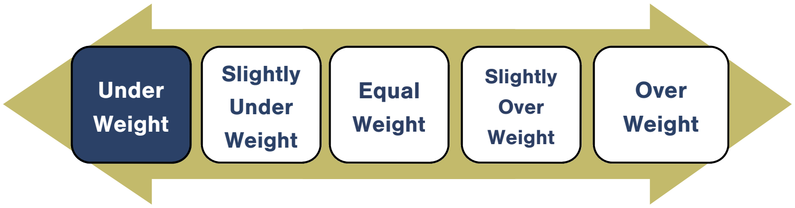
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - FEBRUARY 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.

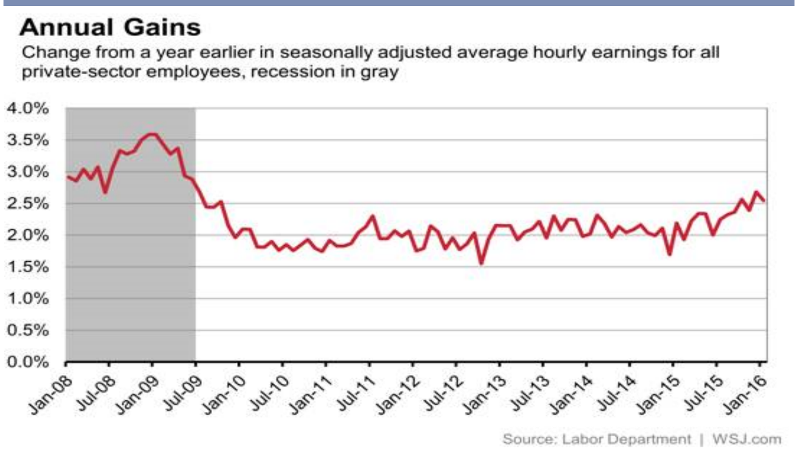
ECONOMIC NEWS

- Disappointing business activity and manufacturing data within the Eurozone is increasing the chances that additional stimulus measures will be implemented by Mario Draghi and the European Central Bank.
- Core U.S. inflation numbers (excluding food & energy) rose in January to an annualized 2.2%, the highest level in over four years. The Fed will be keeping a watch on inflationary pressures, looking for a reason to continue hiking rates.
- Increases in U.S. retail sales and wages in January were positive contributors to the domestic economic picture amid continued turbulence in global markets.

MARKET NEWS

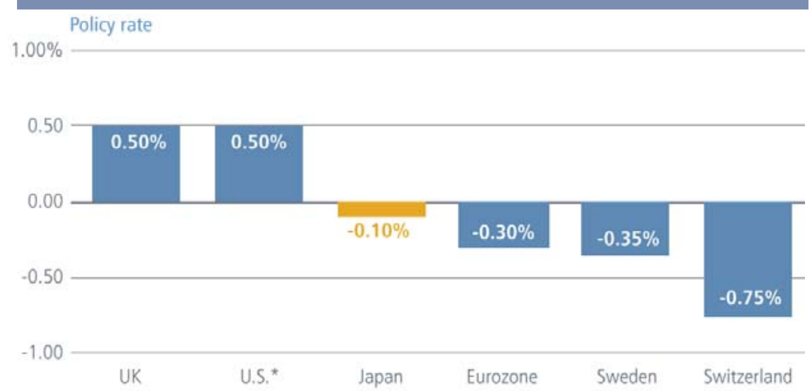
- U.S. markets staged a 3-day rally in mid-February, but based on weak trading volume and many investors closing short positions, it appears to be more of an oversold bounce.
- Global bond yields have been trending lower as the major central banks continue to provide an array of stimulus and accommodative monetary policies which depresses rates.
- Japan implementing a 'negative interest rate policy' is one example of the aforementioned policies, meaning institutions must **pay** interest to deposit funds at the central bank. While the markets initially reacted favorably, this unfortunately is more a sign of desperation to stimulate growth in the region.

WAGE GAINS TRENDING SLIGHTLY HIGHER



While hourly earnings still have plenty of room to rise to get to pre-financial crisis levels, the year-over-year gains in average hourly earnings look to be trending higher. A sustained increase in wages should ultimately lead to increased spending and economic growth.

WILL NEGATIVE RATES HAVE A POSITIVE EFFECT?



Source: Bloomberg
* The upper bound of the target range is shown for the U.S.

Negative interest rate policies adopted by central banks are an attempt to discourage savings and promote borrowing. However, if the demand for loans does not increase, the net effect may simply be a reduction in banks' profitability and lower savings rates.

CURRENT THOUGHTS

Recent economic releases in the U.S. have been somewhat gloomy, but there are some signs of light with the prices of goods and services rising slightly due to increasing consumer consumption and wage gains. While the market found some footing and rallied alongside a rebound in oil prices, there are underlying factors indicating that this renewed strength may only be temporary. Trading volume has been declining and has been especially weak on the recent 'up' days. A higher amount of trading volume taking place on these positive moves would show conviction among investors, however, it simply has not been there. Additionally, bond yields remained low throughout the recent rally in stocks, indicating traders are staying put in less risky bonds instead of shifting to equities. Despite the few morsels of good news in the economic data, there are still major headwinds for the market to overcome. As the earnings releases come to a close, it's become increasingly apparent that Q4 of 2015 will mark the third consecutive quarter of negative earnings growth. Revenues have continued to fall and are set to post their 4th straight quarter of declines. While the energy sector had been the main focus surrounding earnings weakness, attention has now turned to the financial sector. Banks across the globe are feeling the impact of central bank policies. As interest rates remain suppressed, and even negative, it becomes extremely difficult for banks to generate profits from lending. Volatility in 2016 has been extraordinary and defensive positioning remains prudent from an asset allocation perspective.

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