GCG Wealth Management

GCG's Second Quarter Market Analysis

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Chugging Along

The first half of 2015 has shown some strength in small cap and foreign equities, but not a lot from the S&P 500, having returned just over 1% year-to-date through the end of June. The Nasdaq index finally surpassed its all-time intra-day high from the year 2000, making it the last of the three major U.S. indices to have surpassed that level.[1]

Market Returns as of 6/30/2015 (%)

INDEX	2015 TOTAL RETURN	SECOND QUARTER RETURN
DJIA	0.03	-0.29
S&P 500	1.23	0.28
Russell 2000	4.75	0.42
MSCI EAFE	5.88	0.84
Barclays Aggregate Bond	-0.10	-1.68

Source: Bloomberg: Reflects total returns.

CONSISTENTLY UNEXCEPTIONAL, BUT ACCEPTABLE, ECONOMIC GROWTH

As the U.S. economy chugs along, the Federal Reserve anticipates GDP growth of approximately 2% for the year. In part, this lackluster forecast is a result of negative GDP growth in the first quarter and a strong U.S. dollar that continues to weigh on economic growth and corporate profits. In the meantime, we are seeing signs of strength as unemployment is ticking down, consumer spending is perking up, and wage growth is very modestly starting to show signs of improvement (though any threat of inflation surpassing the Fed's 2% target is still far in the distance.)[2]

Other notable positive economic developments include:

- Household net worth, relative to disposable income, is the best since the 2007 -2009 recession[3]
- Low interest rates and job security are luring large numbers of first-time home buyers into the market[4]
- Millions of U.S. workers have quit their jobs, signaling their confidence that there are better jobs out there they can get quickly.[5]

So, while this has been one of the slowest expansions in history… there is at least SOME expansion, and evidence that things are continuing to get better.

GREECE

The situation in Greece is fluid, and is difficult at this time to anticipate the potential fallout, if any. Through the end of June, neither global nor domestic financial markets have had any kind of material negative reaction. It is often the uncertainty—not necessarily the outcome, that weighs heaviest on financial markets.[6] If Greece does exit the Euro Zone, at least the uncertainty will have been removed. Regardless, whatever happens in Greece is thought to be of secondary concern to U.S. markets. One near term impact may be a weakening euro, resulting in a stronger dollar, and hence, an even lower inflationary environment. This scenario could, perhaps, make the Fed more hesitant as to when and at what pace they feel they should raise interest rates.

Far more relevant to overseas economies, European financial institutions have materially cut back their direct exposure to Greece and its banks. Therefore, it is believed that a Greek default would not have the adverse systemic impact in Europe it might have had just a few years ago.[7]

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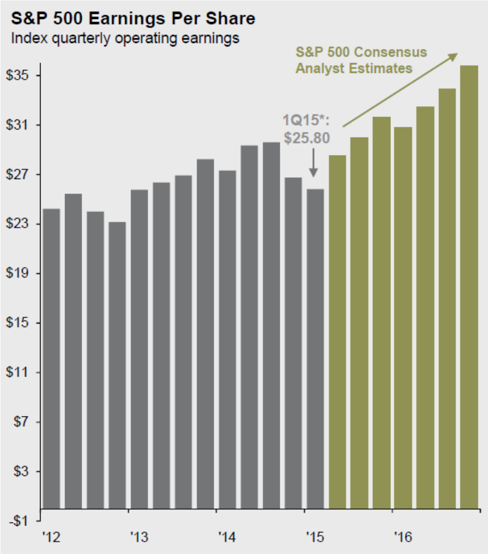
Along these lines, the result of the recent volatility in the Chinese stock markets and concerns in Puerto Rico are unknown. We continue to closely monitor these developments, but similar to Greece, do not feel at this time that there will be a material long-term impact on the US economy or stock market.

STOCK MARKET VALUATION

Much of the U.S. stock market has stalled through June. It is true, when compared to historic levels, US stocks don't look cheap, but similarly, they are not overly expensive. Its current forward Price/Earnings ratio is 16.4x, compared to a 25 year average of 15.7x… hardly a level where there is concern of a bubble. For comparison, the Price/Earnings ratio for the S&P 500 was over 25x at the peak of the Tech bubble in 1999, which was a much stronger sign that markets had become overheated.[8]

However, we know the headlines have been more alarmist in nature. Just this past May, Fed Chairwoman Janet Yellen cautioned, "Equity market valuations generally are quite high."[9] But let us not forget Alan Greenspan's 1996 impassioned "Irrational Exuberance" speech. He claimed the markets had gone "too far, too fast" three years before the bull market ended, and where the S&P 500 more than doubled from that date.[10] Perhaps Janet Yellen will have a more accurate and timely forecast than did Greenspan. But we should look to the Fed to guide our monetary policy, not to predict where the stock market is headed.

When looking out at forecasted earnings for S&P 500 companies, we can see where the market can continue on a steady path upward on the back of improving fundamentals.



Source: S&P 500 Earnings Per Share: Data are as of June 14, 2015.

However, if we work under the assumption that the Price/Earnings ratio doesn't expand from here, we will find ourselves in a more "normal" environment of single digit stock market returns, compared to the last several years of double digit returns. Even with those lowered expectations, we still believe equities provide the best opportunity for growth, as income generation from bonds remains challenging.

The 10-year US Treasury yield is still historically low, and a 5-year CD yields only .88%, compared to 4.1% just years ago.[11] However, fixed income can still play an important role in a well diversified portfolio. In addition to generating modest income, it can act to stabilize the portfolio in times of stock market volatility. Speak to your advisor to ensure your portfolio is properly allocated.

The other unknown, for which many seem to be preparing, is the next market correction. We can't predict the timing of such an event, but think that a correction in the next 12-24 months is not improbable. There is an old Wall Street adage,

"About every 5 to 7 years, investors are unmistakingly reminded that markets correct every 5 to 7 years."

Corrections are a normal function of equity markets… they are to be expected. The most important thing to keep in mind is that as long as one has an appropriate time horizon, those corrections tend to smooth out over time. When looking at a long term stock chart, it is the advances that have been permanent, while the declines are temporary.

INTEREST RATES

Fed Chairwoman Janet Yellen said a rate increase this year is likely, but the Fed will be very measured in their approach. In fact, she said rate increases would be "slow and gradual" 14 times! In trying to set expectations, she is being as transparent as possible.[12] When the rate increase does happen, we believe it should be viewed as a positive, not a negative. It will be an endorsement from the Fed that the US economy is on strong footing.

One thing that could potentially keep a lid on rising interest rates is the purchase of U.S. bonds by foreign central banks. Our higher yields, strong currency, and stable economy continue to compel overseas investment (as bond prices go up, their yields go down)[13]

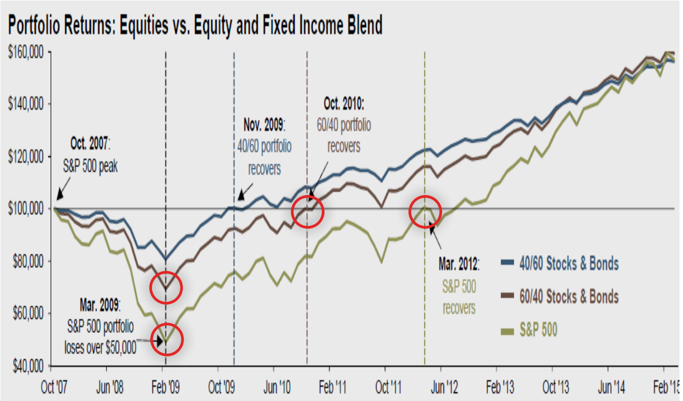
WHICH INVESTMENT APPROACH IS BEST?

At GCG, we believe it makes sense for our clients to have a balanced portfolio with exposure to several different asset classes, in order to provide a consistent stream of investment returns while minimizing portfolio volatility. However, since the stock market saw its recession low point in 2009, we have been fielding questions as to the merits of this approach. The S&P 500 has almost tripled since that time period, and simply investing in that index would have hypothetically provided very strong returns.[14] With perfect foresight, that would seem to have been a good strategy back then. However, there have been several periods where that kind of concentrated exposure would have been a liability.

The graph below illustrates the beginning of the recession in 2007 and how portfolios with differing asset allocations would have performed:

- A balanced portfolio of 60% stocks and 40% fixed income would have lost approximately 25% of its value from peak to trough, but would have recouped those losses within **19 months**.

- In comparison, a 100% investment in the S&P 500 would have lost approximately 50% of its total value from peak to trough, and would have taken **36 months to recoup those losses.**



Source: Morningstar Direct, Dalbar Inc., J.P. Morgan Asset Management. Data are as of March 31, 2015.

Studies have shown how difficult it is for investors to stay in the market during significant downturns, and in fact, they are likely to sell at the wrong time.[15] So we know, for many investors, "staying the course" in an aggressive stock portfolio during that period would have been difficult. The highest return strategy does you no good if you are not able to weather the inherent volatility needed to get those kinds of returns. Again, your advisor can help you determine the right allocation for your long term objectives and risk tolerance.

At GCG, we have been very consistent with our approach to investing over the past several decades. We do not change our approach just because another style may be doing better at that time. To use a baseball analogy, we are not swinging for the fences with our clients' money. We know we can help our clients reach their long term objectives by consistently hitting singles and doubles.

AND SPEAKING OF BASEBALL...

Hall of Famer Roberto Clemente is quoted as saying:

> ***"I am more valuable to my team hitting .330 than swinging for home runs."***

In fact, of Clemente's 3,000 career hits, over 2,500 of them were singles and doubles, and he averaged just 16 home runs per season. All this while striking out only 1,200 times (that equates to 2.5 hits per strikeout!).

This compares to recent home run great, Mark McGwire, who averaged almost 40 home runs per season over his career. However he had just 1,626 hits, and struck out just as often with 1,596 career strikeouts. (Hey, I'm a Cubs fan… anytime I can throw the St. Louis Cardinals under the bus, I'm going to do it!)

Interestingly, an analysis of Hall of Fame baseball players in the aggregate shows very similar statistics to Clemente:

- **The average Hall of Famer hit just 12 home runs per year.**
- **Over 90% of their hits were singles and doubles.** [16]

The moral of the story… consistently steady performance is what gets players to the Hall of Fame.

We feel we are of best service to our clients by striving to emulate Roberto Clemente. Not to say that there may not be a role in your portfolio for riskier strategies that have the potential to be "home runs." But we would prefer for our clients to feel secure, knowing that Clemente is coming up to bat, and he is far more likely to get a hit than strikeout!

Andrew M. Gluck, CFA
Managing Director, Wealth Management

Andrew Gluck has over 15 years of experience as a Portfolio Manager and Security Analyst. His primary expertise is in providing a comprehensive assessment of proper asset allocation, portfolio construction, and security selection, based on each client's financial goals and tolerance for risk.

Prior to joining GCG, Andrew spent 10 years as a Portfolio Manager at Harris Associates in Chicago, where he worked with high net worth individuals and institutions. In addition, he has founded and managed two separate investment partnerships.

Andrew earned a Bachelor's Degree from the University of California, Santa Barbara, and his MBA in Finance from DePaul University, where he graduated with Distinction.

He has earned the designation of Chartered Financial Analyst (CFA) and is a member of the CFA Society of Chicago. Andrew is a member of Securian's Investment Policy Committee and a consultant to Securian's Investment Resource Group (IRG).

Andrew is a Registered Representative and Investment Advisor Representative of Securian Financial Services, Inc.

You’re Invited

GCG’s Second Quarter Market Update Webinar

Please join us for our live webinar event

Robert Janson, Senior Vice President, Wealth Management will analyze and provide opinions regarding market indicators and share his ideas on what factors may play a role in the markets for the rest of 2015.

July 28, 2015

8:30 AM CST - 9:30 AM CST

4:00 PM CST - 5:00 PM CST

You don’t have to leave home or the office to listen in to this event! After registering, a link will be provided for you to watch the webinar on your computer or listen by telephone.

Register today for one of our webinars.

Questions, Please contact Bryan Marrichi at (847) 457-3184 or
bryan.marrichi@gcgfinancial.com

About Robert Janson, AIF, CIMA
Senior Vice President, Wealth Management, GCG Financial, Inc.

Bob is a member of GCG’s Design Center. His primary area of expertise is in the design, implementation and management of investment portfolios. He is a Vice-President of GCG Financial responsible for investment services and strategies. He also serves as Investment Officer and registered principal. Bob has been with GCG Financial since 1997.

Bob has been developing his investment expertise for over 23 years. Prior to GCG, Bob’s background includes working with Blunt, Ellis, & Loewi, Charles Schwab Institutional, and Retirement and Estate Advisors. Through this well-rounded experience, Bob has gained a solid understanding regarding the balance between the goals of the client and the ever-changing nature of the markets.

Bob approaches portfolio management with a disciplined and strategic approach that strives to maximize total potential returns while managing the overall risk and volatility of the portfolio. For each client, he develops an investment portfolio that is customized to the client’s investment objective, time horizon, and risk temperament.

Bob’s professional designations include his Accredited Investment Fiduciary (AIF®), and Certified Investment Management Analyst (CIMA®).

Registered Representative and Investment Advisor Representative, Securian Financial Services, Inc.

Footnotes, disclosures and sources

01. Investors' Business Daily, June 18, 2015
02. Wall Street Journal, June 18, 2015
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05. Wall Street Journal, June 10, 2015
06. Wall Street Journal, June 16, 2015
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09. Investors' Business Daily, May 8, 2015
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11. bankrate.com
12. Wall Street Journal, June 15, 2015
13. Wall Street Journal, June 14, 2015
14. Past performance is not indicative of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. One cannot invest directly in an index.
15. Dalbar Study, For The twenty years ending, December 31, 2013
16. baseball-almanac.com

Neither diversification nor asset allocation guarantee against loss, they are methods used to manage risk.
Securities and Investment Advisory Services offered through Securian Financial Services, Inc., Securities Dealer, Member FINRA/SIPC, a registered investment advisor.
GCG Financial, Inc. and Securian Financial Services, Inc. operate under separate ownership.
This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security.
Past performance is not indicative of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. One cannot invest directly in an index.
The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. This world renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large-cap segment of the market, with approximately 75 percent coverage of U.S. equities, it is also an ideal proxy for the total market.
DJIA definition: A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including stocks that trade on the New York Stock Exchange (http://www.nasdaq.com/investing/glossary/d/dow-jones-industrial-average)
The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.
The MSCI EAFE (Europe, Australia, Far East) Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America
The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset backed securities.
The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.
The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.
The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
Debt obligations are affected by changes in interest rates and the credit worthiness of their issuers. High yield, lower-rated (junk) bonds generally have greater price swings and higher default risks.
Investment risks associated with international investing, in addition to other risks, may include currency fluctuations, political, social and economic instability and differences in accounting standards when investing in foreign markets.
Investments in emerging markets involve heightened risks due to their smaller size and decreased liquidity. Funds that focus their investments on companies in one specified sector may be subject to a greater degree of risk and volatility than an investment with greater diversification.

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