Dear Client,

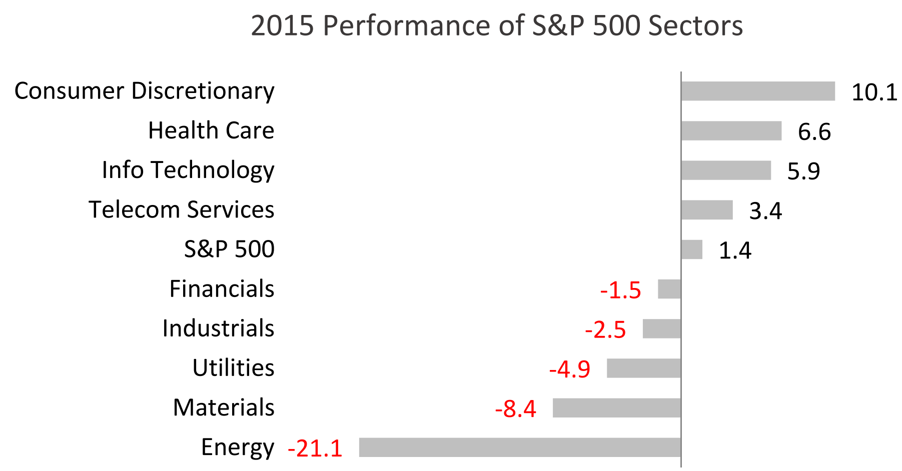
Happy New Year! We are pleased to welcome four new clients to the firm this quarter. It's an honor to serve you and we look forward to many years of working together. ZRC Wealth Management now serves 125 investors and families (overseeing more than $140 million in client assets). Thank you to those who continue to share what we do with friends and family.

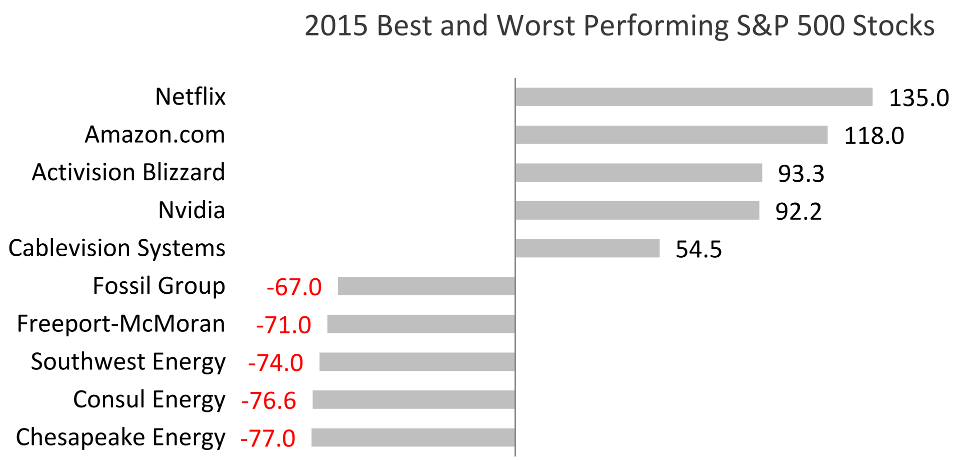
Enclosed you will find your new and improved Portfolio Reports. Hopefully you find them easy to read and understand. The majority of you have told us you wish to go "paperless" and begin receiving these reports (and other sensitive documents) securely and electronically via ZRC ShareFile. If you have any comments or questions about your reports or accessing ZRC ShareFile – please contact of us.

2015 seemed to be an especially bumpy ride for investors. In this newsletter we offer "**3 Observations about 2015**" and "**3 Themes for 2016**."

3 Observations about 2015

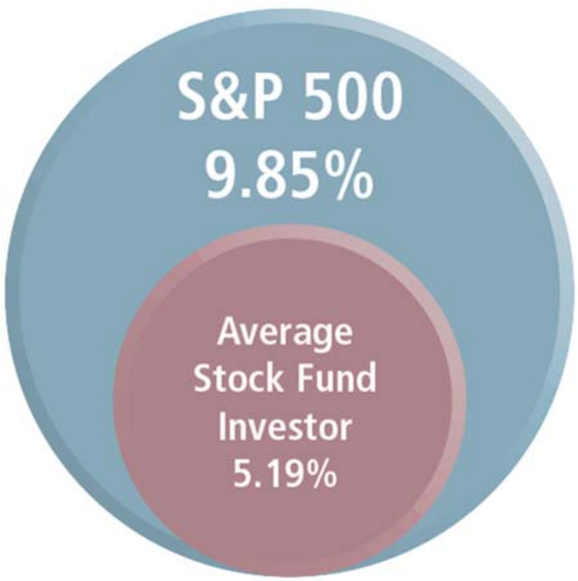
1. There was a large disparity in the returns of sectors and a big difference between the best performing stocks and worst performing stocks in the S&P 500 (see charts below). 220 stocks posted gains, 281 posted losses, and three were flat. Meaning, those that made bold bets AND were right, probably did okay.



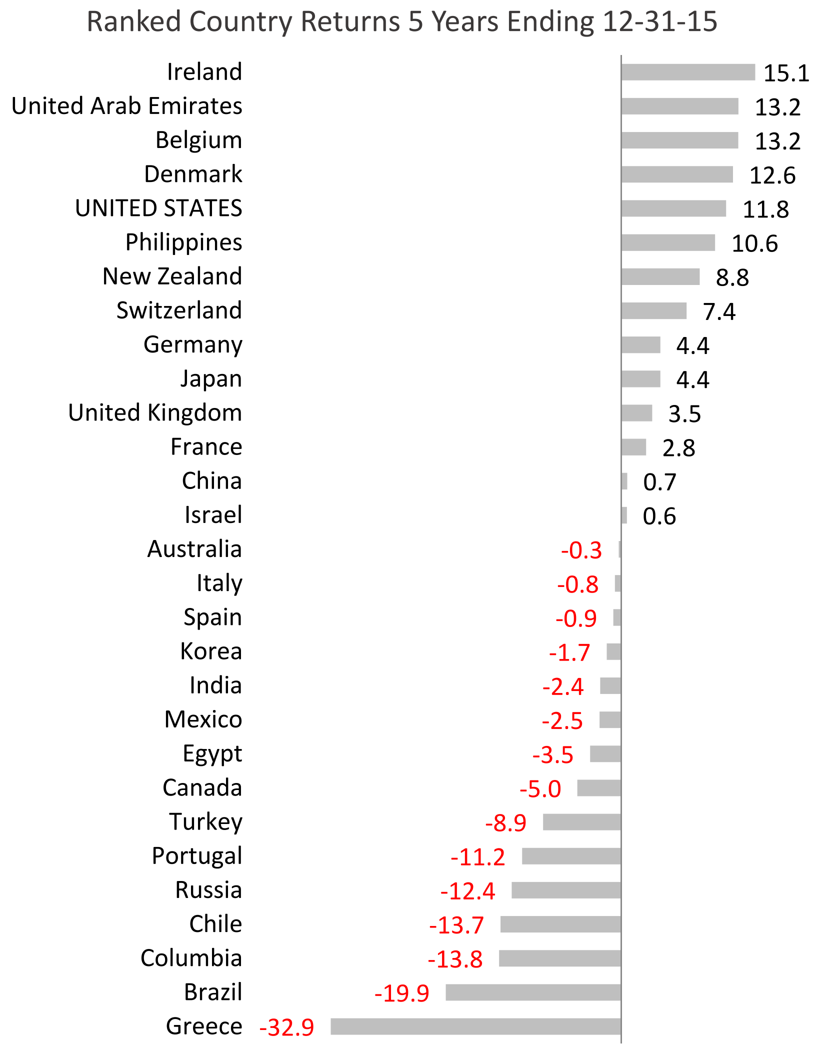


As an investment firm, ZRC is very conscious of the price we pay for stocks and their valuation at the time of purchase. Therefore, as well as Netflix and Amazon.com performed this year (and every client owns them indirectly through mutual funds and ETFs), it's difficult for us to imagine making a dedicated investment in either of these stocks given their razor thin profit margins and very high valuations. For example, Netflix's Price/Earnings Ratio (a measure for valuing a company) is 151 and Amazon.com's is 45 (by comparison, the average P/E for a stock in the S&P 500 is 16).

2. Over the last five years U.S stocks have been the 5th best performing market in the world (see chart to right). Following the “great financial crisis” who would have predicted Ireland or UAE? What do you think the next five years is going to hold?
3. Despite having a tremendous bull market at their backs, most stock investors haven’t successfully picked the winners or avoided the losers. Instead, they’ve done the exact opposite and earned just a fraction of the market’s returns (see chart below).



This is the average stock investor as compared to the S&P 500 Index from 1995 – 2014. The 4.66% difference in annual returns is what we call the “Behavior Gap” – the returns that were lost from the investor succumbing to self-defeating behavior (such as performance chasing or buying a “hot investment” only to see it tank). Source: DALBAR study, Quantitative Analysis of Investor Behavior (QAIB), 03/2015.



3 Themes for 2016

1. China is here to stay. China may be the source of much stock market volatility today, but the world’s second largest economy has too many things going for it (high growth, emerging consumer class, rapid industrialization) for investors to ignore it (and many other emerging economies).
2. Trying to predict the immediate future and outguess the market is an extremely risky proposition. For example, at a recent meeting with a client we’ll call “Al” – he asked if I was familiar with Harry Dent’s book *The Demographic Cliff: How to Survive and Prosper During the Great Deflation of 2014 - 2019* (published in 2014) and what did we think of his doom and gloom predictions? I was very familiar with Harry Dent as a best-

selling business writer and economic forecaster that has sold *millions of books*. Consider just two of other Harry's books and how those predictions turned out;

> *The Roaring 2000's: Building the Wealth and Lifestyle You Desire in the Greatest Boom in History* (published 1998). In this book he predicted the Dow Jones Industrial Average (DJIA) would reach 40,000 at some point in the next decade. It started 2008 at 12,800 and to attain such a lofty value of 40,000 within 13 years would have to earn at least 10% annually (and exclude the stock index's more than 2% annual dividend yield). The highest the DJIA has yet to reach is 18,312 (achieved on May 15, 2015).
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> *The Great Depression Ahead* (published January 2009). The title says it all. Just two months after being published, the U.S. stock market bottomed in March and has risen 200% since then.

Just as many ludicrous predictions are currently being made about the price of oil. No one knows for certain what is going to happen or when it's going to happen. We will tell you this though – whatever the price of oil is over the next year – it will probably only have a marginal effect on the performance of your investments.

Bottom line: Fear sells and making really bad predictions will not prevent you from being a best-selling author.

3. Those that have a good of idea of what it is they wish to accomplish will probably achieve it. Our job as your Wealth Manager is to help you define and set both an appropriate and achievable course. That also means partnering with you to reduce the risk (or probability) of bad investment outcomes which could have a substantial and lasting effect on your financial well-being and life's goals. In doing so, we may miss out on some positive outcomes – but hopefully we've made the ride a whole lot smoother.

If it has been some time since we reviewed your financial goals or something has changed in your financial life (you have changed jobs, lost a loved one, or are nearing retirement) - please call the office to schedule a meeting. As always, we are here to be a resource to you and those important to you.

Sincerely,

Barry N. Mendelson, CFP   Richard P. Clarke, CPA, PFS   Ryan K. Kosakura, CFA