PATRIOT INVESTMENT MANAGEMENT

Dear Clients & Friends of Patriot Investment Management

Be careful what you wish for. After a flat and unremarkable second quarter, U. S. markets saw a great deal of volatility, dropping 11% over the course of seven days in August, giving us our first market correction in over 3 ½ years. This volatility was largely due to short-term, emotional reactions to news abroad - headlines have been dominated by China's economic slowdown - however, there was nothing on the home front to justify the pullback. The U.S. economy continues to show signs of strong growth, and the markets have already bounced back, reclaiming nearly 10% of the 11% drop in stock prices from August. As of this writing, the S&P 500 Index is only off 1.25% from where it began the year.

U. S. Economy:

Economic fundamentals remain strong and continue to gain momentum. The U.S. economy added 142,000 jobs in September, further reducing the unemployment rate from 5.3% to 5.1%, and consumer inflation decreased -0.2% in September. This decrease was mainly due to a sharp drop in gasoline prices, surpassing increases in all other consumer items. The net result is that inflation remains flat for the last 12 months.

The housing market continues to grow stronger, as consumer confidence, personal wealth and job growth drive new and existing home sales. Median home prices are also rising as demand is outpacing supply of both new and existing homes. New home sales increased 5.7% in August, the fastest pace since February 2008. Despite the market volatility, consumer spending is at its highest level since 2007, and household net worth has topped $85 trillion, which is almost 30% above their pre-recession levels.

The dollar remains strong in the face of overseas volatility, which provides cheaper imports for U. S. consumers, while increasing the cost of exports. Commodities prices have spiraled downward 15.8% year to date, as lower Chinese demand and the strong dollar have depressed the sector.

The Fed held off raising rates in September, choosing to take a wait-and-see approach as events unfolded in China, but may make a move in December or early 2016. As long as inflation remains flat, the Fed will be reluctant to raise rates. Increased volatility can be expected leading up to and immediately after the Fed moves, although there will be no lasting impact as this increase has long been priced into the markets, and is actually a good sign for the health of the economy as we begin to move back to a more normal interest rate structure.

Global Markets:

Europe is showing promising signs of recovery, as the region is projected to post modest GDP growth of 1.5%- 2.0%, and corporate earnings are expected to increase. The European Central Bank plans to increase their bond-buying program, in order to maintain their economic recovery despite the increased global volatility.

In Asia, China's slowing growth has dominated headlines in the third quarter, spreading fear of what this might mean to the global economy. In an attempt to jump-start growth by devaluing their currency, this action fueled panic selling across the globe. As the second largest economy in the world, and the largest economy in Asia, China's lower demand for oil and reduction in trade has negatively impacted it's neighboring Asian economies and is creating a ripple effect in Asia and emerging markets. However, it is important to note that the U. S. exports less than one percent to China, and a devalued Chinese currency means cheaper Chinese goods coming in to the U.S. Their lower demand for oil has translated into cheaper prices at the gas pump for American consumers as well.

<u>In Summary:</u>

Going forward, we are likely to see slow to modest growth in developed economies, with an increase in volatility due to continued weak fundamentals in China. Headlines will fuel market volatility, as they always do, but the long-term value of companies is the true driver of the U.S. economy.

<u>2015 Third Quarter Returns</u>

S&P 500 + dividends	-6.44%
Dow Jones Industrial	-7.57%
Russell 2000	-11.92%
Emerging Markets	-10.75%
Barclays Aggregate Bond Index	-1.23%

Returns are price-only unless otherwise noted

10 year Bond yield as of 09/30/15 2.06%

Inflation	0.0% thru September 2015
Unemployment	5.1% in September 2015

Thank You!

We value the confidence and trust you have placed with us, and we welcome your questions and comments. Our goal is to be our clients' trusted resource for all things financial.

Do you know someone who could benefit from our expertise? We appreciate your introductions and the opportunity to help your friends and colleagues meet their financial goals.