SECOND QUARTER
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DEIGHAN
WEALTH ADVISORS

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21 Years
Deighan Wealth Advisors
1994-2015

MARKET COMMENTARY

After a long, tough winter and a reluctant, slow spring, it is summer at last! Warm weather pastimes, lush gardens, and barbeques tend to occupy our minds this time of year, but just as gardens need tending, so do portfolios. For those who are more interested in hearing a quick "bottom line", I will deliver a fast take away as an introduction, with more detail to follow for those who find the financial markets as interesting as we do.

In the second quarter, worldwide financial markets ended largely flat with a few exceptions. First quarter GDP declined by 2% in the US The dollar continues to be strong against other currencies worldwide making foreign travel fun for our citizens, but weighs heavily on large domestic multinationals operating on foreign soil, and more difficult for our manufacturers to sell their goods. The clouds gathering over Greece have given way to rain as they have defaulted on their obligations to the European Union (EU) and may be headed toward a "Grexit" from the Euro as currency. Economic growth in China has slowed and Asian markets have been extremely volatile. The US equity market crept ahead only slightly in the second quarter and many worry about a pullback. Finally, the Fed continued to forecast an increase in short-term rates in September or early 2016. Looking ahead, there is a good deal of handwringing over the influence of the foregoing issues on US financial markets, but handwringing usually bodes well for markets, while complacency does not. Digging a bit deeper, overall US market fundamentals still look pretty solid, but equity markets remain vulnerable to market shocks due to worldwide events, which could cause pullbacks over the near term. According to Schwab Chief Investment Strategist, Liz Ann Sonders, a market pull back might be a gift in disguise, as it would lay a foundation for a new leg of growth.

Looking back at the past three months, quarter end results were disappointingly flat. We did see a "musical chairs" effect among the worldwide markets throughout the first six months of 2015 as some of the 2014 winners drifted back while some of the 2014 losers regained footing. For example, the bell weather US large company index, the S&P 500, was up only 1.23% for the first six months of the year after soaring 13.69% in 2014. Meanwhile, despite clouds gathering over Greece, the developed international equity markets have delivered 4.58% for the first six months of the year compared to a sorry -4.90% in 2014. Fixed income, as measured by Barclays US Aggregate Bond Index, slipped into the red at -0.49 for the first six months of the year versus a gain of 5.97% for 2014. Much of this rotation is to be expected. Markets that have done well often take a breather, while those that have lagged move ahead. This is one of the reasons we advocate for maintaining balanced, diversified portfolios.

While we like to think of the summer as a time when the living is easy, there is currently quite a bit of uneasiness in European financial markets. However, none of the current news is surprising. Greece's difficulty meeting its obligations as a member of the EU has been brewing for some time. Previously the EU and the International

ASSET CLASS	REPRESENTATIVE INDEX	2014 RETURN	1Q 15 RETURN	2Q 15 RETURN	YTD RETURN
US Large Cap Equities	S&P 500	13.69%	0.95%	0.03%	1.23%
US Small and Mid-Cap Equities	Wilshire 4500 Completion	7.94%	5.28%	-0.56%	4.67%
Developed Int't Equities	MSCI EAFE (Net)	-4.90%	4.88%	0.62%	5.52%
Emerging Int't Equities	MSCI EM (Net)	-2.19%	2.24%	0.69%	2.95%
Alternative Equities	HFRX EH Eq Mkt Neutral Index	3.63%	1.69%	-0.86%	0.84%
Hard Assets	Bloomberg Commodities	17.01%	-5.94%	4.76%	-1.57%
Broad Fixed Income	Barclays US Aggregate	5.97%	1.61%	-2.10%	-0.49%
Cash Equivalents	BOA/Merrill Lynch T-Bill 3-Mo	0.03%	0%	0.01%	0.01%

Monetary Fund (IMF) had established an aid program that traded quarterly infusions of capital for progress on budget and structural reforms. The program was set to end in December of 2014 but was extended twice with a June 30 deadline for the second extension. However, Greek economic recovery was not meeting projections. This, coupled with crippling austerity measures, led to a change of government in 2015. The new government, mindful that European institutions hold nearly 80% of Greek debt, demanded further assistance. The EU, IMF, and Greek government entered into negotiations. As the June 30 deadline approached, the Greek government broke off negotiations to call a referendum on whether to keep the terms of the aid program. On July 5, Greek voters elected not to accept the austerity measures. At the time of this writing, the next steps are all but clear. Greek banks are predicted to run out of cash on Monday, July 13. Greek leadership wants to remain in the EU. This is wise since to pull out and reinstate the drachma would cause a stunning financial collapse and certainly political instability within Greece. At the same time, EU leaders face creating a precedent by writing down Greece's obligations, since Spain and Portugal struggle as well. As we watch this Greek drama play out, we are hoping for a reconciliation with achievable terms; financial collapse and political instability may be a high cost to pay for holding Greece to the original terms of its obligation, which they clearly cannot meet with a stagnant economy.

Back in the US, we have our own mini Greece with the impending bond default of the territory of Puerto Rico. On June 28, the governor of Puerto Rico, Alejandro Padilla, announced that the island of some 3.6 million people would be unable to pay its debts of roughly $72 billion. As of this writing, the Whitehouse was not considering bailing out the territory. Puerto Rico's inability to pay her debts will certainly hurt some American investors. It may also make it more difficult for Puerto Rico and other unstable states and municipalities to borrow funds to finance infrastructure, but unlike Greece, Puerto Rico remains part of the US, and will not be facing bank closures.

There is a certain amount of concern over the negative GDP number for the first quarter of 2015. Once again, it makes sense to look at the number in a wider context. We must recall that in January, February, and March, the weather outside was unusually frightful. Adverse weather affects our domestic growth rate. Moreover, over the last decade our first quarter GDP growth has averaged out to zero, while the measure has averaged 2.3%, 2.1%, and 1.6% for the second, third and fourth quarters. In fact, the first quarter GDP rate for 2014 was -2.1%. This slower than expected rate of economic recovery from the Great Recession as compared to the pre-1990's is believed to be due partially to the increased levels of public debt as a percentage of GDP reducing the rate at which the economy recovers.

This underscored the importance of the Fed backing slowly away from intervening and shoring up the US economy with an interest rate hike unless truly necessary. We are relieved that the Fed ceased the quantitative easing program which may have been necessary during the aftermath of the 2008-2009 economic crisis, but served to seriously balloon our debt. The next step is to normalize short term borrowing rates to the extent the economy is healthy enough to sustain the increases. Analysts initially predicted a federal rate hike because of positive moves in numerous US economic indicators. According to the US Department of Commerce, Bureau of Economic Analysis, total nonfarm payroll employment increased by 280,000 jobs in May after a weak increase of 30,000 in April. Unemployment recently normalized at around 5.5% and remains unchanged and housing and retail sales strengthened. After the June meeting, officials at the Fed began hinting at a September rate hike. However, the CPI (less food and energy) has seen only very meager increases this year as has personal income and the dollar has appreciated markedly. This, coupled with the market instability resulting from the Greek Debt Crisis, may cause the Fed to hold off on the rate hike until 2016. Whenever the change comes, the current thinking is it may have less of an effect on long-term US interest rates than it did in the 1980's, or even the mid 1990's. The Fed has been clear that it will proceed with rate increases on a measured basis. Furthermore, the correlation between national short-term interest rates and long-term interest rates has been dropping while the correlation between long-term interest rates across developing nations has been increasing, which brings our attention back to projected growth trends on the worldwide stage.

> "The next step is to normalize short term borrowing rates to the extent the economy is healthy enough to sustain increases."

Chinese economic growth has been flagging. China routinely saw pre-recession annual GDP growth of over 10%. Chinese GDP growth in the second quarter fell slightly to 7%. The International Monetary Fund projects China's GDP growth rate to fall to 6.8% in 2015 and 6.3% in 2016. Some analysts believe this is China approaching normal or sustainable growth. Is 6.3% a bad growth rate? By comparison, US GDP grew 2.4% in 2014 and saw negative growth (-2.1%) in the first quarter. In contrast, India is expected to see GDP growth of 7.5% in 2015, and Mexican GDP growth is expected to overtake the United States' growth rate by 2016. Mexico has a $1.26 trillion dollar economy, making it the 15th largest in the world. This is partially due to ambitious reforms (tax reforms, reductions in government spending, and deregulation) instituted by President Enrique Peña Nieto. As an aside, nothing would do more to resolve our border issues with Mexico than a healthier Mexican economy. Clearly China, India, and Mexico are growth rates to watch.

All is not bleak despite challenging headlines, but due to the large debt burden we must digest, US investors must exercise patience as we progress slowly to increase our economic growth and market returns. All things considered, US fundamentals remain relatively stable. Even the price of oil seems to have settled in at a price of around $60 per barrel. Thus, we advocate buckling your seatbelt and riding through any difficulties that may arise. As always, we emphasize investment quality and portfolio durability as we select and monitor securities and rebalance portfolios. As one of our young recruits recently said during an Investment Committee meeting, "Despite some of the handwringing out there, we don't have to start living in caves and return to a hunter-gather society...but if things don't work out with the EU, the Greeks might have to." That would be a sincere shame.

EXAMINING THE ROOFS OVER OUR HEADS…ARE THEY SHIELDING US FROM CLOUDS OR RAINBOWS?

When we commence a financial planning exercise, as we now do with all new clients, we start by listing client goals, then we move on to examining the assets they have to support those goals. First, we list the investment assets, taxable investment management accounts, rollover IRA's, company retirement plans such as 401k, 403b and 457 plans, inheritances, and other savings accounts. These assets are usually relatively liquid and can be harnessed to create a cash flow to meet goals such as retirement, education costs, purchasing a retirement home and the like.

> "It is difficult for clients to appreciate that non-income-producing real estate is a cash consumer rather than a cash generator."

We then move on to evaluate the role of less liquid investments, and most often these are real estate assets. Oh, how people, especially Mainers, love their real estate! Real estate is an investment when it is rental property with positive cash flow; but our homes, our camps, our Sugarloaf and Florida condos are more often simply "use" assets. We have been conditioned to believe otherwise, and it is difficult for clients to appreciate that non-income-producing real estate is a cash consumer rather than a cash generator.

Everyone needs a roof overhead, and a person's home may be a treasured castle, but real estate can also be a ball and chain. For some, many an evening is spent mowing a Downton Abbey size lawn, or painting after dark with a floodlight. Although there are visions of barbeques and family gatherings, often they don't happen because the place is never ready and time just slips away. Worse is when we own multiple properties with each holding memories that stand in the way of our selling the less used properties and converting the use assets to investments to ease the strain of meeting our overarching retirement, travel, and leisure goals.

As I write this piece, I am thinking that many of our clients will think this article is specifically about them. In fact, I am writing about all of us. We rationalize hanging on to tangible assets. Many clients have described buying a camp or continuing to own it as a "good investment", but the only people who go there are visiting relatives and children who contribute little or nothing to real estate taxes, insurance, roof replacement, road repairs, to say nothing of lawn mowing, dock management, and annual cleaning to open and close the place. Others, like me, inherit real estate. In my case, it was a Florida condo. I rationalized hanging on to Mum and Dad's place because my family and I were only ten years away from a time in which we might use it more. Perhaps we could even work remotely from Florida during the winter months! Ten years have passed and our children have settled in other places. We want to spend more of our free time near them, not further away. Over the past ten years we have visited the condo to prepare it for seasonal renters. We scrub, we paint, and we upgrade something every year. It all costs time, effort and money. We may get to the beach once or twice in a five day stretch. Once, while I was ambitiously planting some annuals along the walkway, I had to move to let a tall man in a bathing suit pass by me. "Getting ready for our tenants!" I announced chirpily. "I know," grunted the man, "that's why I rent." I sat back on my heels stunned. He was right. The rental income we received did not quite cover the cost of maintaining the place let alone the cost of our trip to get there and back. Nor did it compensate us for our hard work almost the entire time. Does this sound at all familiar? I am happy to report that we have listed our lovely Florida condo and hope it will be in the hands of a new owner soon. We will deposit the proceeds into our taxable investment management account (which I am mentally renaming our "Freedom Fund") and this will support our travel and family leisure goals. We hope to visit not only the places where our children live, but also Tulum, Mexico, Florence, Italy, Scotland, and Paris over the next few years, where we will not lift a finger on household maintenance. Focusing on the future makes it a lot easier to let go.

In sum, life choices matter. To make thoughtful choices that truly suit our present and future, it is a great idea to take a step back and create a financial plan. In that process, evaluate your assets, and proactively plan for the best life you can live. If you think a financial plan should be in your near future, please contact us to schedule an appointment.

SOUNDBYTES

Karen Mitchell has earned the Certified Administrative Professional designation after successful completion of course work and a certification exam administered by the International Association of Administrative Professionals (IAAP). We commend Karen for her dedication to life-long learning and professional enrichment.

Abigail Hannigan joins Deighan Wealth Advisors as an Intern. Abigail is a student at the University of Maine who expects to graduate this December with a double major in Accounting and Finance. She helps us with administrative tasks, and is learning investment research with emphasis on equity analysis. We appreciate her insatiable thirst for knowledge and her strong work ethic.

Lucie Estabrook received a much-deserved promotion to Chief Operations Officer (COO). Jenifer Wilson, is now Chief Investment Officer.

DEREK JONES

We are pleased to announce that Derek Jones joined Deighan Wealth Advisors on June 18. Derek is a graduate of the University of Maine Honors College where he received a BA in History with a minor in Political Science. He continued his studies at the University of Maine School of Business receiving his MBA in 2012. Most recently, Derek received his JD with honors from the University of Maine School of Law where he was Online Editor of the University of Maine Law Review.

While at Maine Law, Derek explored the diverse applications of a legal education. He was a student attorney with the Cumberland Legal Aid Clinic where he represented indigent clients facing criminal charges and civil law challenges. He completed an externship with the International Association of Privacy Professionals. He completed a 10 week summer internship with UNUM's legal department where he assisted in- house legal counsel with many projects. Following graduation, while awaiting his bar exam results, Derek assisted in an analysis of financial records for an attorney handling an identity theft trial. In May, Derek passed the Maine Bar Exam, interviewed with our firm, was hired, and is now bringing his skill sets in both business and the law to his position here.

Derek is currently studying for his Series 65 Investor Advisor Exam. Once passed, he will become an Associate Financial Advisor working with Lead Advisors, Jean Deighan, Jenifer Wilson, and Lucie Estabrook expediting all manner of client focused work including financial plans, and assisting with portfolio management.

Derek is a Hampden resident. In his free time, Derek volunteers as a Hunter Safety Instructor with the Department of Inland Fisheries and Wildlife. He enjoys hunting, fishing, and golfing. Finally, and perhaps most impressive of all, we learned from one of Derek's law professors that he a fabulous baker and makes a mean pie. We are hoping to see hard evidence soon. Please join us as we welcome Derek Jones to our team.

INVESTMENT CHANGES

SWAPPED

MetWest Total Return Bond Fund (MWTRX) replaces PIMCO Total Return Bond Fund (PTTDX)

Metropolitan West Total Return Bond Fund was added to client portfolios this past quarter to replace PIMCO Total Return Bond Fund as a core active bond strategy. PIMCO was on our negative watch list for the past year and a half following the departure of veteran bond manager and PIMCO founder, Bill Gross. While the PIMCO team attempted to stem outflows in the wake of Mr. Gross's abrupt departure, the fund continued to underperform its peer group while charging higher than average management fees. We've seen relatively strong performance from PIMCO Total Return in years past, but decided that it is time to move on to a fund with a long history of management stability, lower expenses, and a more attractive risk/reward profile. MetWest Total Return Bond Fund fits the bill.

REMOVED

Devon Energy (DVN)

We've all seen fuel prices drop at the gas pump, and have observed volatility in global energy markets for some time now. Each of our energy company holdings has been under higher than usual scrutiny as we wonder how the drop in oil prices will impact companies both at home and abroad. Devon Energy has a number of promising acquisitions that are expected to increase production capabilities, and the company has divested substantially all of its non-core assets including international and offshore. However, it still faces strong competitive headwinds and is expected to experience negative growth over the next five years. We think that there are better opportunities with more attractive valuations and prospects elsewhere in the energy sector.

SAVE THE DATE!

ANNUAL ART EVENT - Thursday, September 17th - 4-7pm

As in the past, this event will feature amazing art, musical entertainment, food and drink, and visits from many of the wonderful artists who have inspired us over the years. Mark your calendars and join us!

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