Investment Company Institute (ICI), Standard & Poor's and Barclays Capital Index Products to compare investor returns to an appropriate set of benchmarks. Covering the period from January 1, 1993, to December 31, 2012, the study utilizes mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. These behaviors reflect the "average investor". Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

M.K. BROWN
WEALTH ADVISORY

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M.K. Brown Wealth Advisory
580 Lincoln Park Blvd., Suite 333
Dayton, OH 45429

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	22%	0	26%	0	36%	0	47%	0
Small/Mid Cap Equity	3%	0	9%	0	13%	0	15%	0
International Equity	10%	0	10%	0	15%	0	19%	0
Alternative Investment	8%	0	8%	0	6%	0	5%	0
Cash	12%	0	11%	0	12%	0	14%	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