



**OPTIVEST**  
WEALTH MANAGEMENT

*Turning Success into Peace of Mind.*

**FOURTH QUARTER 2015**

**October 2, 2015**



*To Our Investors:*

By: Mark Van Mourick, CEO  
Leslie Calhoun, CIO/CCO

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## Financial Markets Review by Mark:

### ECONOMY:

While both the first and second quarter GDP estimates were revised upward, the third quarter will likely slow to under 1% (according to the Federal Reserve Bank of Atlanta). There is growing concern that worldwide economic weakness will slow the U.S. economy next year. Adding to these reservations, the S&P 500's third quarter earnings are expected to decline 4.9% (according to *Reuters*). This would be the second consecutive profit decline since 2009 and subsequently trigger an "earnings recession." This second decline would be attributed to our strong Dollar, falling oil prices and weak global demand; forward 12 month earnings are also forecast to fall 2%. The probability of a "garden variety" U.S. economic recession (i.e. two consecutive quarters of GDP decline) is increasing.

The U.S. stock market is a leading indicator of the health of the U.S. economy; over the third quarter, the S&P 500 index fell 6.9% and ended down 9.9% from its 2015 high. Broader indexes, like the *Russell 2000 Index*, ended the quarter down 12.9% and down 16.0% from its high.

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Clearly, the stock market is flashing a warning signal... The bond market, as measured by the 10 Year Treasury, is about even for the year. However, risk spreads have widened and everything except the very highest grade corporate or municipal bond is down year-to-date. Raw materials and the foreign countries that produce them are suffering the most. Energy stocks, MLPs, commodities and emerging markets are near or below 2009 lows. These represent significant values, and while they still may have further to fall, they should perform well over the next 3 - 5 years.

In our [January 2015 newsletter](#) we wrote: "We believe U.S. stocks will continue upward for 5 - 9 months before becoming more volatile... and we are likely to see a 10% - 15% correction in the second half of the year." The Dow Jones and S&P 500 topped out in May of this year and are now down 10% - 15%. As you are aware, we followed our forecast and market indications outlined in our [August update](#) and sold our U.S. stock holdings before the recent decline. We will remain cautious until valuations and technical indicators improve significantly.

## Portfolio Update by Leslie:

On Friday, August 21st, we sold off the remaining U.S. equity funds from all of our diversified models before the market entered correction territory. (We had already begun exiting these funds during the second quarter of the year.) Optivest remains in tactical mode with our focus now on monitoring the following: the slow and stuttering recovery of the global economy; U.S. equity valuations and third quarter earnings; the Fed's timing for our first interest rate hike in seven years; the strong U.S. Dollar and its effects on holding down U.S. inflation.

To date we have not sold U.S. equity exposure held through tactical or inflation sensitive sectors, nor did we sell European or Emerging Markets equities. The overall market selloff and subsequent correction has had low dispersion and high correlation, meaning there is little immediate

benefit seen in diversification. But we believe this will normalize and that we will see rebounds in the alternative and international equity markets as Europe continues to pull out of recession and as the China market crash gets further behind us. A rebound in our inflation-related investments is most likely going to occur when we see both a rebound in the overall world economies and a weakening U.S. Dollar.

Our U.S. debt investments are unchanged and our hedge for rising interest rates is still in place. Additionally, we have added exposure to investments that have “floating rate” exposure. These are likely to play an important role in offsetting volatility on the fixed income portion of our models if rates rise in next several quarters.

Meanwhile, during this correction we are bottom fishing for some U.S. equity exposure by purchasing common and preferred stock of companies that pay a high dividend. We have also been moving some of the cash proceeds from the sale of U.S. equities into low and non-correlated investment vehicles when suitable. We look forward to discussing these strategies with you in the coming weeks.

## Concierge Highlight by Shannon:



As you begin dreaming up your next adventure, I'd like to introduce you to a luxury travel advisor who can alleviate the stresses of travel and replace them with unforgettable experiences. Terri Hill of [Elite Travel International](#), a Virtuoso agency, spent ten years working in luxury hotels and has witnessed the unbelievable value of working with a travel advisor. As the internet has grown, the volume of information available has become overwhelming and the quality of that information unreliable. Travel advisors have since shifted from transactional order takers to *transformative curators of bespoke experiences*.

Terri's personal relationships with properties across the globe translate into exclusive benefits for clients such as upgrades, spa credits, complimentary breakfast and more. Imagine a restorative weekend at Montage Deer Valley or a kayaking adventure through the glaciers of Patagonia. Terri would be honored to help you and your family see the world. *(As a valued client of Optivest, all first-time planning fees with Elite Travel International will be waived.)* Please email [shannon@optivestinc.com](mailto:shannon@optivestinc.com) for an introduction to Terri Hill.

## Upcoming Events: Where Should My Retirement Money Be Now?

Studies show that 3 out of 5 of today's retirees will outlive their retirement savings projections. *Learn how to spend with confidence.* Do you truly understand the risk and net rate of return on your current retirement plan, and how to reduce taxes? How can you protect your retirement money from current market volatility and obtain positive gains in both up and down markets?

Wednesday, October 14<sup>th</sup>

Presentation and Dinner from 6:00pm - 8:00pm

Rothchild's Restaurant in Corona Del Mar

- Featuring: Leon James, CFP/Senior Managing Dr. of Optivest Retirement Strategies
- Featuring: Rich Young, Allianz

Please [CLICK HERE](#) for more information and to RSVP

## Summary

Outside of the energy industry, local businesses serving local customers (i.e. Main Street) are still growing nicely. However, weak global demand and a strong U.S. Dollar have caused large, multinational businesses to

slow, resulting in reduced revenue and shrinking profits. This is also causing the overvalued stock market to contract, all the while skepticism for 2016 is increasing. We have derisked portfolios and will remain in a defensive posture until we see better risk/reward opportunities in the financial markets. In the meantime, we are finding continued success with non-correlated assets to add stability and income during this period of global weakness.

*Mark Van Mourick*

*Leslie Calhoun*

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