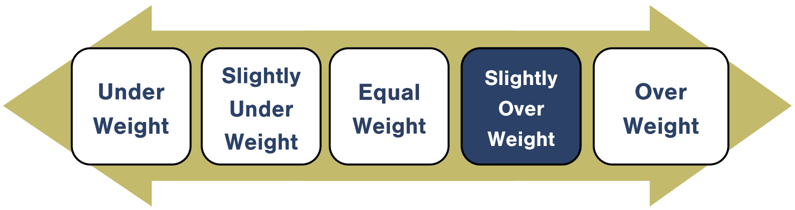
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - OCTOBER 2015

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. Due to reduced volatility and positive macro factors since the recent correction, we have increased our equity exposure and are **slightly overweight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

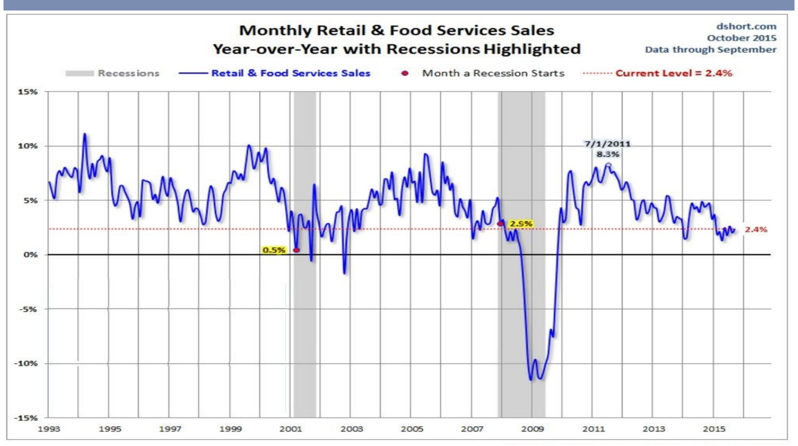
ECONOMIC NEWS

- The broad measure of retail sales for September was disappointing, but spending on bigger ticket items, such as automobiles, remained strong.
- China reported a better than expected growth rate of 6.9%, but continues to show weakness in exports and manufacturing, raising questions on the data's accuracy.
- Wage growth continues to be one important area of the U.S. economy that hasn't gained any steam, as an expanding global workforce has allowed employers to keep the cost of labor from rising at the historical trend.

MARKET NEWS

- Third quarter earnings have been mixed at best, with some companies beating lowered expectations, but sales revenues are declining, slowing the growth rate of profits.
- Oil prices are off their August lows but remain below $50 per barrel as crude inventories remain elevated despite the reduction in the number of active U.S. oil rigs.
- The U.S. Dollar has retreated from its high in March, but is still over 5% stronger year-to-date. This strength will continue to impact the international revenues of domestic companies, as well as U.S. manufacturing and exports.

RETAIL SALES IN A DOWNWARD TREND



Retail Sales have trended lower year over year since 2011 as consumers are saving more disposable income rather than spending it. A reversal in this trend is needed to move economic growth higher, as consumption is 70% of gross domestic product.

HOURS INCREASE AS WAGES FAIL TO RECOVER

During the last recession both wages and hours worked declined as employees lost their jobs. When the recession ended and more jobs were created, the hours worked recovered quickly, but wages are still a long way from pre-recession levels.

CURRENT THOUGHTS

After experiencing a correction in U.S. stock prices of over –12% from the July highs, stocks have rallied off of their lows for the year and have brought the S&P 500 index back into slightly positive territory for 2015. As we enter the last quarter of the year, investors are looking at several factors ranging from corporate earnings, U.S. economic growth, Fed interest rate policy, and the slowing global economy. At close to 10%, corporate profit margins remain near cyclical highs. It is difficult to expand margins at this elevated level, and without improvement, earnings growth cannot deviate too far from the overall growth rate of the economy. For the quarter, companies in the S&P 500 have seen earnings growth at –3.8%. If the index reports a decline in earnings for Q3, it will be the first back-to-back quarters of earnings declines since 2009. Until this trend changes, upside potential for stocks will be limited. However, with the current economic backdrop in the U.S., we see a recession as being unlikely as well. As to the Federal Reserve, they are facing a difficult task in normalizing their interest rate policy. This is a challenging endeavor made even more precarious in today's world of stagnant global demand, low wage growth, and abnormally low inflation. The Fed needs to clearly communicate the reasons for their policy, or run the risk of losing credibility.

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