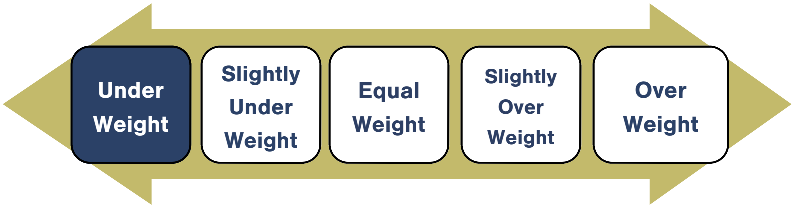
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - JANUARY 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. Due to recent volatility and global macro factors we have decreased our equity exposure and are **Underweight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

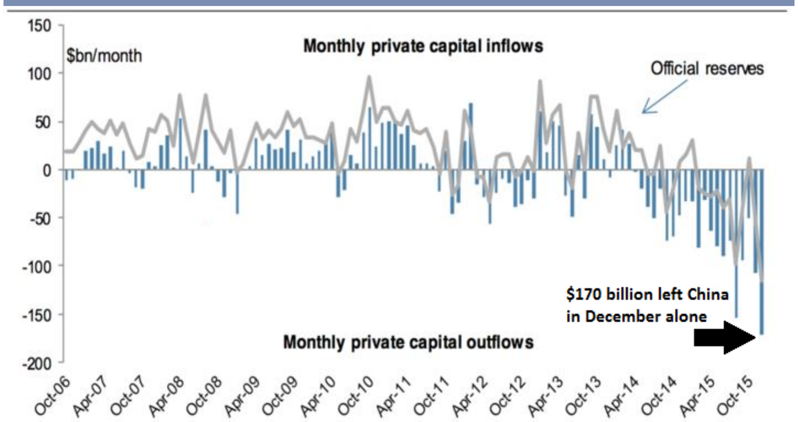
ECONOMIC NEWS

- China's economic growth slowed to 6.9%, a 25-year low. However retail sales, industrial production, and capital investment were better than expected.
- The International Monetary Fund cut world growth forecasts for the 3rd time in less than a year, but still anticipates growth of 3.4% for 2016. IMF forecasts have generally been more optimistic than recent results.
- Conviction on the Fed's ability to hike rates again by the end of the year is waning as they focus on the full impact of China and oil on the U.S. economy, which is still sparking volatility throughout our markets.

MARKET NEWS

- Even though oil prices stabilized near $30 a barrel, with sanctions being lifted in Iran allowing the country to export its oil, fears remain that the global oversupply will continue.
- The S&P 500 experienced its worst start to a year ever. Investors are now looking for a bottom to this market correction, however the longer-term recovery is dependent on the global picture.
- The U.S. Dollar has remained strong against international currencies and kept the pressure on U.S. multinational companies that rely on exports and overseas revenue.

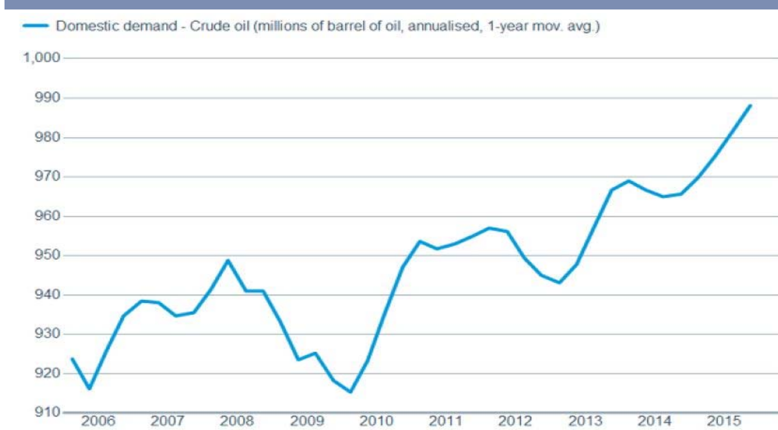
CAPITAL EXITING CHINA AS CURRENCY FALLS



Source: Bloomberg; RBS

China's total capital outflows for 2015 are estimated at $1 trillion resulting from investors exiting Chinese markets on concerns over the depreciation of their currency and slower growth. Capital outflows cause further currency weakness creating a dangerous circular effect.

OIL DEMAND PLAYING CATCHUP TO OVERSUPPLY



Source: FactSet, Oxford Economics. As of Jan. 19, 2016.

Domestic demand for oil has been increasing over the past several years, but U.S. consumption alone cannot make up for our oversupply. Production decreases in the U.S. help, but it will take increased demand and production declines on a global scale to make an impact.

CURRENT THOUGHTS

The usual suspects, i.e. oil, China, Fed rate hikes, are keeping their place in the headlines and the market's reaction to bad news seems to be overshadowing the brighter spots within the data. Abroad, manufacturing numbers in the Eurozone and Japan have been resilient despite China's slowdown. At home, consumer sentiment and employment data continue a positive trend with wages beginning to improve modestly. Although declines in corporate earnings growth and other negative economic indicators are a reason for concern, the odds of an imminent recession don't look very high. There is a very evident correlation between the price of crude oil and the direction of U.S. stock prices in this recent correction. It is hard to predict if oil prices are finally reflecting the true imbalance between supply and demand. Economic and political challenges for countries like Saudi Arabia and Iran are also making production estimates even harder to project. It is important to keep this market correction in perspective. Within the 115 years of market history, the market has risen during 85 of those years. This means that there were 30 years in which the market declined and the average length of those declines is 7 months. In comparison, it has been just over 8 months since the market's all-time high in May 2015. The current correction is by any standard well within 'average' territory, but if we are in a bear market scenario, a recovery could be further away. Managing risk remains the top priority as we look for initial signs of an end to this correction and the opportunities that are presented.

Contact one of our wealth management professionals today at **972.960.6460** or visit us online at **www.SFMG.com**