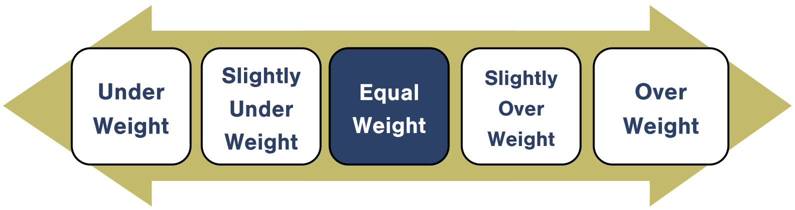
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - AUGUST 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. We are maintaining our equity exposure and are **Equal weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

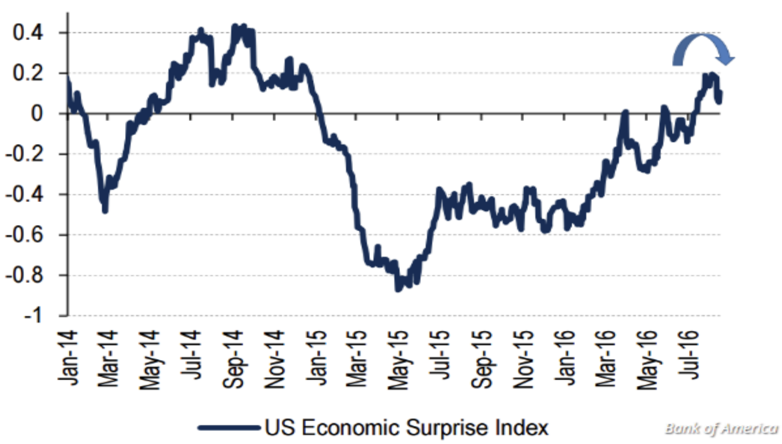
ECONOMIC NEWS

- Exports in Japan have fallen for 10 months, with July marking the largest decline since the financial crisis, resulting from weak global demand and a strong Yen.
- The U.S. Leading Economic Index rose 0.4% in July, indicating the economy could see higher growth in the 3rd quarter. This index of leading indicators has risen in three of the past four months.
- Historically, the inflation target for the Fed is 2%, with inflation (CPI) currently at 0.80%. There are discussions of raising the target up to 4% in order to provide the Fed with more room to cut rates if the economy begins to slow.

MARKET NEWS

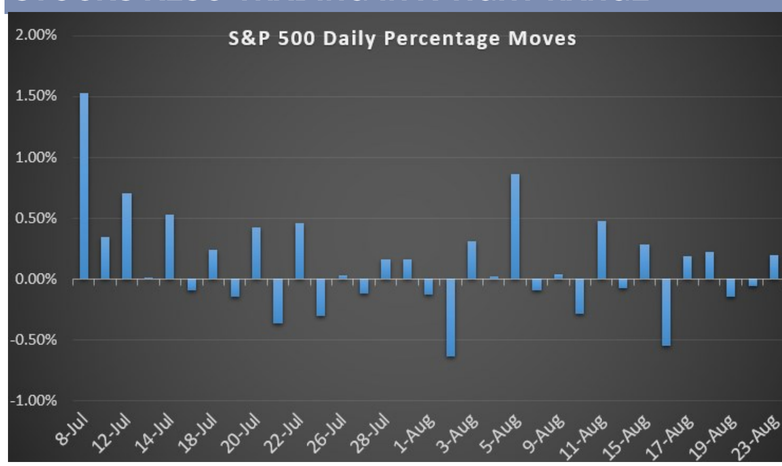
- Trading volumes in U.S. markets have declined significantly over the past month as investors weigh global risks, with another earnings season of negative growth. The week of August 12th was the slowest week in volume so far in 2016.
- European banks saw their profits fall by 20% in the first quarter of this year, with negative interest rates being cited as a major headwind.
- 10-year treasury yields have been stuck in a range, fluctuating by only 0.15% throughout all of August. This is the narrowest monthly trading range in a decade.

FEWER POSITIVE U.S. ECONOMIC SURPRISES



The incidences of economic data beating expectations have started to wane, which is likely to put a drag on market sentiment. That said, the economic data is not necessarily getting worse, so this may just be a result of higher analyst expectations.

STOCKS ALSO TRADING IN A TIGHT RANGE



The last time the S&P 500 had a daily move greater than 1% was on July 8th when the index closed above the previous all-time high. Calm markets are associated with the summer months, but higher volatility is expected as the fall season begins and election nears.

CURRENT THOUGHTS

The current bull market for U.S. equities has not ended from a technical stand point. Investors have become more comfortable with economically sensitive sectors and less interested in defensive investments, which is a positive sign. The market however, has taken a timeout in some ways. U.S. equity markets are largely unchanged from where they were a month ago and have experienced a period of extremely low volatility. Valuations may have become too rich to support further share price appreciation after the weak earnings and revenue growth this year. The 2nd quarter earnings season resulted in yet another quarter of negative growth and estimates for the 3rd quarter have turned negative. Now analysts don't expect to see positive earnings growth until the 4th quarter. Low bond yields have been a factor in pushing investors into equities, but valuations should trump yields at a certain point. Historically, September is a weak month for the market. Going back to 1926, the average S&P 500 return in September is –0.7%. This is the only month that has a negative average return. This coincides with expectations of volatility picking up through the end of the year. These types of statistics are interesting, but by no means reliable predictors, which leaves us with the economic data to focus on. In the U.S., the data looks more steady than robust, but remains one of the few developed economies strong enough to even considering raising rates.

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