The Lam Group
Investment Management

The 3Q 2015 was very challenging, and the only good news is that it is over. The last time the equity markets did worse was 3Q 2011.

While only four years ago, it was the European debt crisis that caused sudden/unexpected problems for the global equity markets (see column G in Table 1). Most people have little or no recollection of that decline, attesting to the benefits of focusing on the long-term. As we can see from column F, the markets have been very resilient since that crisis, even with the 3Q 2015 results included in this time period. As the late Yogi Berra once said**,**

"it's deja vu all over again".

This quarter, China's unexpected currency devaluation in late August shocked the equity markets globally and provided a reminder to the world that China is still an emerging country (rather than a developed nation) when it comes to government policy, geopolitical communication and economic leadership.

While currency devaluation, as a policy, is a legitimate method of stimulating a nation's economy (one that the US, Japan and Europe have all used successfully in recent years), one thing that distinguishes a developed country from an emerging one is how its policies are communicated and implemented. China's currency devaluation news (in addition to stoking fears of the potential for an economic slowdown) was not delivered properly or politely.

Table 1: Periodic Asset Class Returns as of 09/30/15	A	B	C	D	E	F	G
EQUITY ASSET CLASSES	**3Q 2015**	**YTD**	**12 Mos**	**3 Years***	**10 Years***	**TR since 3Q 2011**	**3Q 2011**
S&P 500 Index - *Domestic Large Cap Stocks*	- 6.44%	- 5.29%	- 0.61%	+12.40%	+ 6.80%	+84.91%	-13.87%
Russell 2000 Index - *Domestic Small Cap Stocks*	-11.92%	- 7.73%	+ 1.25%	+11.02%	+ 6.55%	+80.52%	-21.87%
MSCI EAFE Index - *International Large Cap Stocks*	-10.23%	- 5.28%	- 6.66%	+ 5.63%	+ 2.97%	+34.08%	-19.01%
MSCI EAFE SC Index - *International Small Cap Stocks*	- 6.83%	+ 2.62%	+ 0.30%	+10.17%	+ 4.65%	+50..51%	-18.59%
MSCI EM Index - *Emerging Markets Stocks*	-17.90%	-15.48%	-19.28%	- 5.27%	+ 4.27%	- 0.59%	-22.56%
DJ US Select REIT Index - *Domestic Real Estate*	+ 3.09%	- 2.84%	+11.82%	+ 9.92%	+ 6.69%	+75.38%	-14.54%
S&P Global (ex-US) REIT Index - *International Real Estate*	- 4.29%	- 5.30%	- 2.47%	+ 4.53%	+ 3.11%	+43.49%	-17.15%
FIXED INCOME ASSET CLASSES	**3Q 2015**	**YTD**	**12 Mos**	**3 Years***	**10 Years***	**TR since 3Q 2011**	**3Q 2011**
BarCap Aggregate Bond Index - *US High-Grade Bonds*	+ 1.23%	+ 1.13%	+ 2.94%	+ 1.71%	+ 4.64%	+10.64%	+ 3.82%
BarCap High-Yield Bond Index - *US High-Yield Bonds*	- 4.86%	- 2.45%	- 3.43%	+ 3.51%	+ 7.25%	+32.40%	- 6.06%
BarCap TIPS Index - *US TIPS*	- 1.15%	- 0.80%	- 0.83%	- 1.83%	+ 4.02%	+3.21%	+ 4.51%
Bloomberg Commodities Index - *Commodities*	-14.47%	-15.80%	-25.99%	-16.02%	- 5.67%	-37.23%	-11.33%
Citigroup Non-$ World Govt Bond Index - *Non-$ Bonds*	+ 1.71%	- 4.22%	- 7.01%	- 4.59%	+ 2.92%	-10.13%	+ 0.95%
JPM EMBI Global Diversified Bond Index - *Emerging Markets Debt*	- 1.71%	- 0.07%	- 0.62%	+ 1.50%	+ 6.89%	+27.18%	- 2.09%

Sources: Morningstar, JP Morgan & Dimensional.

*annualized

Nevertheless, it is possible this program of aggressive monetary stimulus will work well for China, as it did in the US (2008), Japan (2014) and Europe (2015), despite the near-term market volatility it has caused.

While 2015 started strongly, global equity markets reacted quickly in the aftermath of China's devaluation in late August. Led by emerging markets equities (MSCI EM Equity Index is down 15.48% YTD and down 17.90% for the quarter) this decline was swift and broad based much like the declines experienced by risky asset classes in 3Q 2011. It is worth noting that the lower volatility experienced by our bond positions this quarter illustrates the importance of portfolio balance, even in the presence of historically low interest rates.

In the context of a long-term investment strategy, a difficult quarter, while unwelcome, should not be unexpected, nor should the results from a narrow timeframe dilute our belief in the long-term benefits of portfolio balance and global diversification.

The resilience that risky asset classes have demonstrated after the market crisis in 2008 as well as after other periods of high volatility in 2011, 2002 and 1998 suggest that we must stay disciplined during periods of extreme market volatility. Acting impulsively to fast-moving markets can be dangerous and often expensive as recoveries can occur as quickly as downturns. ***Patience, and dedication to our long-term allocation targets will likely be rewarded.***

As the sharp declines in August unbalanced the portfolio, we have begun the process of rebalancing towards our long term asset allocation targets. With most equity asset classes notably less expensive, they will figure prominently in our portfolio rebalancing plans (i.e. selling bonds to buy stocks). At the same time, where possible, we are aggressively harvesting any meaningful losses in your taxable accounts to offset capital gains that may be realized in future portfolio rebalancings.

Despite the difficulties this quarter, we continue to believe all the asset classes included in the portfolio have risk and diversification characteristics that will each positively contribute, albeit at different times, to aggregate performance over the long-term.

We remain committed to our globally-diversified and balanced asset allocation strategy and continue to have 100% of our personal investable wealth invested (with allocations that reflect our personal risk tolerances) in this manner. While reporting a negative quarter is never pleasant, we appreciate the confidence you have expressed in The Lam Group by making us your investment manager. We will continue to work hard to navigate these challenging times with discipline, courage and an appreciation of risk.