George M. Hiller Companies L.L.C.
INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

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Market Outlook

As of July 27, 2015

The bull market, which began in March 2009, (over 6 1/4 years ago) has all but stalled its advance amidst conflicting signs of both market and economic weakness and strength. Our intermediate market outlook (weeks to months) is negative. Evaluation of market supply and demand measures indicates a recent slide toward greater market weakness. The stock market appears vulnerable.

We suggest caution regarding positioning new capital into the domestic equity markets at this time. We recommend maintaining and building cash reserves or cash substitutes and looking for investment opportunities in developed international markets.

In spite of the caution we have in our intermediate market outlook (weeks to months), our longer-term market outlook (months to years) continues to remain positive with one notable exception. The longer-term outlook for the category of Resources and Materials is now bearish in our view.

Resources and Materials typically include investments in chemicals, oil, metals, timber, and other commodities. The longer-term outlook for Resources and Materials is not favorable at this time. However, our longer-term outlook for US Equities, International Equities, Real Estate, and Bond/Fixed Income remains bullish.

Please remember that no market outlook or indicator is foolproof or guaranteed to accurately forecast future market conditions. Observed historical trends are not guaranteed to occur in each and every year nor in any given year or time period.

Year-to-date the Dow Jones Industrial Average is down -2.15%, the S&P 500 Index is up 0.42%, and NASDAQ is up 6.41% as of July 27, 2015 (source money.cnn.com). The year-to-date returns are significantly lower than what they were only one week ago. Please note that the Dow, S&P 500, and NASDAQ are all equity indexes.

Most diversified investment portfolios are not invested 100% in equities. Also, while it is possible to invest in various equity index funds, it is not possible to invest directly in the indexes themselves.

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	***Positive outlook for past 1,277 days***
-- International Equities	***Positive outlook for past 1,081 days***
-- Resources & Materials	***Negative outlook for past 3 days***
-- Real Estate	***Positive outlook for past 2,173 days***
-- Bonds/Fixed Income	***Positive outlook for past 514 days***

Currently, the top 3 performing sectors (based upon our assessment and ranking methodology) are:

- **Healthcare**
- **Consumer Cyclical**
- **Nasdaq 100**

In addition to the top three sectors listed above Financial and Small Cap Growth have above average rankings. Normally, this suggests that these sectors are also above average investment candidates, but because of the current market environment we suggest caution at this time in deploying new capital. Currently the worst performing sectors are Basic Materials and Mid-Cap Value.

It is interesting to note that in terms of relative rankings Real Estate has risen since our last newsletter. It currently ranks below average compared to many other investment categories, but the real estate ranking has improved. Among the good news in real estate, existing home prices reached an 8-year high and sales were at the fastest pace since February 2007. Despite a strong showing in existing home sales, the sales of new homes have been disappointing, missing expectations.

US equities are already at or near all-time highs as measured by broad stock market indexes. Also, US equities have gone an unusually long period of time without a correction of 10% or more. At some point one or more of the asset categories listed above will begin a significant decline.

Right now, some economic and business signs we review are bullish, but there will come a time when that changes. We recently changed our longer-term outlook on Resources and Materials from bullish to bearish. Currently, we remain generally bullish on U.S. Equities, International Equities, Real Estate and Bonds/Fixed Income.

Stock Market Valuation Indicators

There are indications that the stock market may be overvalued. This does not mean that the market will not continue to move up. As noted above, our longer-term market outlook remains positive although we have concerns.

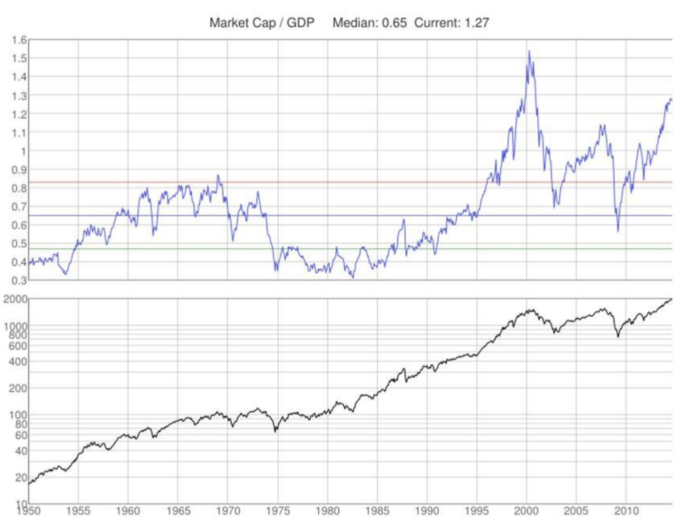
The S&P 500 price to earnings ratio (PE) is rising and now stands at 20.81 (source multpl.com). This is well above the long-term mean of 15.54. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period.

The Shiller PE ratio also known as CAPE is based upon cyclically adjusted price to earnings (CAPE) over a ten-year period. Currently the Shiller PE ratio or CAPE is at 26.19. The long-term mean average of the Shiller PE ratio is 16.61.

These two stock market indicators are at historically higher than average levels, suggesting that stocks are expensive relative to the long-term averages of these indicators. The Shiller PE in particular suggests that the stock market may produce lower returns over the next ten years than what might otherwise be expected. In fact, since 1881, the average annual returns for all ten-year periods that began with a CAPE at this level have been just 3% per year (source, The Sherman SITREP).

Another stock market valuation indicator is called the Market Capitalization of Equities to GDP ratio, also known as the Buffett indicator due to the fact that Warren Buffett has referred to this data as the single best indicator of relative stock market valuation. The chart below is a graph of the ratio of the value of all corporate equities divided by the nation's GDP from 1950 to 2015 (source, Board of Governors of the Federal Reserve System and U.S. Bureau of Economic Analysis). The Market Cap to GDP ratio is at 127%, nearly a 15 year high. For comparative purposes the lower chart is a graph of the S&P 500 over the same period of time.

Graph of Market Cap to GDP from 1950 to 2015 With Graph of S&P 500 Index Below



Market Cap to GDP peaked in 2000 (tech bubble) and peaked again in 2007 (real estate housing bubble). It is now at a higher level than it was prior to the housing bubble.

Precious Metals Outlook

Our precious metals outlook is negative. That does not mean it may not be a good time to buy or add to precious metals. It simply means that the current trend in precious metals is negative and has been negative for an extended period of time. Gold is under pressure from the strong dollar and from expectations of a Fed rise in interest rates. Our outlook is that the trend in gold will continue to be negative.

Gold recently hit a 5 year low. The price of one ounce of gold has dropped for the last 4 years and for the last six consecutive weeks. As the chart below shows the price of gold is now back to its price level in 2010.

From its peak price of almost $1,900 per ounce established in 2011, gold has declined in price about $800 per ounce. Gold recently traded below $1,100 per ounce, a decline in the price of gold of about 42% over the last 4 years.

Our long-term planning perspective suggests that precious metals should be considered in asset allocation strategy. With a federal deficit over $18 Trillion it is likely that the purchasing power of the US dollar over time will be worth less than it is today, while gold and silver are likely to retain a significant storehouse of value under different economic scenarios.

Precious metals represent a form of catastrophic financial insurance in the event of a huge devaluation of the dollar or other world-shaking event. Now may be a good time to begin precious metals investments or add to existing positions in order to achieve a certain target within an overall asset allocation plan.

There are many different ways to make investments in precious metals. Some ways are better than others. If you have questions about how to invest in precious metals and what role gold and silver investments should play in your investment portfolio, please call our office for guidance.

The Economic Environment

The unemployment rate fell from 5.5% in May to 5.3% in June 2015 (source, Bureau of Labor Statistics). The unemployment rate is now at a seven year low. The drop in the unemployment rate indicates gaining strength in the economy and more confidence on the part of employers to add jobs.

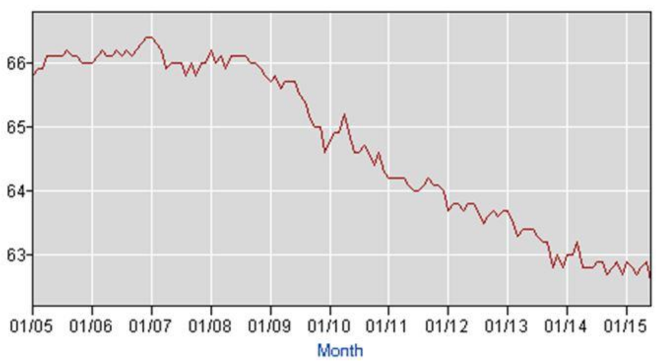
Among the labor force that is employed, there are a large number of people who are underemployed working part-time or are "marginally attached workers" that want to work, but have given up hope of ever finding a job.

The Bureau of Labor Statistics has a term that measures this group called the U-6 rate, which in June was 10.5%, down from 10.8% reported in May. This is sometimes referred to as the true unemployment rate.

The Labor Department's JOLTS (job openings and labor turnover summary) report in May indicated 5.4 million job openings across the country. This is the highest level of job openings in 15 years.

Unfortunately, the labor force participation rate dropped to a new low of 62.6% in June. This means that among the total labor force in the US, the percentage that is either employed or looking for work is at a new low 62.6%. Below is a chart of the labor force participation rate over the last ten years (source, Bureau of Labor Statistics).

Labor Force Participation Rate (2005 to 2015)



The labor force participation rate is now at its lowest level in 38 years. This means that despite all the new jobs that have been added to the economy and the record number of job openings created, many hundreds of thousands of people are leaving the workforce.

Nearly 94 million people in the USA are neither employed nor are they looking for work. This low labor force participation rate is a drag on the economy that will extend over many years into the future.

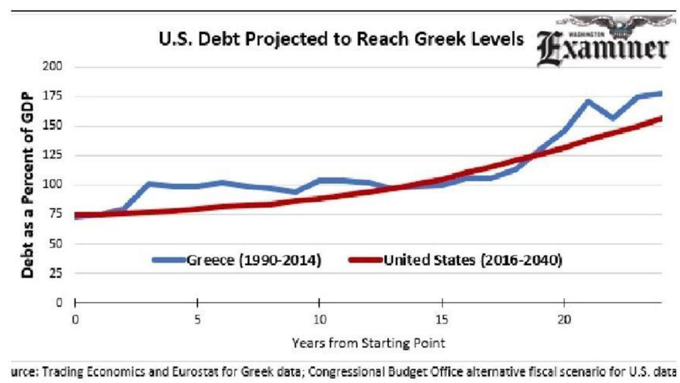
Will the United States Follow in the Footsteps of Greece?

The Federal Reserve Bank of St. Louis and the U.S. Office of Management and Budget report total public debt as a percent of GDP at above 100% currently. With the US debt to GDP ratio above 100%, the US finds itself among the most indebted countries in the world.

What follows is a chart of total public debt as a percent of GDP for the period 1970 to 2015. Total public debt exploded upward in the aftermath of the Great Recession of 2008 (the gray shaded bars in the graph indicate recessions). The latest reading of total public debt as a percent of GDP is 102%.

A nonpartisan source that works with Congress reports a lower debt to GDP figure. According to the Congressional Budget Office, U.S. debt is currently at 75% of GDP. Even if we assume that the lower debt to GDP percentage published by the Congressional Budget Office is accurate, the change over time in U.S. debt to GDP based on the Congressional Budget Office's alternative fiscal scenario for US data is troubling.

Using the Congressional Budget Office data, the chart below shows that U.S. Debt to GDP is projected to reach Greek levels within 25 years. This growth in debt as a percent of GDP is not sustainable. In order to prevent this it is imperative that U.S. debt and spending be reined in.



Asset Allocation

In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today's challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned to an asset allocation portfolio. This process of changing asset allocations based upon changes in the market (such as market anomalies or identifying strong market sectors) and in economic data and trends is called tactical asset allocation. Investors have an opportunity to improve investment performance over time through proper implementation of tactical asset allocation.

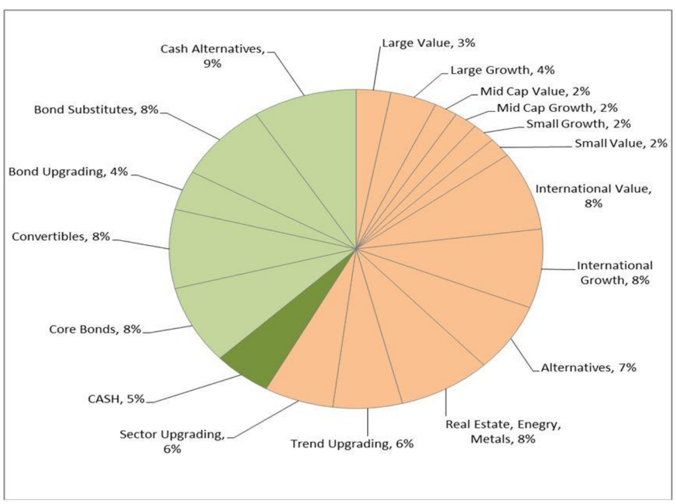
The United States is one of the best places to invest in the world, but valuation indications suggest that U.S. stocks may be overvalued as a group. Given this, it makes sense in our view to reduce exposure to U.S. investment assets (especially US bonds) and increase exposure to international investment assets. Based on ongoing evaluation of supply and demand measures we recommend conserving and building cash reserves or cash substitutes at this time.

Due to the fact that our outlook for Resources and Materials has turned bearish we suggest reducing holdings in Resources and Materials including chemicals, oil, metals, timber and other commodities. Reductions in Resources and Materials should allow increases in cash, cash substitutes and increases in international assets.

The following asset allocation pie chart is an example of tactical asset allocation in implementing lower U.S. exposure and increasing international exposure (compared to a previous asset allocation pie chart published in the March issue). The pie chart shows a reduction in the segment comprised of real estate, energy and precious metals, reflecting a reduction in resources and materials, but not real estate. The asset allocation pie chart also shows an increase in cash reserves and cash substitutes compared to a previous asset allocation pie chart published in the July issue. These changes are based upon an ongoing assessment of U.S. stock market valuation indicators and the evaluation of supply and demand data and performance data using in part our proprietary tracking and ranking methodology.

We also recognize and evaluate certain economic data and trends in developing tactical asset allocation strategy. Changes in investment data and economic data occur regularly and can in turn lead to changes in asset allocation at any time.

Example of Asset Allocation Pie Chart



In summary the asset allocation pie chart above expresses tactical asset allocation strategy in pursuit of the following broad investment themes:

- **Reduced exposure to US investment assets**
- **Increased exposure to International investment assets**
- **Increased cash reserves and/or cash alternatives**
- **Reduced exposure to Resources and Materials**

This asset allocation example is for educational and informational purposes only. It is not representative of any particular client account. Each person, family, or account has different facts and circumstances, so no single investment allocation can fit all situations. In addition, changes in an individual's time horizon and risk tolerance as well as various economic, financial and market factors can lead to changes in the asset allocation of an investment portfolio for any particular investor.

It is our mission to provide high quality professional and objective financial counsel in the areas of investment management, estate and personal financial planning designed to help our clients improve their financial condition and achieve long-term financial goals.

Sincerely,

George M Hiller Companies, LLC Investment Team

More Resources on our Website

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