Dear Friends: January 7, 2016

2015 Annual Review

The global markets experienced extreme stress in the latter half of 2015 which has carried over to the beginning of 2016. After starting 2015 strongly (setting a new all-time high on May 21st), markets hit a speed bump over the summer due to renewed concerns in Greece; fell precipitously in the middle of August as a result of the devaluation of the Yuan: fell again in late September over worries about the rate raise; then recovered to early 2015 levels by the end of October amid renewed assurances from the Fed. All of this transpired over the backdrop of a sustained "Oil War" that has seen OPEC maintain production despite the continued plunge in the price of oil. In summary, given the aforementioned global stress, year-end portfolio returns were, on the whole, not as robust as recent years.

Despite headline news and wild market swings, the benchmark S&P 500 Index ended 2015 pretty much right where it started, falling only 0.73% for the year (the first annual drop since 2008). This lack of robustness has allowed valuations to fall in line with historical averages as the S&P 500 forward price to earnings ratio is trading at 16.1x, which is only slightly higher than the 25-year average of 15.8x.

Index	**Index Close**	**Quarter Price Return (%)**	**YTD Price Return (%)**
S&P 500	2,043.94	6.45%	-0.73%
DJIA	17,425.03	7.00%	-2.23%
NASDAQ	5,007.41	8.38%	5.73%
Barclays Aggregate Bond	108.01	-1.43%	-1.92%
MSCI Europe-Australasia-Far East	58.72	2.44%	-3.48%
MSCI Emerging Markets	32.19	-1.80%	-18.07%

In the terms of economic data out of the U.S., over the past 12 months we saw job market improvements, low inflation, and declining oil prices – all of which spurred consumer spending (the main driver of U.S. GDP growth). Despite this strong domestic demand, the combination of slowing global economies and a strong U.S. dollar weighed heavily on U.S. exports and manufacturing.

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. The VIX Volatility Index (a measure of volatility of the S&P 500 Index) was as low as 10 and as high as 53 during the year (indicating significant volatility) as historic VIX clocks in at 20. In addition, the yield on the 10 Year Treasury Bond ended the year at 2.27%, only 10 basis points higher than where it began the year. The Fed's 2015 raise-rates-dance had a complex effect on markets. On some days indications from the Fed that they were going to raise rates buoyed markets (on the belief that the Fed saw the economy as strong) and on other days similar language out of the Fed sank markets (on the idea that the raises would tank the economy). After much anticipation we finally saw the first tightening (by 25 basis points) at the December meeting. Further rate hikes appear to be likely in 2016 with analysts forecasting 4 total rate hikes over the course of the year. This clarity on the Fed hike schedule should entice investors to put to work some of the $11.7 Trillion dollars currently being held in cash.

As the Fed is tightening, the easing monetary policy continues elsewhere as European, Japanese, and Chinese central banks attempt to stimulate growth. Despite Europe's growth concerns, stock valuations in the region are in line with historical averages (current forward P/E of 14.7x vs. historical average of 14.5x), and are attractive from a valuation standpoint. Contrasting the attractive valuations in Europe, Emerging Markets stocks struggled is 2015 due largely to concerns over BRIC (Brazil, Russia, India, and China) growth and the slump in commodity prices. China has been featured extensively to start 2016 as trading on the mainland Chinese exchanges has already been halted twice this year due dramatic sell-offs caused, in part, by poor manufacturing numbers and other concerns.

Despite the volatility experienced this year, Locust Capital is as confident as ever that a proper asset allocation mix is essential to the long term performance of our clients' portfolios. As can be seen by the matrix below provided by JPMorgan, a diverse asset allocation has provided investors with a solid overall return while minimizing volatility.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2000 - 2015 Ann.	2000 - 2015 Vol.
Comdty. 31.8%	REITs 13.9%	Comdty. 25.9%	EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	REITs 12.9%	REITs 22.0%
REITs 26.4%	Fixed Income 8.4%	Fixed Income 10.3%	Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 8.5%	Small Cap 21.2%
Fixed Income 11.6%	Cash 4.1%	High Yield 4.1%	DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Small Cap 7.1%	EM Equity 20.6%
Cash 6.1%	Small Cap 2.5%	REITs 3.8%	REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	EM Equity 6.3%	Comdty. 18.7%
High Yield 1.0%	High Yield 2.3%	Cash 1.7%	High Yield 32.4%	High Yield 13.2%	Asset Alloc. 5.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	Fixed Income 5.7%	DM Equity 16.9%
Asset Alloc. 0.0%	EM Equity -2.4%	Asset Alloc. -5.9%	Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	Asset Alloc. 5.2%	Large Cap 16.7%
Small Cap -3.0%	Asset Alloc. -3.9%	EM Equity -6.0%	Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Large Cap 4.3%	Asset Alloc. 13.4%
Large Cap -9.1%	Large Cap -11.9%	DM Equity -15.7%	Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	DM Equity 2.9%	High Yield 11.5%
DM Equity -14.0%	Comdty. -19.5%	Small Cap -20.5%	Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	Cash 1.9%	Fixed Income 3.4%
EM Equity -30.6%	DM Equity -21.2%	Large Cap -22.1%	Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Comdty. 0.8%	Cash 1.0%

Source: Barclays Capital, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays Global HY Index, Fixed Income: Barclays Capital Aggregate, REITs: NAREIT Equity REIT Index. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 12/31/15. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/99 – 12/31/15. Please see disclosure page at end for index definitions.
Guide to the Markets – U.S. Data are as of December 31, 2015.

J.P.Morgan
Asset Management

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, U.S. political tensions, 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. We wish you and yours a healthy and prosperous new year!

Best regards,

Locust Capital Management, LLC