PATRIOT
INVESTMENT
MANAGEMENT

Dear Clients & Friends of Patriot Investment Management

2015 has proven to be a lackluster year when it comes to annual returns, but the volatility was anything but boring. Much of that volatility was fed by news overseas, as China's growth rate continued to slow due to a rebalancing of its economy, driving global demand lower, and Bejing's decision to devalue their currency. However, fundamentals at home have steadily strengthened throughout the year, and while it was a very modest return at 1.38%, the S&P 500 Index finished the year in positive territory for the 7th year in a row.

U. S. Economy:

U. S. economic fundamentals remain strong despite the global slowdown. At year-end, the unemployment rate stood at 5.0%, and consumer inflation remains well below the Fed's long-term target rate of 2%. This persistently ultra-low inflation environment has been due mainly to a sharp drop in the global demand for oil, coupled with an increased surplus, leaving the price of oil down 31.4% for the year. In turn, gasoline is down 24.1 percent in 2015, surpassing any inflationary increases in all other consumer items. The net result is that inflation has hovered between 0% - 0.5% for the last 12 months.

The Fed finally raised the Federal funds rate a quarter point in December, marking their first rate increase since 2006, and moving the key interest rate from where it has remained since December of 2008. Their plan is to increase the rate a quarter point four times in 2016, although concerns over a global slowdown may prompt the Fed to continue its slow, conservative approach as to the timing and number of rate hikes. Increased volatility can be expected leading up to and immediately after each Fed move, although there will be no lasting impact as these increases have long been priced into the markets, and are actually a good sign for the health of the economy as we begin to move back to a more normal interest rate structure.

Housing, consumer confidence, and personal wealth posted solid gains throughout the year, with household net worth topping $85 trillion, which is almost 30% above their pre-recession levels, and a strong dollar has provided cheaper imports for U. S. consumers. Despite the stock market volatility, it is also important to note that the U. S. exports less than one percent of its goods and services to China.

Global Markets:

Europe has shown promising signs of recovery in 2015, as the region posted GDP growth of 1.5% over the previous year. Unlike the U. S., the global landscape has created mixed results for Europe. On the one hand, the drop in oil prices helped to increase consumer spending, having an effect similar to a tax cut. On the other, Europe exports nearly 25% of its goods to China and emerging economies in Asia, and can likely expect a slowdown in 2016. The European Central Bank plans to continue it's quantitative easing program into 2016, in order to maintain their economic recovery despite the increased global volatility.

In Asia, China's slowing growth is partly due to an internal rebalancing as it moves away from an economy driven predominately by manufacturing and investment towards one driven by the consumption of goods and services. The sharper-than-expected slowdown from this rebalancing dominated headlines throughout the second half of 2015, and spread fear of its effect on the global economy, which in turn led to increased volatility across global markets.

China's central bank attempted to increase the country's GDP by devaluing their currency, but this action also 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 negatively impacted it's neighboring Asian economies in 2015, and created a ripple effect in emerging markets, which finished the year down nearly 17%. There was also some good news from China last year, as it's growing population saw a robust increase in wages, disposable income and retail sales.

<u>In Summary:</u>

While 2015 proved to be rather underwhelming for the stock market, the U. S. faired better than other sectors of the global economy due to continued strong fundamentals at home. We at Patriot remain guardedly optimistic in our outlook for the New Year. Going forward, we are likely to see subdued and uneven growth in developed economies, as headlines coming from China will continue to drive market volatility in 2016.

<u>2015 Annual Returns</u>

S&P 500 + dividends	1.38%
Dow Jones Industrial	-2.23%
Russell 2000	-4.41%
Emerging Markets	-16.96%
EAFE	-3.30%
Barclays Aggregate Bond Index	0.55%

Returns are price-only unless otherwise noted

10 year Bond yield as of 12/31/15	2.27%

Inflation	0.7% thru December 2015
Unemployment	5.0% in December 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 family, friends and colleagues meet their financial goals.