Foresight
Capital Management Advisors, Inc.

Newsletter 2Q 2015 and Market Summary

FCMA's Model Portfolios have YTD positive earnings averaging:
Conservative Model +1.87%, Moderate Model +2.08%, and Aggressive Model +2.38%.
All ahead of the S&P 500 YTD which is only +.20%!

Foresight is pleased to introduce:

Our Newest Interns!

Trent Strang-Olivet College

Corey Boller –EMU BBA

Congratulations to
Danielle Rathfon our Saline High Assistant, All State Soccer Champion, and Graduate who will attend Heidelburg,OH!

In June three Foresight professionals attended the national Morningstar conference in Chicago to glean the latest economic insights from world experts addressing the yearly conference. In May the 50th Berkshire Hathaway Annual Shareholders Meeting was attended. See page 2 for story.

***Recently Foresight launched an Exit Planning Newsletter.** This newsletter features topics on business succession planning and retirement planning we can assist you with. If you would like to be added to this newsletter list or know someone who would be interested in receiving the information please contact us at consultant@fcmadvisors.net. Did you know about 75% of all businesses do not have a succession plan?*

Foresight Client Base

FCMA Model Returns
June 30, 2015 YTD

Conservative Model	+ 1.87%
Moderate Model	+ 2.08%
Aggressive Model	+ 2.38%
Indexes:	
S&P 500 Index	+ 0.20%
MSCI EAFE Foreign	+ 3.81%
10Yr T-Bond Index	+ 0.18%

Future performance is not guaranteed; above returns are 2pt actual averages

Foresight's Portfolio Strategies

Greece, China, and now Iran all three of these countries have carried the news lately. Here's Foresight's thoughts on how they might impact investments….The Greece debt issues will take some time to work out, but we believe Greece will stay in the European Union and not impact global investments. Partly due to Greece is just not that big considering it is smaller than Alabama and the U.S. has not directly lent any money to Greece. China's stock market has retracted 30% in the last month and had many days of halted trading. Their economy is slowing and adjusting to demands of a growing middle class. The average China wage has increased from .60 cents per hour in 2002 to $1.74 in 2009,and believed to be near $2 per hour currently, according to the U.S Bureau of Statistics. This tripling of wages has put a strain on the China system. The slowing in China will show up in reducing 10% GDP down to 6.8% GDP growth, which is still decent. However the China slowing has sent oil and metals prices lower due to lower demands. The recent Iran Treaty, to lift sanctions and monitor nuclear developments, will likely also put downward pressure on oil prices. The good news is oil is near $54 per barrel and the U.S. is profitable if it stays above $40 per barrel according to Salient Investments of Texas. The Foresight portfolios have a nice lead over the S&P 500 for 2015, but the market is still choppy as reduced earnings forecasts and interest rate jitters have most uncertain what is to come. The "Goldilocks Economy" is in full swing and most companies are prepared for the impending interest rate increase. Corporations have large cash savings and solid balance sheets. We believe the U.S. will remain the country to invest in and continue sustained economic expansion with low inflation. The economy is considered in its late mid-cycle phase and at this time technology, financials, and healthcare should perform decently well for 2015. Unemployment lowered to 5.3% in June, inflation is at 0% as of May 2015, and gas prices still near 20 year low; this all means positives for the US consumer. We expect the Federal Reserve will raise interest rates sometime in 2015 and the dollar is likely to continue to strengthen against foreign currencies. Dr. David Kelly of J.P. Morgan stated, at the recent Morningstar conference we attended, that full employment is actually 4% . Jobs are coming back, but they are parttime and he stated 3M are working parttime but want fulltime. He expects 2015 not to be a great earnings year due to U.S. dollar strenghtening and exports are more expensive. In May 2015 the Millenials have become the largest workforce employees surpassing the Gen X group! Also at Morningstar, Sallie Krawcheck of Ellevate, stated that although the U.S. is the wealthiest country we still have a $14T savings shortfall in retirement portfolio savings! She said, "This retirement crisis is a womens problem". Women live 6-8 years longer than men and the shortfall will happen during these late years. A Foresight team in May treked to Omaha Nebraska to hear Warren Buffet and Charlie Munger conduct the 50th Berkshire Hathaway Annual Shareholders meeting. Their insights were convincing that if you buy undervalued companies of products that Americans love and manage them right they will be very profitable. Warren Buffet stated that his recent stake in the Kraft Heinz merger was in products Americans love. He also stated that, " he never sees a smile on Whole Foods employees but Dairy Queen employees always bring a smile". The Berkshire annual meeting was as much knowledge as well as great discount shopping with all the Berkshire companies goods from cowboy boots, Sees chocolates, Fruit of the Loom, Dairy Queen, Furniture, Net Jets, Brooks tennis shoes, Borsheims Jewelry, and Born shoes to mention a few. We learned a lot from the " Oracle of Omaha"! Lastly, an interesting fact pointed out by economist, Fritz Meyers, of Advisors4Advisors, is when the Fed Reserve first raises interest rates the market usually stutters and stocks lower, and then stocks lift off and begin to rise the remainder of the interest rate hikes! Meyers reiterates that recessions only happen when the yield curve is flat or inverted and he believes GDP will likely hit 3% for 2015 and 2016 which is another indicator that the US economy is doing just fine. The US bond curve is very steep at its present time so we see the next recession not for several years to come. We expect European stocks to continue to react to the QE money stimulus much like the US did in 2010. We believe global diversification is still the best way to continue to invest and win in the long run. The concensus of most economists, we have heard recently, stated they believe the U.S is the healthiest economy and should do decently well the next few years, even when interest rates do rise. The next upcoming recession in a few years is likely to be a very mild recession. See article from the Wall Street Journal , Monday March 9, 2015, " How to Survive a Bear Market" by E.S. Browning.

This quarter Foresight added Financials, Emerging Markets, and continued with Europe in the mix of foreign holdings in your portfolios. We remain globally invested and we are cautiously optimistic that 2015 will be a decent year in the market despite the strong likelihood the Federal Reserve will raise interest rates later in 2015. For clients with stock portfolios we continue to have many stop-losses in place as a defensive measure to hold onto gains that have been earned in the stock holdings should the market decide to fall abruptly. For the 3Q 2015 we have increased our holdings in financials, communication, health, and foreign, including Europe specifically. Foresight reduced our holdings in utilities, energy, real estate and industrials. We have the bond portion of the portfolios ready to handle an interest rate increase by utilizing convertible bonds and floating rate interest. We are maintaining our overall portfolio strategies for 2015, and expect decent corporate earnings and a healthy US economy to continue into 2015. Remember the US is not too hot or not too cold, and continues to be just right at this point!

Foresight Planning Ideas

Did you Know? If you have Roth 401(k) it is wise to roll these funds to a Roth IRA before you turn 70 ½ because if the Roth funds are left inside a 401(k) they must take RMD (required minimum distributions) just like the pre-tax funds which defeats the purpose of letting the Roth grow! However if you roll it over into a Roth IRA before 70 ½ then you do not need to take the RMD from the Roth IRA. This is a very important hint to remember!

Did you Know?: You can take a distribution from your 401(k) or 403(b) prior to age 59 ½ without a 10% penalty; if you have separated from service no earlier than age 55. Funds must be in a 401(k) or 403(b) and cannot be in an IRA. Additionally, if you retire and wish to begin normal distributions prior to 59 ½ then a 72-t calculation can be done to allow funds to be removed from your IRA without a 10% penalty as long as you have separated from service.

IRS Contribution Limits rise for 2015! $18,000 deferral max and for 50+ $24,000 deferral.

Happy 80th Birthday Social Security Plus Happy 50th Birthday for Medicare! Although these two programs have their issues and privatization may be considered according to AARP, no politician, as FDR predicted is in no position to take them away. If you would like Foresight assistance on determining when it is best to begin taking your Social Security please contact us.

New Website Calculators: Foresight has rolled out a new upgraded website! It will have many enhanced financial calculators; real time stock quotes, and a library of great articles on many financial topics. Please check out www.fcmadvisors.net.

New Health Savings Accounts-HSAs with Foresight at Schwab and TD Ameritrade: . Coming soon you can open an HSA account with Foresight and choose to have the funds invested in our Conservative Mutual fund portfolio! If you have a High Deductible Health Plan then you can consider opening a HSA = Health Savings Account. The HSA will allow you to save in 2015 up to $3,350 for single and $6,650 for a family; if +55 then $4,350 for single and $7,650 for a family. The HSA savings are not subject to Federal Tax and will grow, much like a Roth IRA, with no tax due if used for all qualifying health expenses, note cannot be used to pay health insurance premiums. If you are interested in more information on this strategic investment idea for your healthcare savings please contact us. 2015 HDHP=minimum deductible for single $1,300 and family $2,600 and out of pocket maximum for single $6,450 and family is $12,900.

Roth IRA Ideas if interested in additional savings ideas consider opening a Non-deductible IRA. This will allow you to save the maximum in your 401(k) and also save an additional $5.5k in a Non-deductible IRA, and $6.5k if age 50+. Then convert the Non-deductible IRA to a Roth IRA! It is a way to obtain Roth IRA funds even if you are not able to save directly into a Roth IRA.

Auto-Enrollment and Auto-Increment Options for Retirement Plans: Please consider adding both or one of these important options to your company's retirement plan. They allow every employee who is eligible to be automatically enrolled at the beginning of the year, and if Auto-increment is added the company can increase the savings of each employee by 1% each year. The employee has the ability to opt out of the "Auto", but history has shown few do. Therefore the company has accomplished something good for the employee by automatically setting up savings for their retirement! Please contact us if you are interested in pursuing these features. They are very inexpensive to amend and add to your current company plan. We recommend adding them by October 2014 to implement by January 2015.

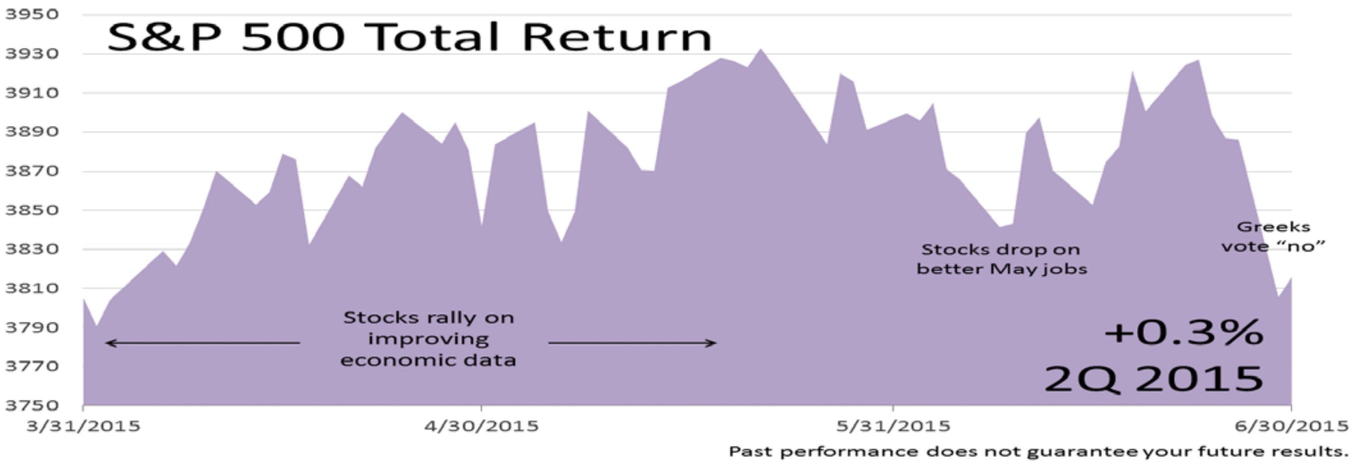
Target Date Funds-The Next Retirement Dilemma: Foresight completed a white paper on Target Date Funds-The Next Retirement Dilemma. This is now published on a national website at fi360.com. It contains research related to TDFs and is quite eye-opening. Please email us at consultant@fcmadvisors.net if you would like a copy to read.

Feeonlynetwork.com: Foresight is now a published advisor on-line at www.feeonlynetwork.com. This is a website to locate fee-only advisors in your communities. Check it out and see a video from the AIF® national conference when Laurie was interviewed about our investment processes at Foresight!

Foresight's New WebPortal Reporting: Are you getting your quarterly reporting from us? If not please let us know so we can help you access it online through our web portal or send you a copy in the mail. We want our communication to be timely and beneficial to you. If you have any access issues please call or email us at 1-877-429-4690 or mgallagher@fcmadvisors.net. Soon we will be sending you a survey to get feedback on the use of the WebPortal.

On-line Access each year we encourage everyone to test your on-line access to your account(s) at the custodian or third party administrator for your plan. Please visit **Journeyrps.com** or **Noblepension.com** if a retirement participant. For individual clients at TD Ameritrade access **Advisorclient.com** for Schwab Institutional Clients access **Schwaballiance.com.** If you have any difficulty accessing your account, please email or contact us for assistance.

Newsletter 2Q 2015 and Market Summary



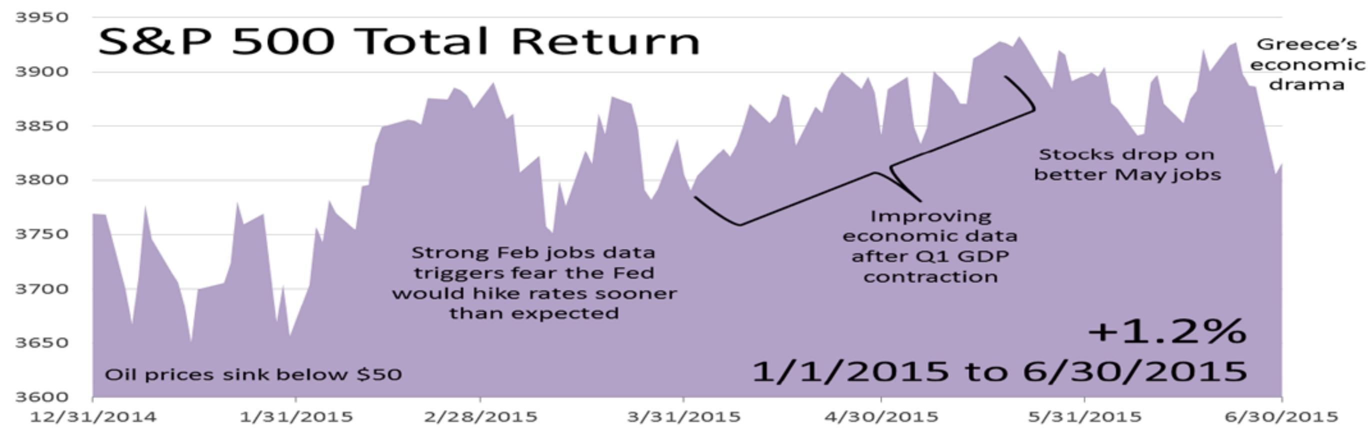
U.S. stock prices rose in April and May but dropped sharply in the final days of June.

Literally, it was a Greek tragedy, along with a stronger than expected economy, that preceded the June swoon.

Stocks had traded steadily higher in April and May. Signs of an economic rebound were welcomed, for they followed a dismal first quarter, when the American economy shrank two-tenths of 1 percent.

Ironically, improving economic data set the stage for the drama. After it was announced on June 5 that the economy had created 254,000 new jobs in May 2015 — more than double March's 119,000 — investors suddenly feared the U.S. Federal Reserve Bank funds rate hike was coming sooner than expected. Then, the Greek debt crisis hit and threatened to expose a fracture in the European Union. U.S. stocks sold off, as the world watched economic drama unfold in Greece.

Stocks nonetheless eked out a fractional total return of three-tenths of 1 percent.



Having run up into year-end 2014, crude oil's 50% collapse in price contributed to the stock market's January jitters.

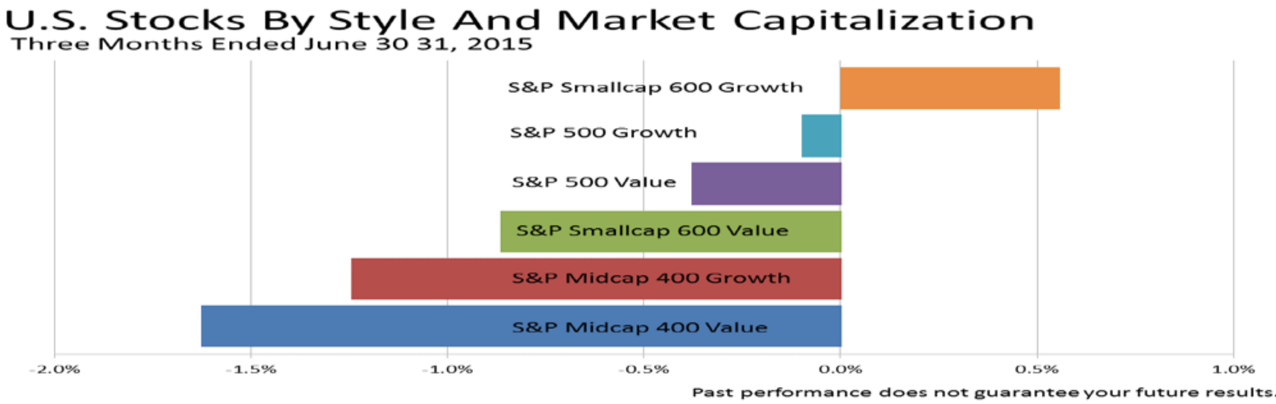
In early March, February's strong jobs data had investors reassessing when the Fed might hike rates — maybe earlier than had been thought — maybe as early as June.

Stocks traded steadily higher in April and May on signs of an economic rebound following the first quarter's dismal -0.2% GDP contraction.

Among the improving economic data, however, came May's better-than-expected 254,000 new jobs (up sharply from March's 119,000), which caused investors to reassess and pull forward their forecasts for the Fed's rate hike.

So, perversely, the good economic news was behind June's stock market slump.

And, in the final days of June stocks sold off again on the uncertainty created by Greece's prime minister putting creditors' demands to a referendum vote. On Sunday, July 5 Greek voters said "no."

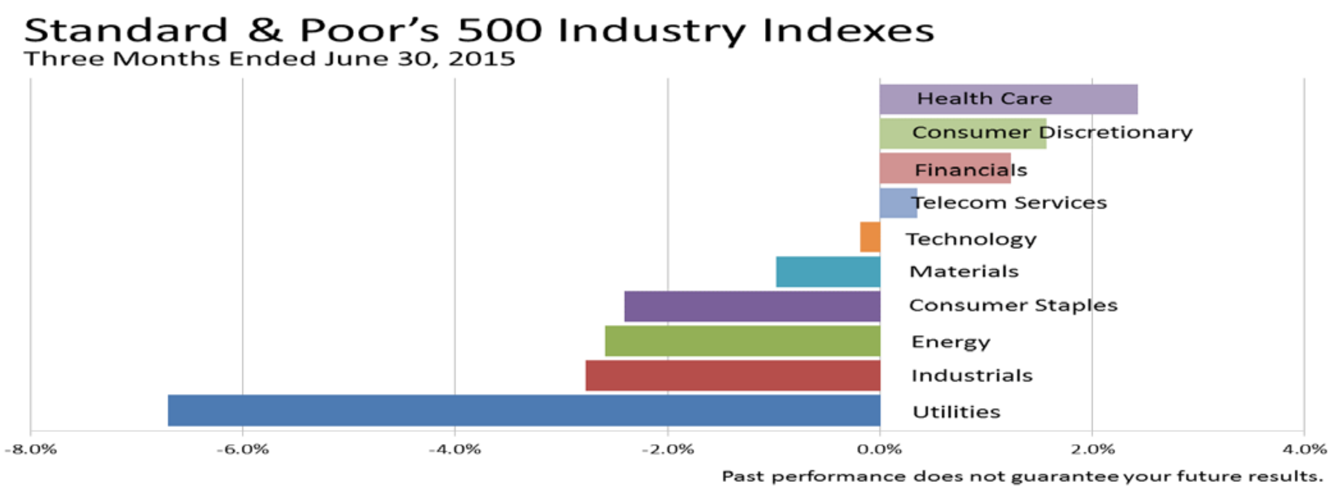


Small-cap growth led for the quarter ended June 30, 2015, but that makes the U.S. stock market's performance sound more exciting than it really was.

Small-cap growth companies were the only positive return in the U.S. stock market, and they turned in a whopping six-tenths of 1 percent total return.

The degree of dispersion among segments of equities was minimal.

The returns on all six classes of U.S. stocks fell within a narrow 2 percentage-point band.



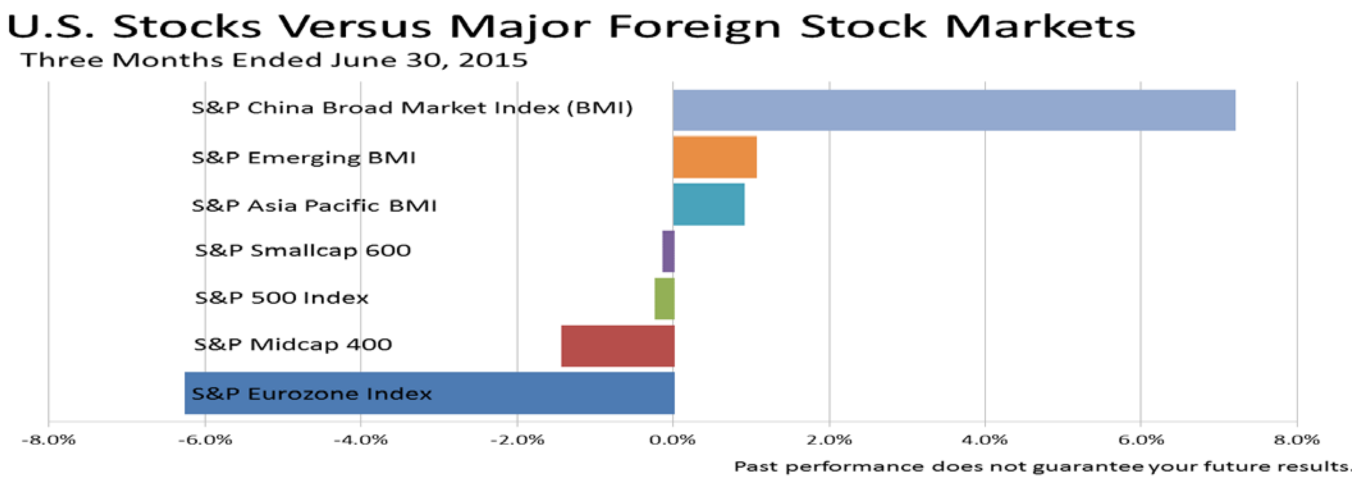
Among the S&P 500's 10 industry sectors for the three months ended June 30, 2015, utilities were a standout, with a 6.7% loss.

Health care stocks, meanwhile, were the biggest market-beaters of the sectors, returning 2.4% in a quarter in which industry indexes, as group, went sideways.

Health care companies, which were also a top performer in 2014, were followed by discretionary consumer stocks, which lagged in 2014 but has been a leader in both quarters of 2015.

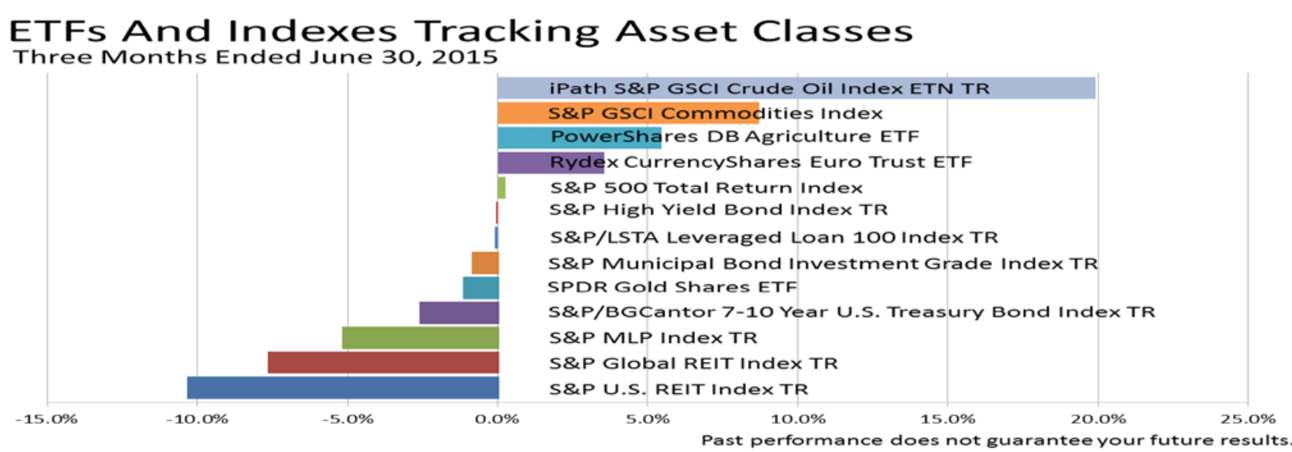
In contrast, utilities, the top sector last year, has been at the bottom of the list in both quarters of 2015.

Energy companies continued a slide that began in the fourth quarter of 2014.



In the major foreign stock markets, for the three months ended June 30, 2015, China surged on margin-fueled speculation. Europe sold off after trading sharply higher in the first quarter of 2015.

The S&P 500, following a well-above average 13.7% gain in 2014, has been taking a breather, even though the economic data and outlook continue to look healthy.



Second-quarter 2015 returns of a broad range of 13 assets asset classes show a large disparity between top and bottom performers.

The 30-percentage point spread between the top asset class for the quarter, crude oil, and the bottom asset class, REITs, is a good example of why diversification is important.

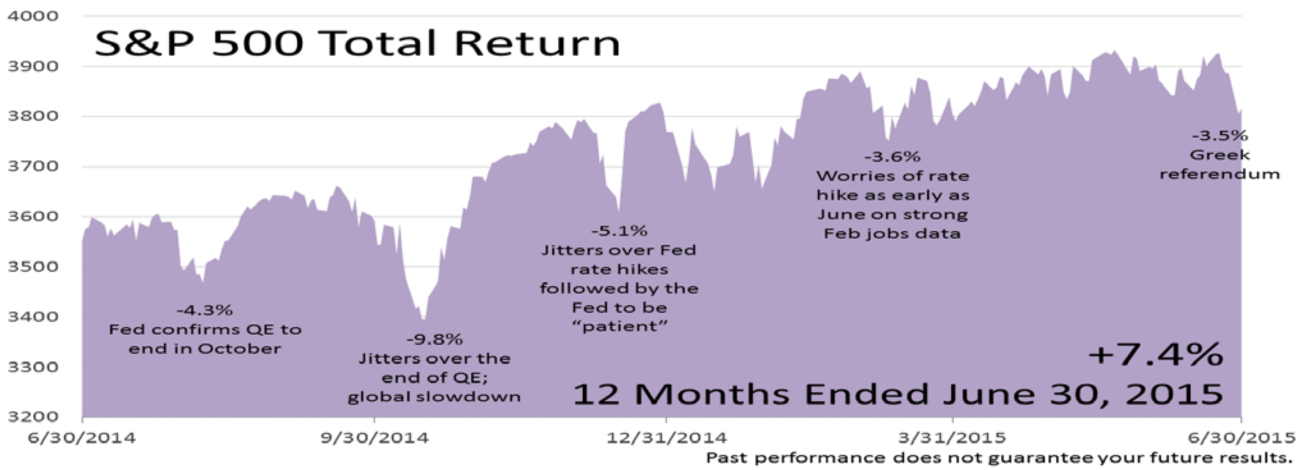
Crude oil and the broader commodities indexes all snapped back after being pounded in the first quarter; likewise for the euro currency.

U.S. and global REITs, after leading in the previous two quarters, trailed the pack.

Master limited partnerships (MLPs) had been a top-performing asset class for years, but gave up more ground on the continued weakness in crude oil prices.

Fixed-income prices lost ground as bond yields crept higher in the second quarter, following a strong opening of the year.

Examining performance over three months is interesting because it reveals the volatile nature of investing. Of course, long-term data is a lot more important.



For the 12 months ended June 30, 2015, the S&P 500 — which measures the value of America's largest companies — gained 5.3% in price and 7.4% with dividends.

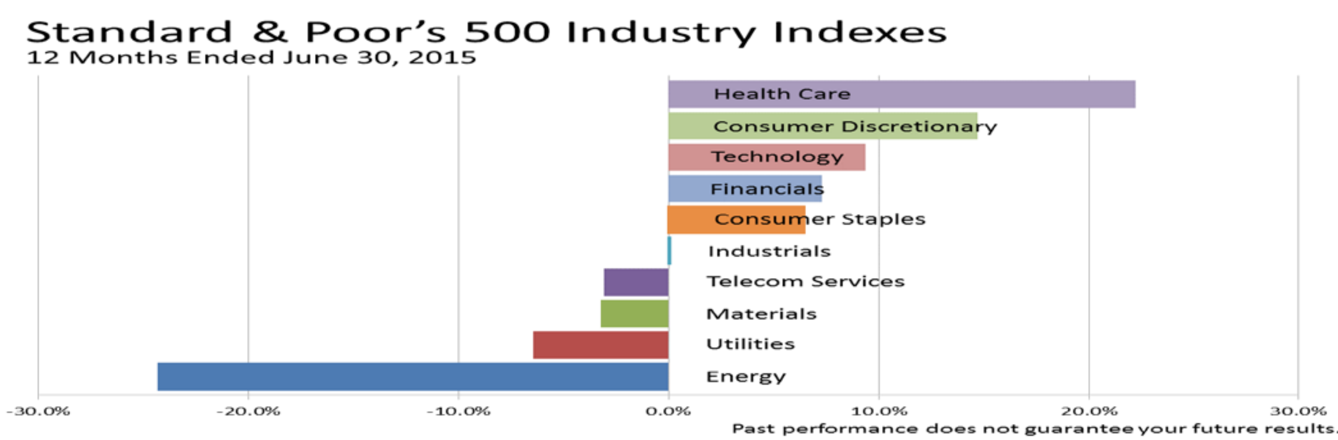
The S&P 500's long-term average annual total return is about 10%, making the past 12 months below average.

But this follows many years of exceptionally strong returns, as stock prices recovered from the March 2009 bear market bottom.

The stock market did not experience even a 10% a correction in the 12-month period, although there was the 9.8% dip.

Most of the year's stock price dips were related to fears about the end of monetary stimulus by the U.S. Federal Reserve Bank, which occurred in October 2014, and then worries about when the Fed would raise rates.

A steady flow of strengthening economic data trumped the fears and gradually drove stock prices higher in the first half of 2015 – although we did experience a cliffhanger at the end of the quarter when the Greek debt crisis made headlines for weeks.



Among the S&P 500's 10 sectors for the 12 months ended June 30, 2015, health care has outperformed all other industries by a significant margin.

Health care's subgroups almost all experienced growth, in particular managed care and biotech companies.

Consumer discretionary stocks had another very strong quarter, as the employment situation improved substantially. Job openings hit new record highs levels.

With crude oil's continued weakness, energy companies tanked for the third quarter in a row.

Utilities also have suffered recently. Second-quarter bond yields rose, as did fears that rising rates might come sooner than expected.

The bull market turned six and one-quarter years old this past quarter. That is a long-time for the bulls to run.

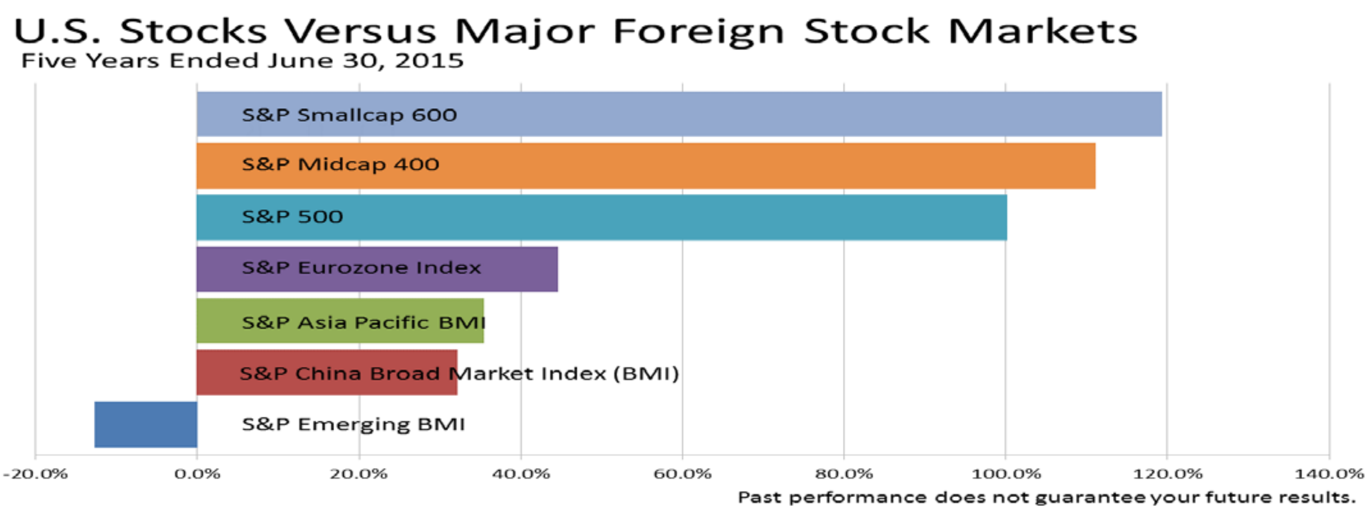
From its low point of 677 on March 9, 2009, to the June 30, 2015, close at 2063, the value of America's blue-chip companies tripled.

Over the last five years, with dividends reinvested, the S&P 500 total return was 122%. Investors in stocks more than doubled their money in five years.

Since 1900, only three of 23 bull markets have lasted six years or longer. The likelihood of a bear market — a correction of at least 20% — increases as the bull market grows older.

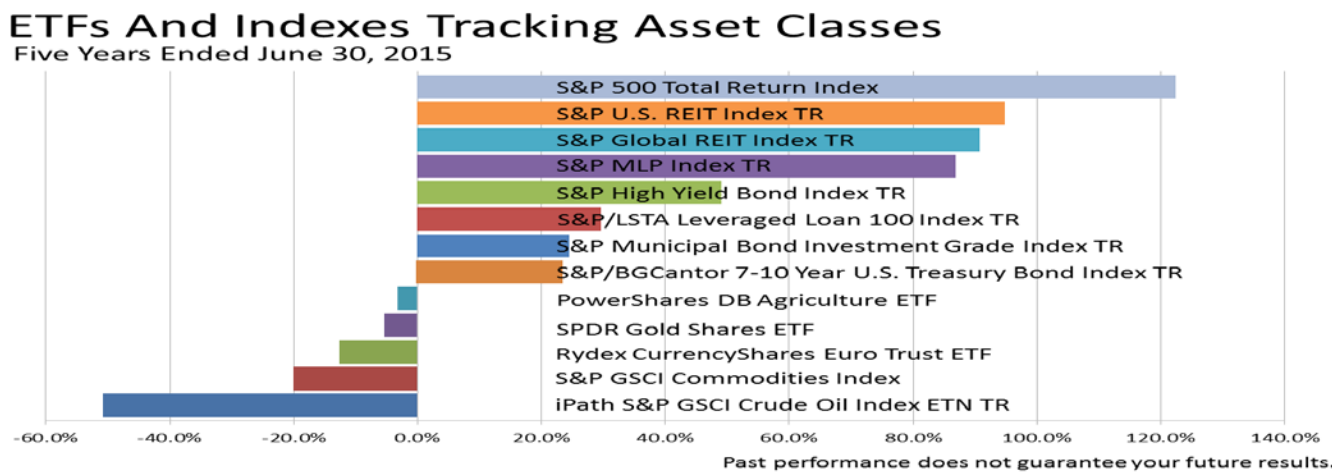
As the third quarter of 2015 began, however, fundamental economic conditions that have accompanied bear markets in the past were not present.

Traditional precursors of a market downturn — such as restrictive Fed policy, signs of slowing economic growth, stock market overvaluation, and irrational exuberance — were not evident.



For the five-year period ended June 30, 2015, the U.S. led the global economic recovery that followed the global financial crisis of 2008, and the S&P 500 index doubled in value while Eurozone stocks gained 45%, Asia Pacific issues returned 36%, China gained 32%, and Emerging Markets stocks lost 13% of their value.

This five-year period is a testament to the resilience and strength of the United States.



This is an important chart for a couple of reasons:

No. 1 — It shows the returns on 13 assets, a diverse array including European stocks, commodities, and bonds.

No. 2 — It spans a five-year period, a long time.

Atop the chart, the best investments by far, were American companies.

Once again, investors have seen the power of “stocks for the long-run,” the title Professor Jeremy Siegel’s seminal book.

Also among the best-performing asset classes for the five years were real estate investment trusts (REITs), both U.S. and foreign, and Master Limited Partnerships.

The worst asset class on our list for the past five years was crude oil and other commodities, along with the euro currency. The euro lost 13% versus the U.S. dollar over the five years.

As for the bond total return indices, U.S. Treasuries returned 23%, or 4.6% per year. Municipal bonds gained 25%, or about 5% per year. Leveraged loans gained 30%, or about 6 % annually, while high-yield “junk” bonds gained 49%, or about 9.8% per year.

Gold, in this five-year period, shot from approximately $1,200 an ounce to $1,800 before losing luster, recently settling at $1,120. Gold bulls had counted on the Fed’s liquidity program going too far, triggering inflation and “debasing” the U.S. dollar. It never happened. Inflation and bond yields are lower than investors, including the Federal Open Market Committee, the central bankers who make up the Federal Reserve, had expected.

The stock market has gone virtually straight up for three years without a 10% correction.

Janet Yellen, chair of the Federal Reserve, declared publicly that stocks are “quite high.”

Her comment was reminiscent of a speech in 1996 by the then Fed chair, Alan Greenspan.

Greenspan famously declared investors in stocks were exhibiting “irrational exuberance,” whereupon stocks proceeded to double before finally peaking in the tech bubble that punctuated the last year of the last millennium.

The last five years have been a very unusual period again. Stocks moved higher and fast. In the media, some are saying we’re in another stock market bubble.

The implication of a term like “bubble” is, of course, something that’s apt to pop.

In our opinion, however, that’s very unlikely.

The stock market in the last three years was simply catching up to where it should be.

Based on economic and earnings fundamentals, the S&P 500 was valued fairly early in the third quarter of 2015.

They were not “apt-to-pop” because they were priced well within the range of their valuation levels historically.

Let’s take a look at another chart that indicates the recent bull run since has set stocks back on course with their long-term trajectory.

Source: Standard & Poor's. Data through June 2015. [1] S&P 500 total return index. [2] Compound annual growth rate.
[3] per Professor Jeremy Siegel's seminal *Stocks for the Long Run*, first published in 1994.

This line in the black shows a 9.5% annual growth path since 1991.

It illustrates how the latest three-year leg of the six-year bull market simply has put the S&P 500 back on track with its long-term growth trajectory.

Those who think we are in a bubble that is about to pop seem to have forgotten just how devastating The Great Recession was, and how it set back stock prices for 18 relentless months.

Rising corporate earnings have resulted in stock price appreciation of 7.4% annually, plus 2.1% from reinvested dividends, which is equal to the S&P 500’s total return of 9.5% per year.

The S&P 500 total return over the last 25 years is right in line with the stock market’s long-term returns going back to 1926, and back even further to 1871.

While the last three years have been great, they have not put us in bubble territory.

S&P 500 Versus Actual And Estimated Earnings

¹ Estimated 2015 and 2016 bottom-up S&P 500 earnings per share as of June 25, 2015: for 2015, \$119.06; for 2016, \$133.74.
Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through July 2, 2015; and actual earnings data through 2014.

In the short term, many things influence stock prices. In the long term, however, earnings drive stock prices.

Apply a price/earnings multiple of 17 to the S&P 500 earnings and the red line in the chart above is the result.

The dramatic earnings recovery from the 2009 bottom that you see here is precisely what accounts for the stock market climbing the wall of worry over the last six years.

This chart also shows how dramatically stretched the market's price-earnings ratio became at the peak of irrational exuberance in the late 1990s.

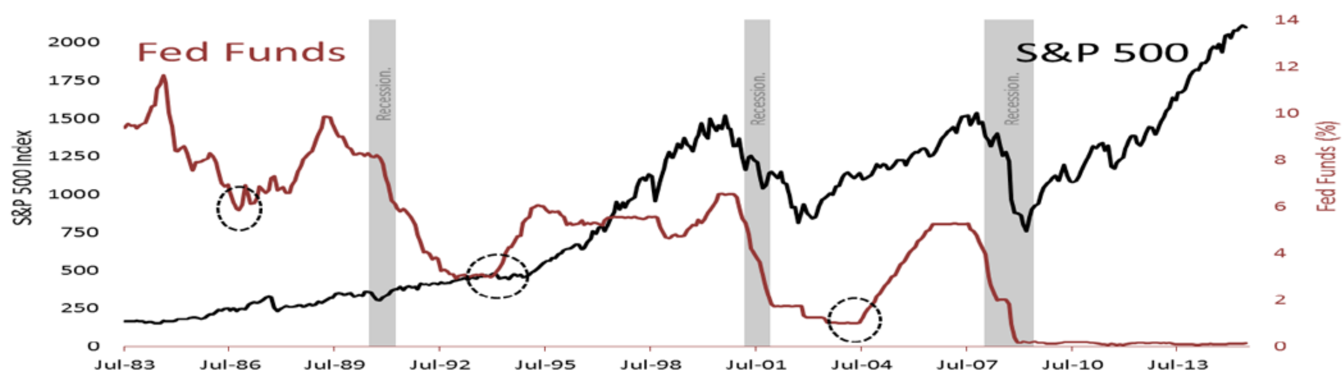
At the end of the second quarter of 2015, Wall Street analysts' estimates of S&P 500 earnings for 2015 and 2016, multiplied by 17, are indicated in the red squares.

Even if Wall Street analysts prove to be only ballpark-accurate, stock prices seem poised to be pulled higher by rising earnings in the period ahead.

World events and crises could throw investor sentiment into a tailspin at any time. Barring something dramatic out of left field, the possible trajectory of stock prices is indicated in the dotted line.

Despite the terrific run stocks have had for more than six years, valuations are not stretched unreasonably, particularly when compared to the second half of the decade of the 1990s when irrational exuberance really took over.

First Fed rate hike bad for stocks?



Sources: NBER, Federal Reserve and Standard & Poor's. Data through June 2015.

Most of the stock market's brief pullbacks in 2014 and 2015 have been over worries that the Fed might initiate funds target rate hikes sooner than had been anticipated.

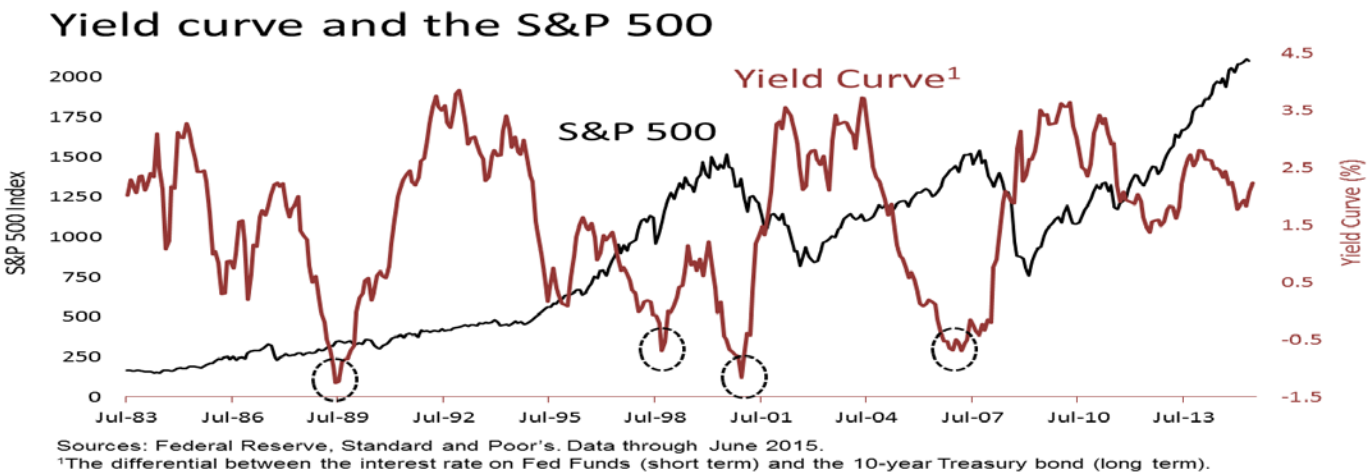
So in this chart we have taken a look at how initial rate hikes actually have impacted the stock market.

The red line shows the interest rate hikes and the black line shows stock prices going back to July 1983, covering three turning points for interest rates.

Looking back at these pivotal moments in the past three interest rate cycles, you see that Initial Fed funds rate hikes have indeed caused the stock market to stutter.

But, after the initial stutter, stocks continued higher even as the Fed hiked rates repeatedly.

The important takeaway from this chart is to appreciate how long historically the lag has been between an initial rate hike and the ultimate stock market peak and subsequent onset of recession. The pattern is unambiguous.



The red line in this chart represents the "yield curve," which is the differential between short-term rates and long-term yields.

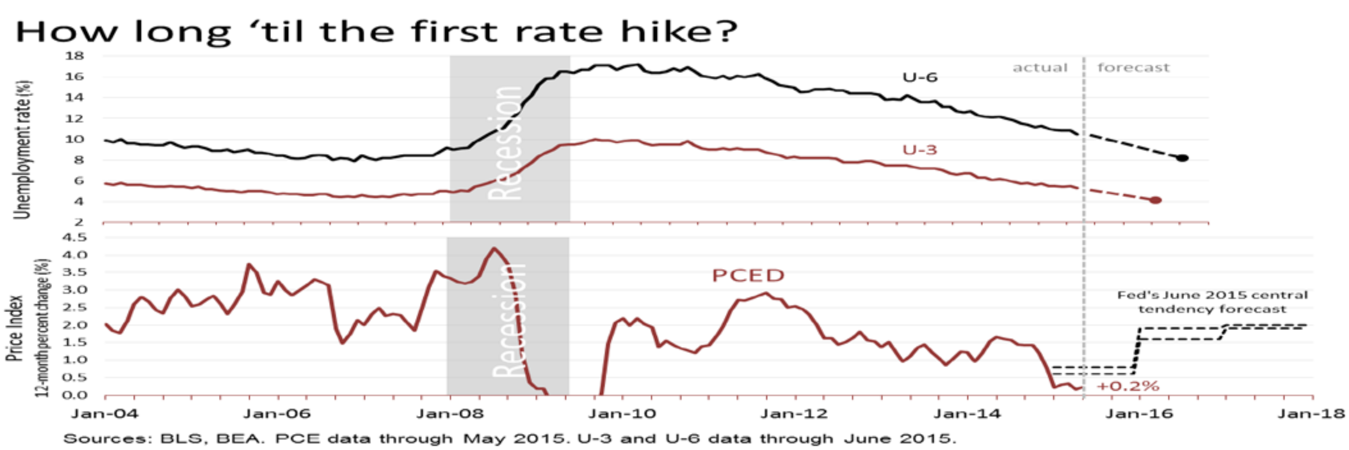
Looking back at the yield curve since 1983 shows a pattern important to investors now.

When the differential has been large — when the value of the red line has hit 2 or 3 — it was a good time for stocks. The yield curve is steep when the economy was growing robustly.

Conversely, when the yield curve is small or negative — when the Fed has ratcheted short-term rates higher to converge with bond yields — the resulting flat or inverted yield curve has preceded recessions.

Because flat or inverted yield curves have led to recessions, they also have reliably signaled the onset of significant bear markets in stocks.

Importantly, in the period since 1983 illustrated in the chart, above, there have been no significant stock market corrections *without* the yield curve first having gone flat or inverted.



Recent stock market volatility has been caused by worries about how soon the Fed's anticipated rate hike might come.

The answer to that question lies in the Fed's dual mandate.

When the U.S. Congress amended the Federal Reserve Act in 1977, it essentially gave the Fed a dual mandate: to promote maximum sustainable employment and price stability. The Fed's dual mandate calls for full employment with a target of 2% inflation.

Because inflation is running far below 2% — two-tenths of 1% for the 12 month ended in May — which is well below the Fed's own forecast, the Fed has plenty of leeway not to raise its target rate. It is likely to maintain maximum monetary stimulus to keep driving unemployment down.

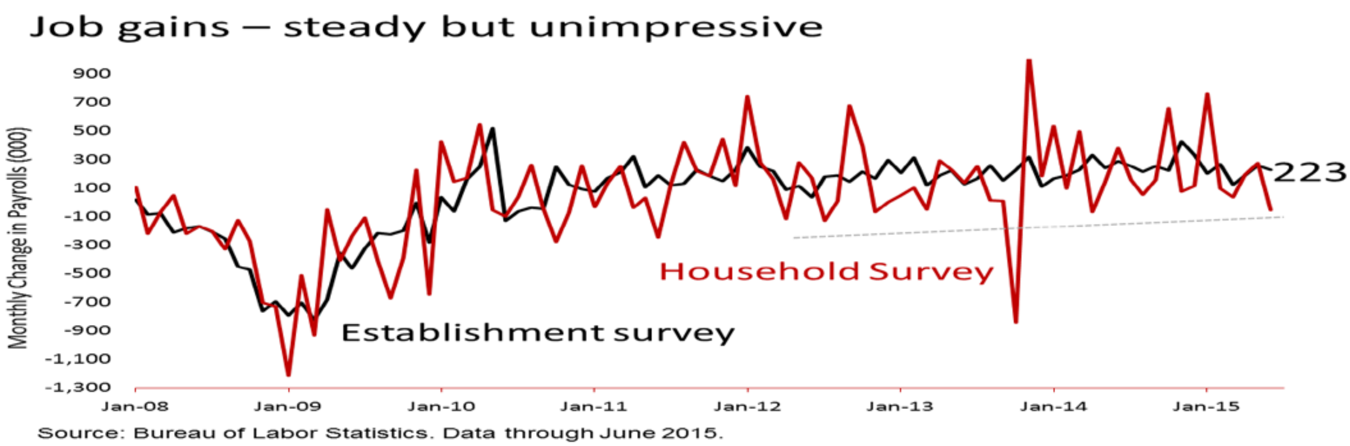
Extrapolating the Fed's recent trajectories suggests that the U-3 and U-6 unemployment rate measures might not revert to full employment "normal" until well into 2016. U-3 gets there first, followed by U-6.

So how long off until the first rate hike? The Fed may want to anticipate, or "lead," the inflation data, which could put the first rate hike on schedule to occur in the latter part of 2015.

U-3: Total unemployed persons, as a percent of the civilian labor force (the official unemployment rate).

U-6: Total unemployed persons, plus all marginally attached workers, plus all persons employed part time for economic reasons, as a percent of the civilian labor force plus all "marginally attached" workers (the broadest measure of unemployment).

$$\text{U-3 unemployment rate} = \frac{\text{total unemployed}}{\text{total employed} + \text{total unemployed}}$$

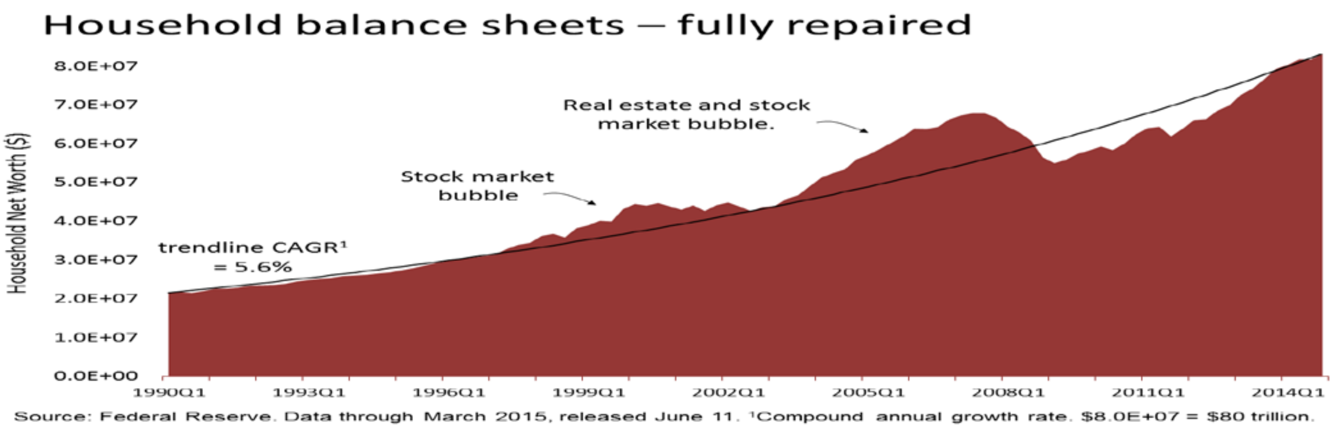


In June, 223,000 jobs were created by the economy, according to one of the key measures of job growth, the so-called establishment survey of 140,000 businesses conducted by the Bureau of Labor Statistics. Monthly job growth has been steady but has not picked up momentum.

The household survey conducted by the government, which measures the employment situation in 60,000 households, had been showing some upward momentum until the disappointing June reading. But the household survey is very volatile month to month.

On the bright side, the recent surge in unfilled job positions may mean we are about to see improving job formation ahead.

Net new job formation is a key driver of consumer income and spending and, hence, GDP.



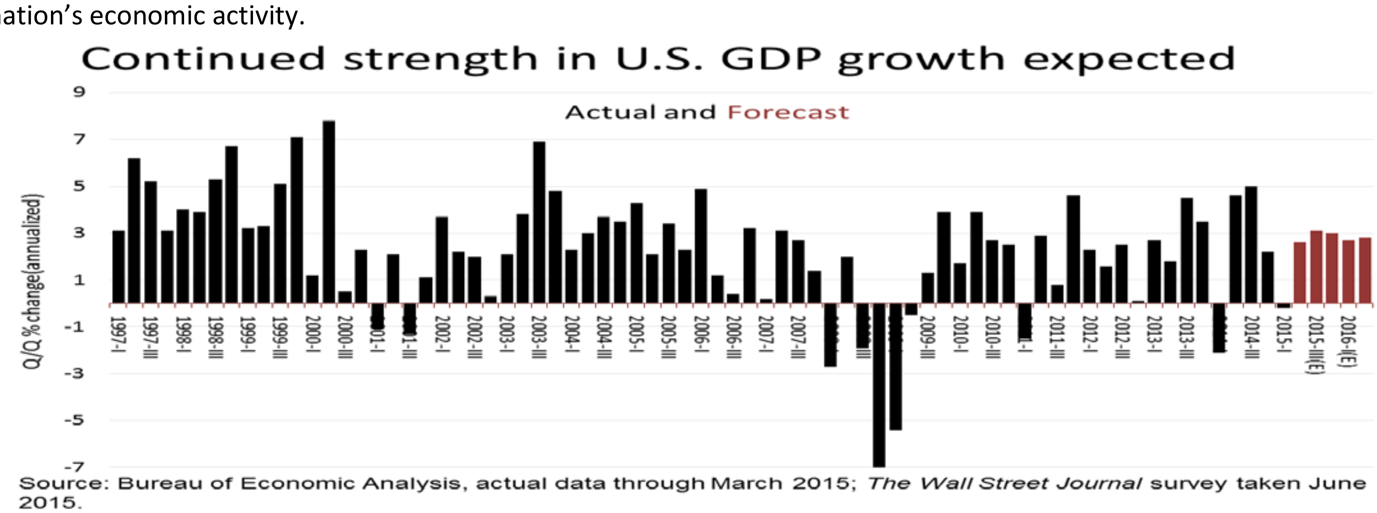
One of the key drivers in the economic outlook is household net worth.

Consumer spending and investor behavior are influenced by their feelings of wealth, or lack thereof. Economists refer to this as the “wealth effect.”

The black line shows the long-term compounded annual growth rate in household net worth versus its actual growth quarterly. It shows that in early 2014 household balance sheets caught up with their long-term growth trend.

While Americans household balance sheets were ravaged by the collapse in the stock market and real estate assets after the global financial crisis and The Great Recession, household balance sheets now have been repaired fully.

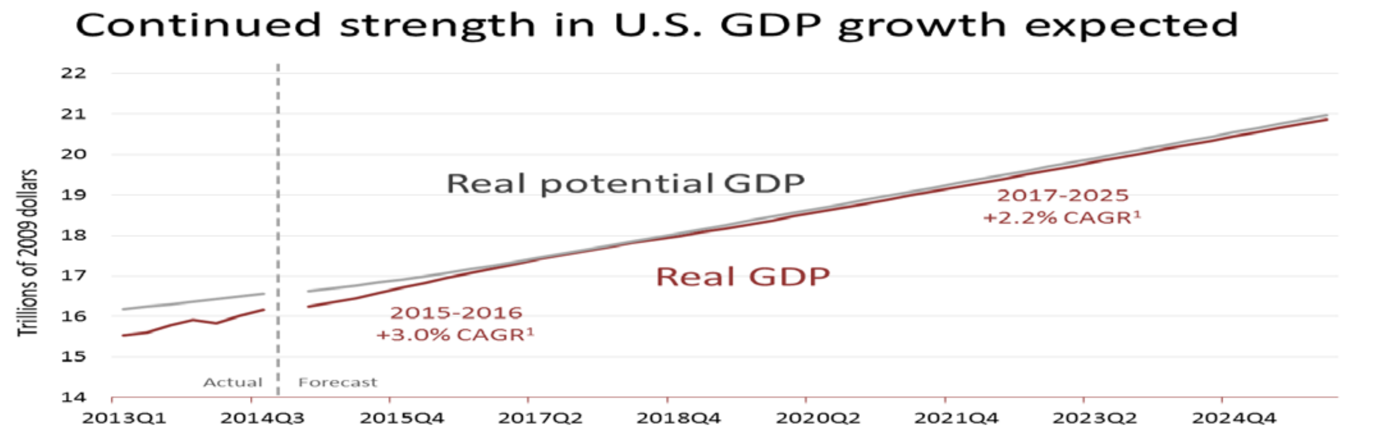
It’s an important, positive backdrop for the economic and markets outlook, since consumers represent 70% of the nation’s economic activity.



In early June, *The Wall Street Journal* surveyed approximately 70 economists concerning their quarterly GDP growth forecasts through mid-2016.

The resulting consensus forecast is illustrated in this chart.

In that survey economists generally saw a snap-back to almost 3% GDP growth ahead.



Source: Congressional Budget Office (CBO), *The Budget and Economic Outlook: Fiscal Years 2015 to 2025*, January 2015. [1]Compound annual growth rate.

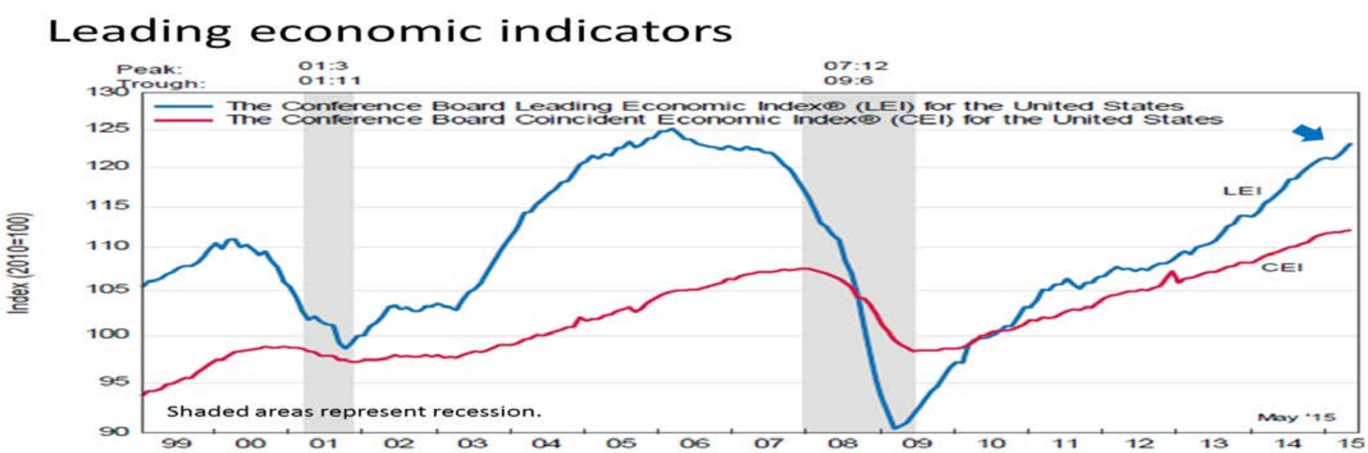
Here's the big picture on the economic outlook, according to the Congressional Budget Office's January 2015 release of its 10-year economic forecast.

According to CBO, U.S. economic output ultimately will revert to its long-term *potential* growth track, as we gradually return to full employment. That's when the red line and black line converge, which doesn't occur for several years.

It's an encouraging forecast because *CBO is* projecting economic growth averaging 3% through 2016.

If that expected growth rate from CBO is accurate, it would explain why stocks have run steadily higher without even so much as a 10% correction, and why the steady run higher in stock prices may have further to go.

Economic projections can be very hazardous, of course, but CBO's bipartisan research does make sense.



Source: © The Conference Board. Data through May 2015, released June 18, 2015.

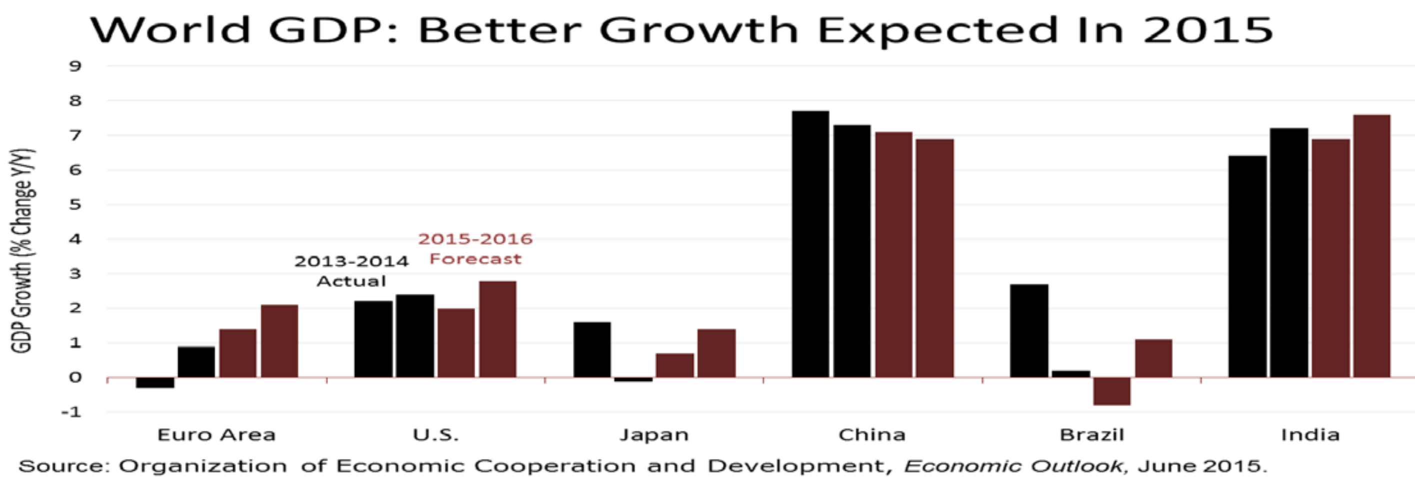
The Conference Board's index of leading economic indicators is perhaps the most widely watched barometer of economic growth.

It historically rolls over before recessions hit the economy.

The June 2015 release of May's leading indicators contains no sign of that happening.

In fact, following a pause earlier in 2015, the index regained momentum.

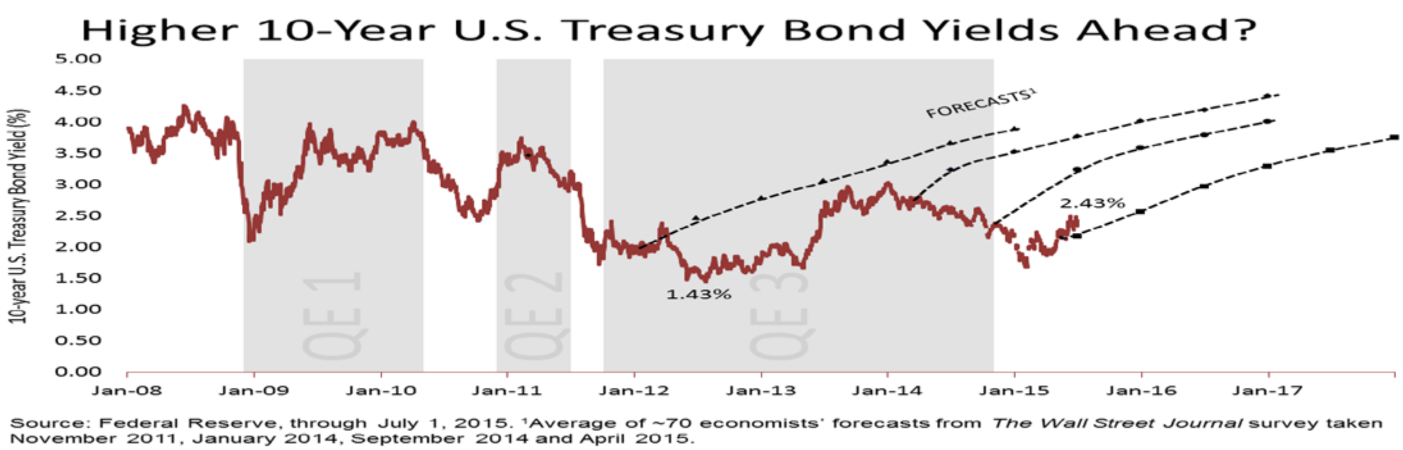
In a press release accompanying May's data, Conference Board economists said, "The U.S. LEI increased sharply again in May, confirming the outlook for more economic expansion in the second half of the year."



Along with the near-term forecast for U.S. GDP growth, acceleration in economic growth is expected in 2015 in all major regions of the world except China.

That's the forecast from OECD, the Organization of Economic Cooperation and Development, an association of 34 democracies with market economies, from June 2015.

Significantly, the OECD forecast expected European economies to return to healthier growth through 2016.



Probably the biggest investment surprise of recent years has been how bond yields continued to trend downward in the face of all the predictions to the contrary.

Most Wall Street strategists assumed that bond yields would move higher when the Fed ended its monetary stimulus program of buying long-term government bonds, a program known as Quantitative Easing.

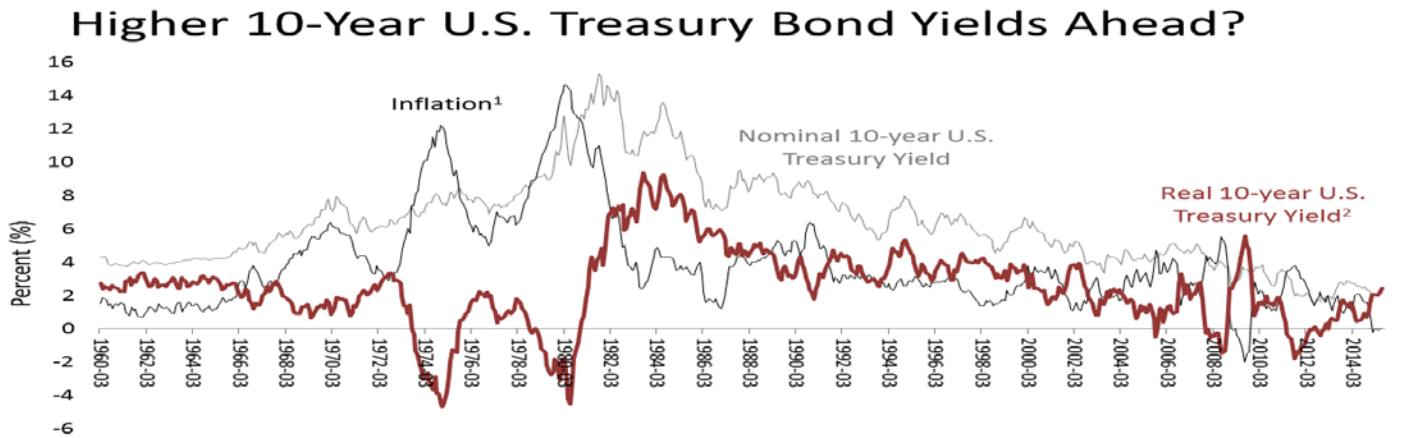
These strategists have been making that prediction for many years, as you can see in the chart.

The black lines track the consensus forecast for interest rates made in *The Wall Street Journal* by 50 leading economists, while the red shows how interest rates actually have performed. The red lines look nothing like the economists expected.

Super-low global bond market yields have trumped all other bond yield determinants.

German 10-year bond yields recently stood at a low of 0.17%.

If all an investor gets is a fractional yield on a 10-year bond backed by the German government, it's not hard to see why U.S. 10-year bond yields are under extraordinary downward pressure. Global investors seek the highest returns available and U.S. yields are higher and more attractive.

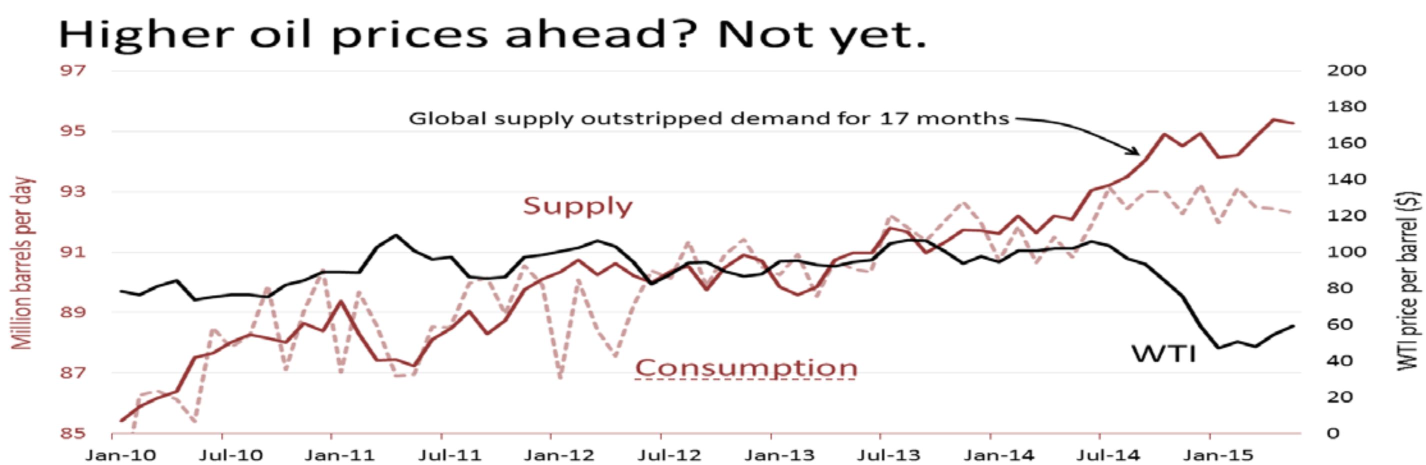


Sources: Federal Reserve, BLS. Bond yield data through June, 2015. [1] One-year percent change in the consumer price index (CPI), data through May 2015. [2] Real yield equals nominal 10-year U.S. Treasury bond yield (grey line) minus inflation (black line).

Economic theory holds that the owner of a 10-year U.S. Treasury bond would require a real rate of interest — for loaning the government money — plus compensation for loss of purchasing power incurred due to inflation premium.

With the latest CPI reading 0.0% year over year, the real yield on a 10-year U.S. Treasury bond has climbed to 2.43%, which is higher than the past decade's average.

With the recent move higher in real yields, unless and until inflation starts to pick up, it seemed unlikely that nominal bond yields would move substantially higher, as the final quarter of 2015 was approaching.



Source: U.S. Energy Information Agency, *Short-Term Energy Outlook*, June 2015. Data through May 2015. Includes condensate and natural gas liquids.

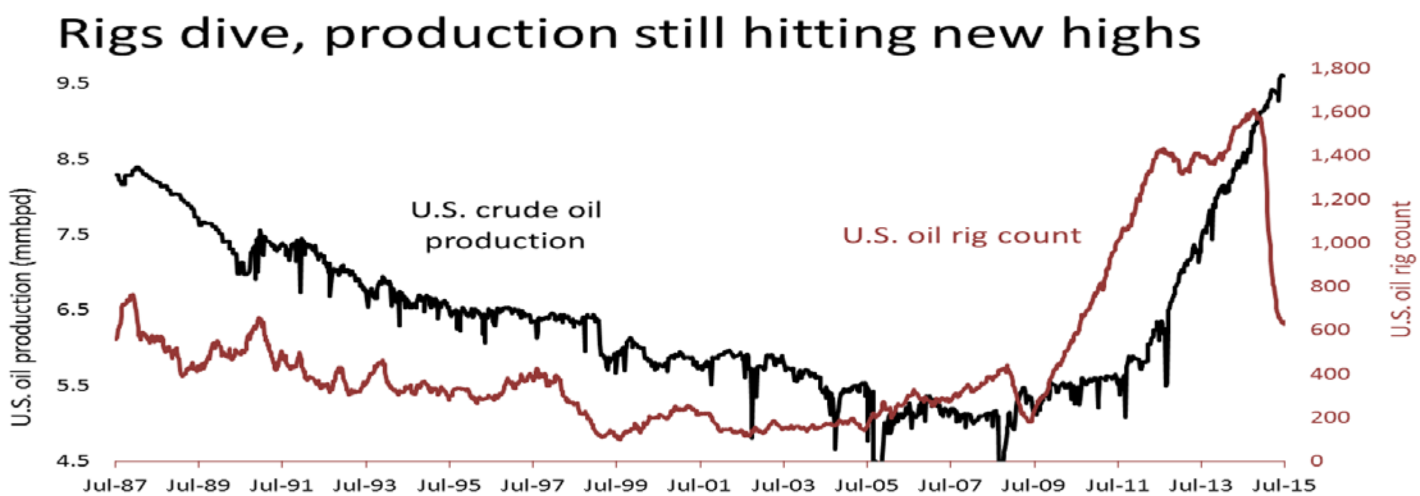
Since January 2014 — a string of 17 consecutive months —global supply has outstripped demand, driving the price of oil price down sharply.

Global demand growth has stagnated, while global supply has surged.

In May 2015, the latest month shown, global crude oil supply exceeded global demand by about three million barrels per day, a wide gap.

The surge in global supply, evident in the solid red line, is attributable to U.S. shale oil production.

U.S. oil production increased 5.7 million barrels per day, or 61%, from 2010 to 2015.



Source: U.S. Energy Information Agency, Baker Hughes. Rig count through July 3, 2015. Crude oil production through June 26, 2015.

The rig count may be stabilizing, based on the most recent week-to-week comparisons. Since November 2014, the U.S. oil rig count collapsed by 60%. A glut of supply made those rigs too costly to run.

A key question is when will U.S. crude oil production follow suit and decline.

After lift-off in the rig count (red line) in January 2010, a surge in production began in September 2011, or 21 months later.

With a global supply versus demand imbalance of about three million barrels per day of excess supply, it may take many months for the U.S. production decline to exceed global excess supply.

On the other hand, oil market psychology could change dramatically if a peak in U.S. production becomes evident and causes an emotional market reaction.