SECOND QUARTER REVIEW

JULY 16, 2015

Second-quarter global markets were close to flat over the past three months—a relief, given the uncertainties of Greece and China. Despite unsettling circumstances, most of the major indexes we track are in the black for the year to date, with gold (down 1.3% YTD) and the 90-day T bill (flat) the exceptions. Meanwhile, everyone's eye is on Greece as the world waits to see what will happen with that country's economic crisis and possible exit from the Eurozone. Greece has accepted severe austerity measures in exchange for a bailout. It is impossible to predict the global market impact of the outcome of Greece's current situation, due to unknown leverage and derivatives positions. But we can summarize the situation and consider the context.

Greece made headlines during the second quarter as the country contemplated the "Grexit" (leaving the Euro). Greece has defaulted on one debt payment and the situation continues to worsen. Banks have been closed for weeks as government officials, trying to staunch the flow of money leaving the country, instituted capital controls. The International Monetary Fund has warned that Greece will need more debt relief than previously contemplated to recapitalize their banks. Greek leaders have approved stringent austerity measures to secure funding and remain in the Eurozone. Even with a new bailout and emergency funding, capital controls will remain and credit to businesses and households will remain scarce; the economy will feel the effects for some time.

Greece's crisis is a likely source of volatility in the markets over the past three months. However, the current allocation to Greece in the international equity segment of Towneley portfolios is 0.06%, an extremely small allocation. The Greek stock market is down -25.7% for the year-to-date period through June 30 compared to 3.1% for the MSCI Emerging Markets Index and 5.5% for the MSCI EAFE Index. So while the Greek story has captured the headlines, its economy and stock market are tiny compared to the rest of the world.

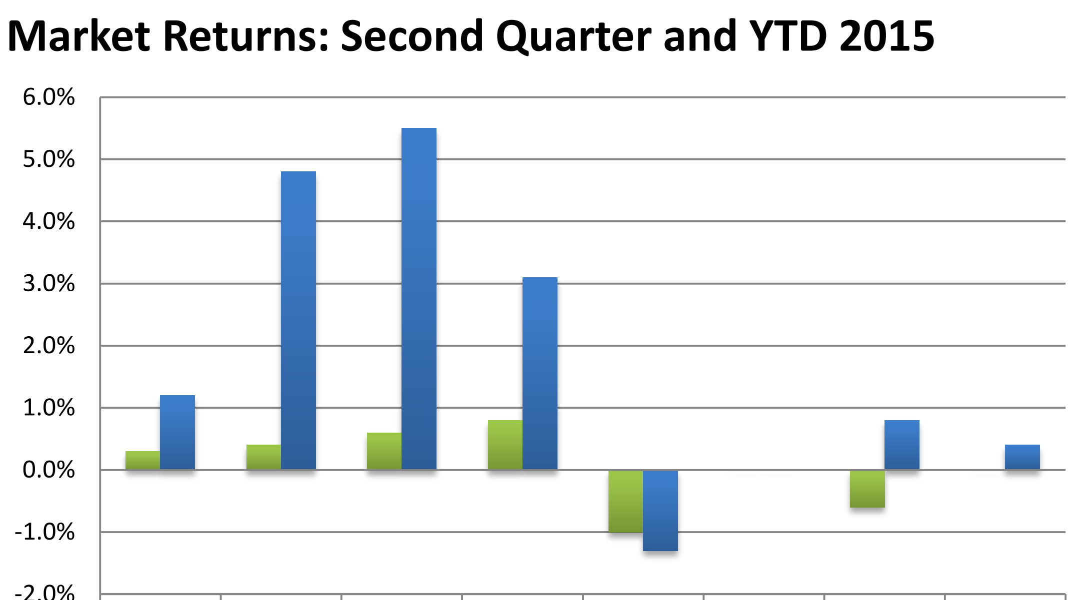
Domestic Markets

Economic indicators suggest that the economy continues to recover, albeit slowly. Hiring, home sales, and consumer spending rebounded during the second quarter, shaking off the slump that ended the first quarter. But wages have gained only 2.0% over the past twelve months, just barely outpacing inflation. 223,000 jobs were added in June, but the net decrease in unemployment (now at 5.3%) is due to people abandoning the job search. Housing starts increased over 22% in April, reaching the highest level since November of 2007 with 1,165,000 starts. (In April 2009, near the trough of the drawdown, 478,000 housing starts were logged).

International Markets

Drama and uncertainty surrounding the Grexit likely contributed to volatility during the second quarter, but international equities still outran domestic stocks. We note an effect in the bond market, however: Concern over a bailout precedent in the Eurozone appears to have already influenced the yields on Spanish and Italian 10-year bonds, which rose from about 1% to over 2% in recent months.

In Asia, the big story is China. After a 150% run-up in prices over the past year without significant economic growth to justify the rising price, the market has dropped 32% in the last month. Government response appears to be focused on supporting stock prices rather than addressing the broader outcomes that the correction may have on the Chinese economy. For example, the *New York Times* reported on July 8 that government officials decided that local government pensions will invest in stocks. They also altered margin trading rules to facilitate riskier bets, reduced trading fees, and purchased stock for a state-owned investment fund—all between June 29 and July 5. These tactics won't improve the economic fallout of a plummeting market, though they may stall the decline.



	S&P 500	Russell 2000	MSCI EAFE	MSCI Emerging Markets	S&P GSCI Gold	90 Day Treasury Bill	Barclays Intrm Govt/ Credit	Barclays Muni 3 Year
Second Quarter	0.3%	0.4%	0.6%	0.8%	-1.0%	0.0%	-0.6%	0.0%
YTD	1.2%	4.8%	5.5%	3.1%	-1.3%	0.0%	0.8%	0.4%

Your Portfolio

In order to better position your portfolio for the road ahead, we made two changes to portfolios in the second quarter. The international equity markets have become more attractive than the U.S. equity market, so we increased the allocation to international equities from 20% of total equities to 25%. We also made changes to the taxable fixed income segment of portfolios. Because foreign yields are extremely low, we reduced the allocation to international bonds. We increased high yield because historically, rate increases have boded well for high-yield bonds. We added a small allocation to a longer duration TIPS fund as they are attractively priced and help us continue to maintain a short 3.5-year duration in fixed income. This short duration is appropriate, as rates are near historic lows and the bond market has become more volatile. In order to make these changes and to take gains that had occurred in equities, we did a total rebalance of all accounts.

We also made an exciting change in how we exchange information with you. Our partner for portfolio accounting software, Black Diamond, has released a client portal that includes a secure document vault. Now, if you need to send us a statement or some other document, you can upload it to your vault and we can upload documents for you. With this enhancement, we are now also able to offer you paperless reporting. Stay tuned for details.

News for Institutions
Did you know that your relationship with Towneley entitles you to several important value-added services? Our exclusive program for investment stewards, The Fiduciary Edge™, provides UPMIFA-compliant reviews of your Investment Policy Statement, spending analyses, alternative investment analyses, board training, and many other services to support you in your role as your organization's investment steward. Our Director of Fiduciary Services, Robyn Bahlinger, J.D., CFP®, AIFA®, oversees this program. If you know of an organization that could benefit from this service, please let us know.

As always, if you experience changes in your revenue or expenses, anticipate a major expenditure, or have questions about your allocation, please contact your portfolio manager right away.

News for Private Clients
We are working on a terrific new feature to simplify your life. You will have convenient, consolidated financial information at your fingertips. For example, you could choose to view your Towneley accounts, your 401(k), and other financial accounts all in the same place. Stay tuned for further details.

In August we will be providing our annual *Client Update Form*. We determine the allocation for your portfolio based on your goals, health, future plans, age, and other factors; the information on this form helps us to confirm that your allocation is appropriate in light of these important points. As always, if you have questions or experience a change in your circumstances, contact your portfolio manager right away.

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