



FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	-2.47%	-6.44%	-5.29%
Russell Midcap Index	-3.60%	-8.01%	-5.84%
Russell 2000 Index	-4.91%	-11.92%	-7.73%
Dow Jones Industrial Average	-1.35%	-6.98%	-6.95%
Morgan Stanley EAFE Index	-5.08%	-10.23%	-5.28%
MSCI US REIT Index	3.03%	2.06%	-4.26%
DJ UBS Commodity Index	-3.42%	-14.47%	-15.80%
Barclays Aggregate Bond Index	0.68%	1.23%	1.13%

INDEX RETURNS

The second quarter saw market volatility increase due to Greece solvency concerns, weak oil prices and a surging U.S. Dollar. The third quarter brought even more volatility with concerns over China's economic slowdown and contraction in their stock market. Just as the Greece concerns subsided, we believe the global implications of a Chinese slowdown are overstated. This too shall pass.

U.S. Large cap stocks as measured by the S&P 500 were down 6.44% in the third quarter. Small-cap stocks according to the Russell 2000 dropped a stunning 11.92% in the quarter.

The International Developed market as measured by EAFE pulled back 10.23% over the last three months. Emerging markets dropped 17.90% in U.S. Dollar terms. Real Estate was up 2.06% in the quarter.

The bond market was positive in the quarter awaiting the next Fed move. The Barclays Aggregate Bond Index rose 1.23% in the third quarter. Emerging market bonds lost 1.98% in the third quarter according to the JPMorgan EM Bond Index and are now negative on the year.

ECONOMIC REVIEW AND OUTLOOK

The economy grew at a 3.9% annualized rate in the second quarter of this year. This followed the 0.6% growth rate in the first quarter. The U.S. has averaged about 2.9% annualized growth rate since 1965. Thus, the second quarter number was slightly better than average. Within the second quarter number was a large increase in inventories. This will slow down in the third quarter which means that the next GDP number could be in the 2.0-2.5% range. This is still an economy that is growing at a very nice pace.



\$250 Initial Financial Overview

A Special Anniversary Offer

For a Limited Time

Visit www.galecki.com for more information

The Leading Economic Index increased 0.1% in August to 123.7 following no change in July and a 0.6% increase in June. This suggests the economy should continue to grow, but at a slower pace going forward. Industrial Production decreased 0.4% in August after increasing 0.9% in July and the Capacity Utilization rate dropped to 77.6 percent. This is 2.5 percentage points below the historical average over the last forty years and suggests that there will not be much pricing pressure in manufacturing over the next few quarters.

Non-farm payrolls increased by 142,000 in September and the unemployment rate dropped to 5.1%. Initial weekly unemployment claims were 277,000 for the week ending September 26. According to the JOLTS survey, there were 5.8 million job openings at the end of July, which is a high for the indicator.

The ISM manufacturing survey fell to 50.2% in September. This shows a manufacturing sector that has expanded for the 33rd consecutive month and the overall economy has grown for the 76th consecutive month. The ISM Non-Manufacturing index came in at 56.9% in September. Manufacturing has slowed but the service sector is still growing. This is good news since roughly 80% of domestic employment is in the service sector.

Global economies have been slowing. The JP Morgan Global PMI was at 50.6 in September. The Emerging markets are averaging 48.4. This is considered contraction territory. China was at 47.2, Canada fell to 48.6 and Russia is at 49.1. The good news is that Developed Markets are doing better. The Euro area is averaging 52.0 with Germany at 52.3 and Ireland at 53.8. Australia's manufacturing looks good at 52.1.

EQUITY AND BOND MARKETS

Prior to August 2015, it had been four years since the S&P 500 experienced a 10% correction. According to most research, the S&P 500 experiences a 10% correction about every 12 months. In fact JP Morgan states that the average intra-year drop for the S&P 500 is 14.2% going back to 1980. Therefore, the 12% drop we saw last quarter was in line with normal annual corrections; and actually a bit better than normal. Does that come as a surprise to you? We were blessed with minimal volatility for four years, so it is no wonder that this correction felt worse than it actually was. We got spoiled with decent returns and minimal downside.

Some investors are not comfortable with market risk and portfolio volatility. For those individuals, owning a portfolio of CDs earning 1%, or 10-Year Treasuries getting 2.1% might be attractive. For those of us looking to keep ahead of inflation during our working years and into retirement, we know that doing 1-2% per year is not good enough. We are willing to accept some principal volatility to achieve higher rates of return.

		Asset class returns															GTM - U.S. 55			
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	15-yr '00-'14 Ann. YTD		
ASSET CLASSES	Comdty	REITs	Comdty	EM Equity	EM Equity	EM Equity	EM Equity	EM Equity	Fixed Income	EM Equity	REITs	REITs	REITs	REITs	REITs	REITs	REITs	REITs		
	REITs	Fixed Income	Fixed Income	Small Cap	EM Equity	Comdty	Comdty	Comdty	Cash	High Yield	Small Cap	Large Cap	High Yield	High Yield	High Yield	High Yield	High Yield	High Yield	High Yield	
	Fixed Income	Cash	High Yield	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	Asset Alloc.	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	
	Small Cap	REITs	REITs	Small Cap	REITs	Small Cap	Small Cap	Asset Alloc.	High Yield	REITs	Comdty	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.	Asset Alloc.	
	High Yield	High Yield	Cash	High Yield	High Yield	Asset Alloc.	Large Cap	Fixed Income	Small Cap	Small Cap	Large Cap	Cash	Small Cap	High Yield	Small Cap	REITs	Fixed Income	DM Equity	DM Equity	
	Asset Alloc.	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	Large Cap	Asset Alloc.	Large Cap	Comdty	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	DM Equity	Asset Alloc.	Large Cap	Large Cap	Asset Alloc.
	Small Cap	Asset Alloc.	EM Equity	Large Cap	Small Cap	High Yield	Cash	Large Cap	Asset Alloc.	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	Large Cap	Large Cap	Asset Alloc.	Asset Alloc.	Asset Alloc.
	Large Cap	Large Cap	DM Equity	Comdty	Comdty	High Yield	Cash	High Yield	REITs	Comdty	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity
	DM Equity	DM Equity	Small Cap	Fixed Income	Fixed Income	Cash	Fixed Income	Small Cap	DM Equity	Fixed Income	Fixed Income	Fixed Income	Fixed Income	Cash	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity	DM Equity
	EM Equity	DM Equity	Large Cap	Cash	Cash	Fixed Income	Comdty	REITs	EM Equity	Cash	Cash	EM Equity	Comdty	Comdty	Comdty	Comdty	Cash	Cash	Cash	Cash
	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55

Source: Barclays Capital, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays Global HY Index, Fixed Income: Barclays Capital Aggregate, REITs: NAREIT Equity REIT Index. The "Asset Allocation" portfolio assumes the following weights: 20% in the S&P 500, 10% in the Russell 2000, 10% in the MSCI EAFE, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 9/30/15. Annualized (Ann.) 15-yr returns represent period of 12/31/99 - 12/31/14. Please see disclosure page at end for index definitions.

But what is the best investment strategy for those individuals seeking a better return? What will work over the next ten years? In hindsight, owning only the S&P 500 index over the last five years would have been very rewarding (Chart above). But that does not mean that this will continue. Emerging Markets was the best performing asset class from 2003-2007, yet it was down 53% in 2008 and ranked as the worst performing asset class for that year.

We believe that using a diversified portfolio strategy will work over the long-term. We want to have exposure to many different asset classes to minimize downside volatility while still achieving long-term growth. Our returns were hurt in 2014 due to our diversification, but this is the exact reason that the portfolios did well over the last quarter relative to the overall market. Equities are slightly undervalued at these levels both domestically and internationally. The bond market will continue to be challenging as we enter the next rate hike cycle from the Fed.



PORTFOLIO MANAGEMENT

It is likely that the Federal Reserve will increase rates in October. It is our belief that this will actually be a relief to the market. The market does not like uncertainty. It likes quantifiable items. Because the Fed has constantly changed the targets in the data they are reviewing (inflation and the unemployment rate), and now have changed the focus by citing global economic weakness in the last statement, the market is not sure how to interpret their upcoming actions. It is quite possible that after the Fed raises rates the first time, the market could rally as the uncertainty will subside.

We know from the last three rate hike cycles, that stocks typically do just fine after their initial pullback. Bonds on the other hand usually struggle during rate hike cycles. We have prepared the portfolios to handle a rising interest rate environment. Although short-term bonds will see their yields move higher (and prices drop), it is plausible that longer-term bonds stay about where they are. This would happen if international investors continue to purchase U.S. bonds, which are right now more attractive than many foreign issues.

We are sticking with our strategy and are almost fully invested with minimal cash. Valuations for U.S. equities are slightly below long-term averages. International equities look attractive at these levels but continue to be at risk due to a strengthening U.S. Dollar. If the Dollar weakens, look for international equities to do very well.



FINANCIAL PLANNING

Required Minimum Distributions must be completed by December 31, 2015. For individuals over age 70 ½ please make sure that you satisfy the RMD for the year. The penalty for not taking the full amount is 50% on the shortfall. Congress has yet to approve the Qualified Charitable Deduction for 2015. This would allow direct contributions to charities from your IRA to qualify as your RMD. We believe that this will get passed again this year. It is a great way to give to charity and reduce your Adjusted Gross Income, thereby lowering your tax liability.

The deadline to make your 2015 Indiana 529 Plan contribution is approaching. Contributions must be received by the plan provider by December 31, 2015. A \$5,000 contribution to your Indiana 529 Plan will enable you to receive a \$1,000 state tax credit. That is a 20% rate of return! Visit www.collegechoicedirect.com for more information.

There is still time to do some tax planning for 2015. Should you convert some of your Traditional IRA assets to a Roth IRA this year? If you are under age 70 ½, this could be an effective strategy. You will pay taxes on the amount that you convert, but this will reduce your future distributions at potentially higher tax brackets. To see how much you should convert this year, contact Andy Young, CPA at andy@galecki.com. Maximizing your tax brackets in retirement can save you thousands of dollars down the road.

We have gotten feedback from many clients that like our smartphone application section in this newsletter. Here are a few more apps that we think you might enjoy and benefit from.



- **ParkWhiz:** This application allows you to book a parking spot at your next event. You reserve the spot through the application and pay for it with your credit card that is loaded initially. You will receive a Park Whiz pass to use once you reach your destination. This works great when heading to a sporting event or concert. The application is free on most platforms.



- **The Open Golf App:** This application is a live golf scoring system for golfers. It has a leaderboard to show real-time stats and leaderboards. It is perfect if you have multiple groups playing in a ryder cup format. Know where everyone stands in their matches at all times. It is a free app.



- **Flixster:** This application has multiple functions. It is the easiest application to look up movie times at your favorite movie theaters, or ones that are near you. This works great if you are traveling. There is a user generated rating system for new movies. You can watch trailers directly from the app. This application is free on most platforms.



Company News

Autumn Ferguson



Autumn joined Galecki Financial Management in August of 2015. She works primarily as a Client Service Specialist. Autumn graduated from Indiana Tech University with a Bachelor's Degree and a Master's Degree in Accounting. She previously worked for six years with Garrett State Bank in their Operations Department.

In her spare time, Autumn enjoys being active outdoors and traveling. She participates in many half marathons including the Fort 4 Fitness event last month. She also enjoys volunteering in the community and spending time with her husband. We are very excited to have her on our team.

- Galecki Financial Management Investment Committee

Special Note: If you would like to receive a color copy of this newsletter, or schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com.