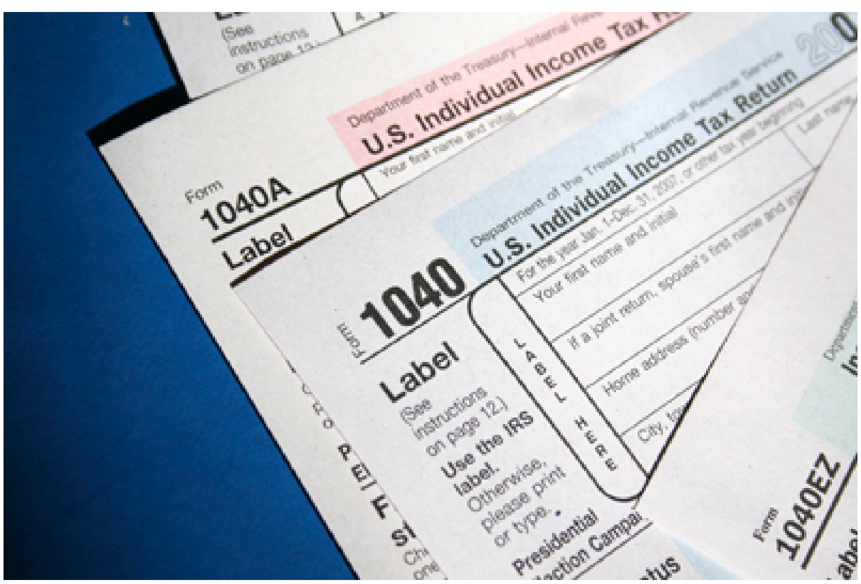
Market Commentary - December 2015

CLEARVIEW
WEALTH SOLUTIONS

We thank you for your continued confidence in us this past year. We extend warm wishes for Happy Holidays to you and a healthy and prosperous 2016.

Small cap stocks pulled out of a multi-year performance rut compared to large caps and outperformed their large cap brethren by about 3% in November. This is a very large one month spread especially in light of the flat month for performance generally. What is noteworthy here is investment managers' apparent renewed confidence in the U.S. economy even ahead of the likely December rate hike by the Fed (small cap stocks tend to be U.S. centric). Apparently, many managers do not have the confidence to invest as much beyond our borders, even in spite of the supposed value in foreign markets. **We do not buy small caps for Clearview's clients for a number of reasons including our more conservative approach and our desired avoidance of high volatility. In addition, large caps have provided a better risk adjusted return over time.**



Managing Portfolios in the

Not-So Normal

- ***The current economic cycle, now seven years old, is growing "long in the tooth." Investor returns in stocks and real estate are now more likely to be volatile and less robust as the cycle progresses.***
- ***Large accumulated debt levels and sluggish economic growth are pressuring federal, state and local municipalities to raise taxes. This could grow worse if we enter a bear market in stocks or the economy were to fall into recession.***
- ***Higher taxes and lower returns will stress investors who have embraced "risk assets" while limiting portfolio compounding. Continued sluggish economic growth or recession could prolong this trend.***
- ***Combating "tax-drag" (and the receding gum lines associated with aging) through tax-aware best practices thoughtful, disciplined portfolio management practices (and daily flossing) is now more important than ever.***

What is Deflation?

Deflation could be described as the nuclear winter of recessions. Characterized as a broad-based, persistent asset price decline; full blown deflation results in an unrelenting series of price pressures that alter consumer expectations. Moreover, deflation can exist for extended periods (typically several years). Reluctant consumers postpone purchases, causing prices to fall and demand to slow. Over time, job formation contracts, leading to rising unemployment that further weakens demand and causes subsequent asset price declines (and the process repeats).

But--we are not currently experiencing deflation. We believe a better term for current market conditions is "deflationary pressures" or "the not-so normal" that we described in our June commentary.

What is the Not-So Normal?

Sluggish economic growth with the constant threat of recession just around the corner encourages ongoing monetary easing. In an effort to overcome high debt levels and the economic sluggishness that deleveraging often creates, worldwide monetary authorities have engaged in a collective policy of easing programs (Quantitative Easing or QE). Serial QE programs have been successful at reviving asset prices but have done little to jump-start economic growth.

Portfolio Management – Tax-aware best practices

Core Separately Managed Accounts
Tax-aware investment management is the active attempt to maximize the **after-tax** returns each client investor receives. The core strategy functions as a lower turnover, highly diversified, internally managed tax planning account. We use separately managed accounts within core because they provide greater flexibility, allowing us to treat each security independently and in the most tax-aware manner for each client. As stock returns become dear and volatility grows, tax-aware portfolio management and the use of core separately managed accounts provides the potential for improved after-tax returns.

Asset Location Management
Asset location management, the thoughtful placement of client assets across taxable and tax deferred accounts (i.e. taxable accounts, trusts, 401(k) s and IRAs), is one of the most important planning element in the portfolio. Well-designed location management planning supports the postponing of realized gains and thus maximizes the potential for the after-tax performance of each investor. This can normally be done with little or no adverse pre-tax

return impact.

Tax-Loss Harvesting
Tax-loss harvesting is the process of selling stocks that have fallen below their original purchase price (basis) and then replacing them with an attractive stock alternative (at least through the 30 day wash-sale period). Tax-loss harvesting helps to offset gains realized elsewhere in the portfolio and is a proven method of adding value to client portfolios. **Bear in mind that tax-loss harvesting does not reduce the competitive position of the portfolio.** Charitable gifting of highly appreciated stock tax-lots can allow clients to avoid the realization of large taxable gains that develop over time.

Portfolio management
The discipline resulting from a sound asset allocation can prove especially helpful as late cycle opportunities become scarce. Simply put, asset allocation involved the selection of portfolio assets with an eye toward balancing the risk / reward relationship. Having the flexibility to blend our large cap core portfolios with growth and value stocks provides improves diversification and the ability to react to changing market conditions–and this has been especially the case with the new normal. With a "buy and hold" strategy we can strive to provide improved after-tax performance through lower turnover and thereby minimize tax and transactions costs. We continue to seek ideas that meet our strict criteria for value and remain diversified across all relevant sectors of the market. This late in the economic cycle it is especially important to stay disciplined and vigilant to speculative excesses.

Thoughtfully managing portfolios in a tax-aware manner is, in our view, the better way to limit portfolio tax drag and support each client's long-term portfolio objectives. Providing competitive portfolio results within a Not-So Normal time frame involves more than gross pre-tax returns. We believe that employing a core approach and separately managed accounts along with ongoing tax-loss harvesting (and daily flossing) is the best way to add value in a market growing "long in the tooth."
