INVESTMENT REPORT

LYNCH FINANCIAL GROUP LLC
— Retirement Wealth Management —

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Investment Review and Outlook

The S&P 500 ended the quarter down 6.5%.

For the quarter, the **emerging-markets stock index** was down 18%.

The **core bond index** gained about 1% during the U.S. stock market's 12% intraquarter drop.

We believe that part of successful investing involves **riding out these nervous markets,** where prices are driven by short-term news and investor cycles of emotion, and staying focused on long-term fundamentals.

The reality of owning stocks is that occasionally, inevitably, we will experience bear market losses.

We welcome questions or comments regarding this newsletter at jlynch@lynchfinancialgroup.com. Lynch Financial Group provides Retirement Wealth Management Services to individuals within 15 years of retirement, retirees, and surviving spouses. We also provide specialized assistance to professionals, fiduciaries and heirs in wealth transfer situations.

Benchmark and Mutual Fund Performance

The box below contains benchmark (capital market and investment style) performance results. The performance results of our recommended mutual funds and their benchmarks are shown on page 4. Our client portfolios declined in line with their risk levels with high stock portfolios performing the worst. Benchmark comparisons were mixed with higher risk portfolios outperforming while lower risk portfolios slightly trailed their benchmarks.

Third Quarter 2015 Investment Commentary

Increasing concern about China's economy, accompanied by a surprise albeit modest devaluation of the yuan currency, helped trigger a sharp drop in global equity markets in late August, with the S&P 500 falling 12% from its high reached just a month earlier. The S&P 500 then bounced briefly from its August 25 low but dropped an additional 2.5% in September, ending the quarter down 6.5%. This marks the first negative quarterly return for the index since 2012. Developed international stocks, as measured by the Vanguard FTSE Developed Markets ETF, also dropped 12% intraquarter, from high to low. For the quarter as a whole, they were down 9.7%. European stocks did a bit better, losing 8.5% in dollar terms and 7% in local-currency terms.

Emerging-markets stocks fared the worst, dropping 21% from their intraquarter high in early July to their low on August 24. For the quarter, the emerging-markets stock index was down 18%. That return includes several percentage points of losses to dollar-based investors from the continued depreciation of emerging-markets currencies against the U.S. dollar. Given the broad negative environment for global stocks, let alone that much of the angst was driven by disappointing developments in China, it's not surprising emerging-markets stocks had the worst downside

Benchmark Returns (Periods Ended 9/30/15)

	Quarter	12 Months
Large-Cap Benchmarks		
Vanguard 500 Index	-6.5%	-0.8%
Russell 1000 Growth iShares	-5.3%	3.0%
Russell 1000 Value iShares	-8.4%	-4.6%
Mid-Cap Benchmarks		
Russell Midcap iShares	-8.1%	-0.4%
Russell Midcap Growth iShares	-8.0%	1.3%
Russell Midcap Value iShares	-8.1%	-2.3%
Small-Cap Benchmarks		
Russell 2000 iShares	-11.9%	1.3%
Russell 2000 Growth iShares	-13.0%	4.2%
Russell 2000 Value iShares	-10.8%	-1.7%
Other Benchmarks		
Vanguard Developed Mkts Idx	-10.0%	-8.0%
Vanguard Emerging Markets	-18.2%	-18.4%
Vanguard REIT Index	2.0%	9.2%
Vanguard Total Bond Mkt Index	1.2%	2.6%
Credit Suisse High Yield Index	-5.2%	-4.0%

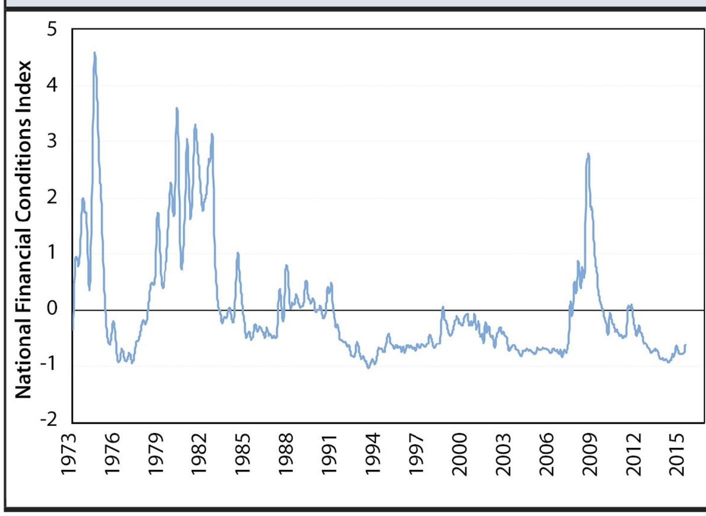
performance. While we have viewed (and continue to view) emerging-markets stocks as attractive over our five-year and longer investment horizons, we have also assumed they are riskier than developed market equities and will suffer larger short-term losses in a negative macro scenario for various reasons (e.g., due to concerns about slowing global growth).

Moving on to the fixed-income markets, the core bond index gained about 1% during the U.S. stock market's 12% intraquarter drop. While this was strong *relative* outperformance versus most other (riskier) asset classes, with yields on core bonds so low (around 2.3%), their potential to generate strong absolute/positive returns over any meaningful time frame is very limited, as we have frequently discussed. This is true not only over our five-year tactical horizon, but also over shorter periods.

We believe that part of successful investing involves riding out these nervous markets, where prices are driven by short-term news and investor cycles of emotion, and staying focused on long-term fundamentals. We have positioned our broadly diversified portfolios to withstand a wide range of scenarios, and were satisfied to see the various elements of our balanced portfolios working as expected through the market downturn.

Given the market's historical pattern of corrections, we've mentioned the potential for a market decline in each of our last three quarterly investment commentaries. So we weren't surprised by the volatility witnessed in the third quarter. But that's not to say we were predicting it would happen or what the triggers or catalyst might be. Short-term market predictions are a fool's errand, and history doesn't exactly repeat. But, knowledge of market history and cycles is useful for putting the present moment into context and thinking through different potential scenarios, risks, and investment opportunities. We will discuss the impact of the recent market turbulence on our asset class views and portfolio positioning later in this commentary, but first we will spend a bit of time discussing the proverbial elephant in the room: the Federal Reserve.

Financial Conditions Have Tightened in Recent Months But are Still Relatively Loose



Source: Federal Reserve Bank of Chicago. Data as of 9/18/2015.

The big question looming for the markets over the quarter was whether the Federal Reserve was going to raise interest rates for the first time in more than six years. Ultimately, the Fed decided to hold off on a rate hike, citing that "recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." Fed Chair Janet Yellen pointed specifically to the recent developments in China and emerging markets as factors that gave them pause. She also noted the "tightening of financial conditions" due to stock market declines, a stronger dollar, and wider credit spreads since the FOMC's last meeting. Thirteen out of the 17 Fed policymakers indicated they expect to raise rates at least once this year, with six of the 13 expressing a preference for two rate hikes. So on to the October 28 FOMC meeting, when we can go through this all over again!

Impact of Market Volatility on our Asset Class Views and Portfolio Positioning

U.S. Stocks: While the market decline made future returns for U.S. stocks look incrementally better, the price drop was not large enough to lead us to increase our U.S. stock exposure. Our analysis still indicates that over a broad range of scenarios, expected returns for U.S. stocks over the next five years remain unattractive. Valuations are still stretched and earnings are well above normalized levels for a variety of reasons (e.g., due to unsustainably high profit margins). Earnings estimates also continue to decline. So we see a substantial risk of earnings disappointment and valuation multiple contraction, implying subpar returns.

Developed International Stocks: We continue to have a positive view of European stocks. We believe European stock valuations are much more attractive than those of U.S. stocks, while European corporate earnings are well below normal (unlike in the U.S. where earnings are well-above their long-term trend). As such, in our base case and more optimistic scenarios, we see potential for both improved earnings growth as well as some multiple expansion, implying significant outperformance for European stocks compared to the U.S. market over our five-year outlook.

Emerging Markets: After recent declines in emerging-markets stocks, we now view them as more attractive, to varying degrees, than U.S. and European stocks. Specifically, using what we believe are quite conservative earnings growth and valuation assumptions for emerging markets, we now estimate returns are comparable to what we expect from U.S. stocks in our optimistic scenario and from European stocks in our base case scenario. Importantly, we think our assumptions adequately capture the risks stemming from a slowdown of growth in China and other emerging-market countries.

Investment-Grade Bonds: The events of the latter part of the third quarter did not lead to any material changes in our fixed-income asset class views. Our expected returns for core bonds are very low looking out over the next several years in almost any reasonably likely macro scenario. This is why we have invested in more flexible bond strategies. Based on our analysis of each fund's strategy and our strong positive assessment of the managers' strengths, we think these funds have the potential to generate returns above the core bond index over the next five years, across a broad range of macro scenarios. Nevertheless, we still maintain exposure to core bonds because of the risk management role they play—smoothing overall portfolio volatility and mitigating some of the downside risk of owning stocks in the event of a global growth scare, recession, or worse.

Alternatives: We continue to see long-term value—in terms of diversification benefits and expected contribution to overall portfolio risk-adjusted return—from exposure to several alternative strategy managers. The alternative strategies we own are intended to generate long-term returns that are better than core bonds, with much lower downside risk and volatility than stocks and relatively low or no correlation to stock and bond market indexes. Beyond this strategic rationale for owning select alternatives, on our current tactical view we believe they can generate returns at least comparable to U.S. stocks across our most likely scenarios, and with much less risk.

Concluding Comments

The reality of owning stocks is that occasionally, inevitably, we will experience bear market losses. This underscores the importance of our risk management, in which we seek to reduce our balanced portfolios' vulnerability to stock market downturns through strategies that include owning "insurance" assets such as bonds and lower-risk alternatives. Another key ingredient in managing through bear markets is helping our clients accurately assess their risk tolerances and investment objectives. If you are in an appropriately structured portfolio, there is no benefit to selling in a market downturn. In fact, by doing so you risk selling nearer to the bottom and then missing the subsequent recovery. We are likely to view such downturns as potential buying opportunities. This is based on our tactical asset allocation approach that centers on analyzing long-term fundamentals and valuations, while remaining sensitive to shorter-term portfolio risks.

This article utilizes research from Litman/Gregory Analytics, LLC.

LFG Recommended Mutual Funds
Performance Results for Funds and Benchmarks

Fund Name[1]	Benchmark (BM)[2]	% Returns For The Periods Ended September 30, 2015							
		3 Months		12 Months		3 Yrs Annlzd		5 Yrs Annlzd	
		Fund	BM	Fund	BM	Fund	BM	Fund	BM
Baron Emerging Markets[3]	Vanguard Emerging Markets Index	-14.3	-18.2	-13.7	-18.4	+1.7	-4.8	NA	NA
Parametric Emerging Markets[3]	Vanguard Emerging Markets Index	-15.3	-18.2	-22.2	-18.4	-4.6	-4.8	-3.2	-3.5
Tweedy Browne Global Value	Vanguard Developed Markets Index	-5.4	-10.0	-5.8	-8.0	+7.0	+5.8	+7.2	+4.0
Artisan International	Vanguard Developed Markets Index	-13.3	-10.0	-9.6	-8.0	+5.6	+5.8	+6.7	+4.0
Litman Gregory Masters Select International	Vanguard Developed Markets Index	-11.8	-10.0	-6.2	-8.0	+6.4	+5.8	+3.8	+4.0
Rainier Small/Mid Cap Equity	Russell Midcap iShares	-7.6	-8.1	+0.6	-0.4	+11.6	+13.7	+11.9	+13.2
Harbor Capital Appreciation	Russell 1000 Growth iShares	-5.4	-5.3	+6.0	+3.0	+15.4	+13.4	+15.1	+14.3
Jensen[3]	Russell 1000 Growth iShares	-5.2	-5.3	+3.2	+3.0	+12.8	+13.4	+11.7	+14.3
BBH Core Select[3]	Vanguard 500 Index	-5.0	-6.5	-3.2	-0.8	+8.9	+12.2	+11.6	+13.2
Selected American Shares	Vanguard 500 Index	-5.9	-6.5	-0.3	-0.8	+11.4	+12.2	+10.2	+13.2
Dodge & Cox Stock	Russell 1000 Value iShares	-9.8	-8.4	-6.6	-4.6	+13.4	+11.4	+13.0	+12.1
Vanguard Windsor II	Russell 1000 Value iShares	-8.2	-8.4	-4.1	-4.6	+10.9	+11.4	+12.1	+12.1
FPA Crescent[3]	60% Russell 2500 Index; 40% Vang Tot Bd	-4.7	-2.2	-2.3	-5.1	+8.1	-5.8	+8.4	+1.4
PIMCO All Asset	Barclays TIPS Bond iShares	-8.6	-1.2	-11.3	-1.0	-1.6	-2.0	+2.1	+2.4
PIMCO All Asset All Authority[3]	50% S&P 500/50% Barclays TIPS Bond iShares	-10.0	-3.8	-14.5	-0.9	-5.2	+5.1	-0.2	+7.8
Westwood Income Opportunity[3]	25% S&P 500, 25% NAREIT All Equity, 25% Citigroup Treasury Bill 3 mo., 25% Citigroup Treasury 10 Yr	-4.9	-0.6	-3.9	+3.6	+5.4	+5.9	+7.0	+7.5
Osterweis Strategic Income[3]	Vanguard Total Bond Index	-2.6	+1.2	-0.2	+2.6	+3.6	+1.5	+4.7	+2.9
Doubleline Total Return[3]	Vanguard Total Bond Index	+1.7	+1.2	+4.2	+2.6	+3.4	+1.5	+5.9	+2.9
PIMCO Total Return	Vanguard Total Bond Index	-0.1	+1.2	+1.6	+2.6	+1.4	+1.5	+3.2	+2.9
Vanguard Intermed Tax-Exempt	Vanguard Total Bond Index	+1.6	+1.2	+2.6	+2.6	+2.5	+1.5	+3.7	+2.9
Loomis Sayles Bond	1/3 CSFB HY, 2/3 Vang Tot Bond	-4.1	-0.1	-6.4	+0.0	+2.4	-0.7	+4.9	+0.6

[1]Funds were selected using the LFG Proprietary Mutual Fund Rating System℠. This system is based on extensive research using both quantitative and qualitative factors. The system seeks to identify top funds in each asset class and investment style. LFG typically combines 8 to 10 funds in client investment portfolios.

[2]iShares exchange traded funds were used where available and respective Russell indices were used for the other periods.

[3]Funds which were not recommended for entire 5 year period.

The above table reflects past performance and should not be considered indicative of future results. The results contained in this schedule were obtained from sources we believe to be reliable. We cannot, however, guarantee the accuracy of this information.