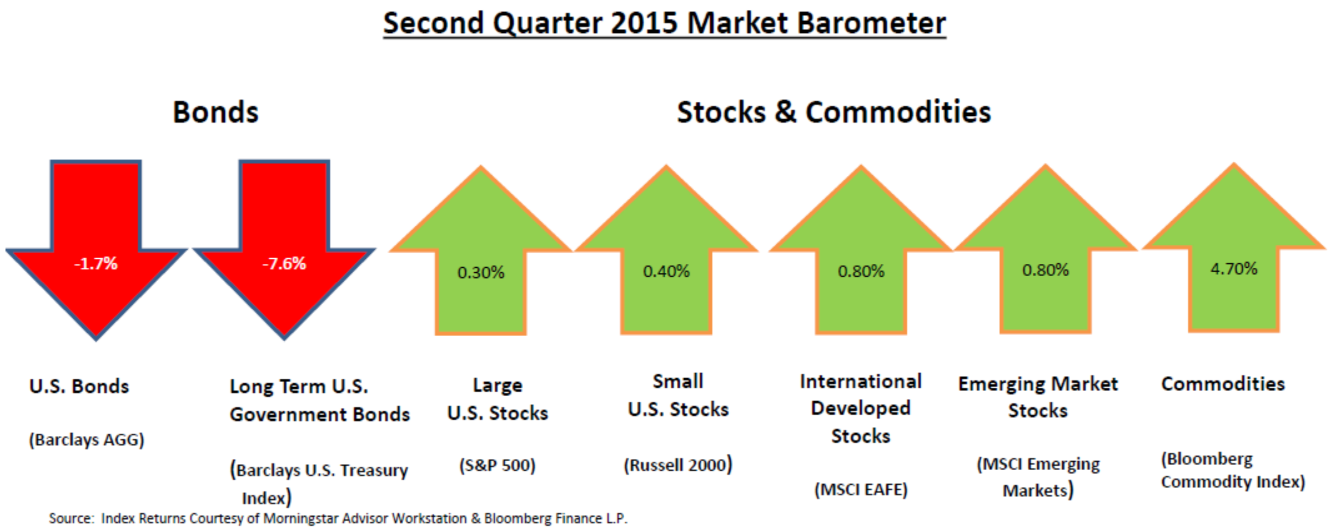
Braver Wealth Management, LLC

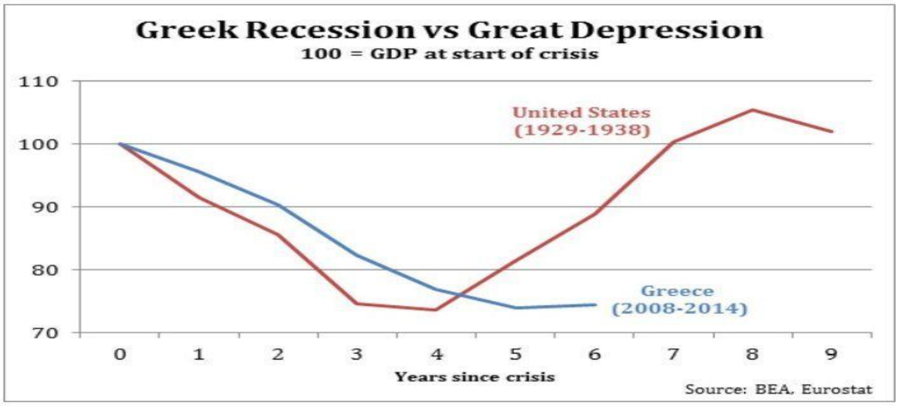
Second Quarter 2015 Economic & Market Summary – July 22, 2015

After a slightly positive first quarter this year, the second quarter was a disappointment. Near the quarter's end, signs of global unrest hurt most major asset classes and eliminated nearly all year-to-date gains. Interest rate sensitive asset classes, such as bonds and real estate equities, had the most negative results in the quarter:



<u>Global Unrest Offsets Domestic Stability</u>

The second quarter closed with significant global market volatility led by concerns in Greece and China. Greece's issues relate to the refinancing of its massive debt burden. Greece's elections, where voters rejected austerity measures posed by the European Union, froze investors world-wide. Although the Greek economy is too small to impact global financial markets itself, the fear of the unknown and the potential of Greece leaving the Euro (commonly referred as "Grexit") caused investor anxiety. Although the situation seems to have improved in July, it remains unresolved and is likely to cause continuing volatility in the global markets. As of this writing it appears that Greece will accept the austerity measures posed by the EU and will begin the road towards recovery, likely to take a decade or longer.

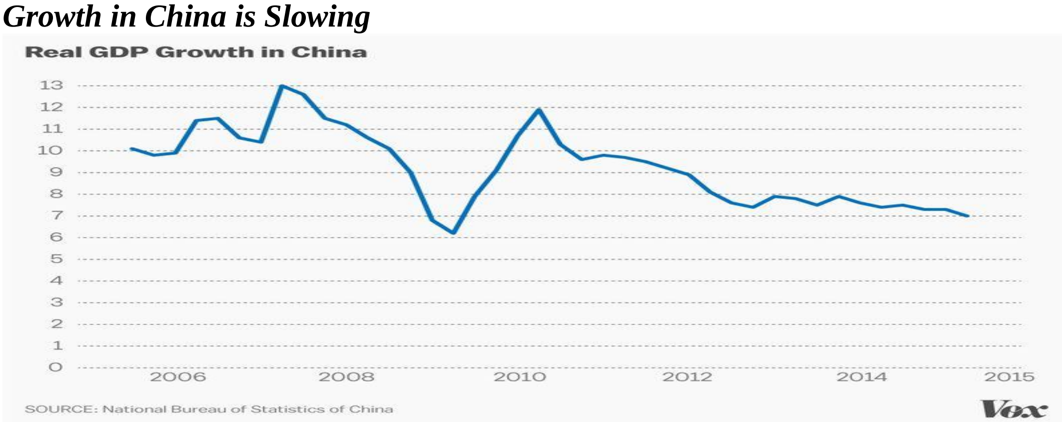


Source: American Enterprise Institute

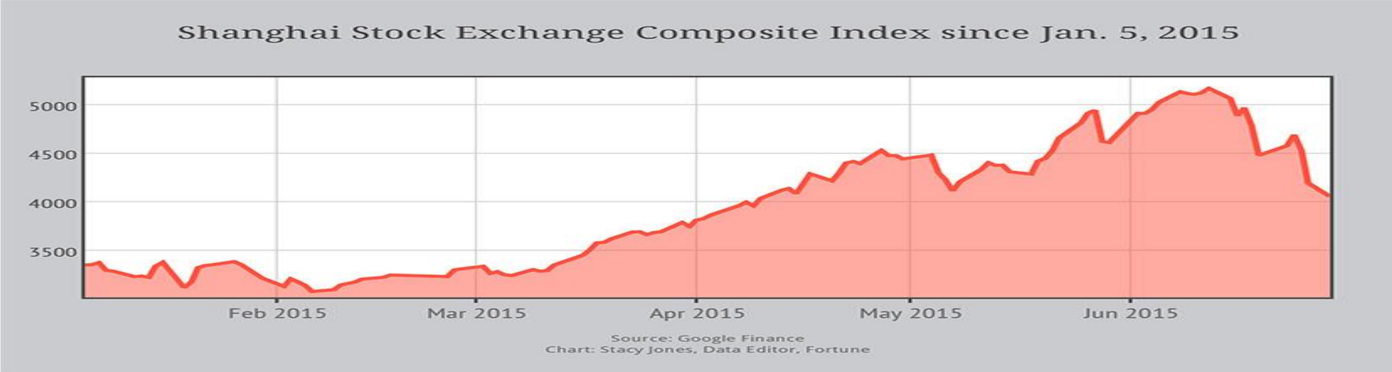
China's Stock Market Slide

Also weighing heavily on investor sentiment in Q2 was the decline of the Chinese stock market. Although China's economy received far less media attention than the issues in Greece, China is far more important to the global economy. The Chinese stock market entered bear market territory in Q2, dropping more than 20% in a short period of time. We have commented in the past on potential real estate and stock market bubbles in China. Gauging the extent of its slowdown is difficult as the publicly reported growth figures are often questioned given the government's control. The Chinese government is fully committed to managing their country's growth and asset prices, however, it is difficult, if not impossible, to engineer asset support and economic growth. On the positive side, the Chinese government has added significant liquidity into its economy and in the short term this may be enough to calm investors' fears. The question remains whether China can successfully navigate a slowdown without a larger asset price correction.

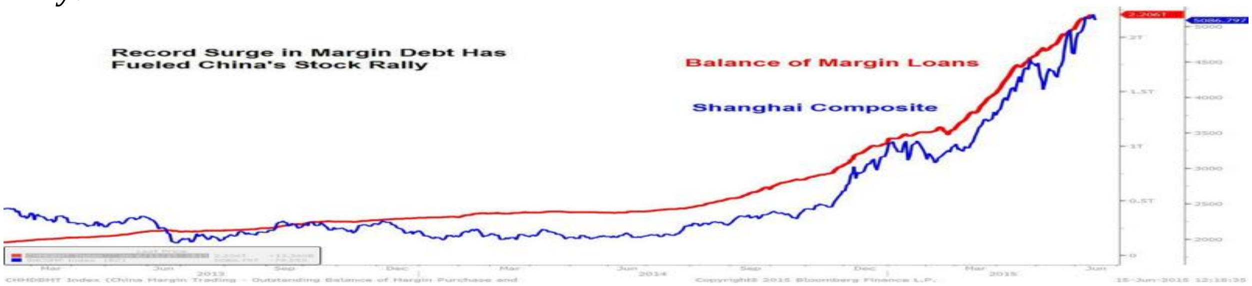
Growth in China is Slowing



China's Shanghai Stock Market Rose Dramatically But Recently Corrected



Has Unsustainable Margin Debt Fueled The Shanghai Rally?



Source: Bloomberg

<u>U.S. Economy Remains Strong</u>

Through all this global anxiety, the U.S. economy continues to show solid results and a slow but steady recovery. The expectation continues to be that all of the liquidity efforts in Europe, Japan and even China, will help the U.S. economy to accelerate in the second half of this year. In the meantime, our domestic economy is on firm ground. Unemployment continues to decline towards normal historical levels. The housing market continues to recover with building permits and housing starts robust and home price appreciation strong. Household debt levels have declined and incomes are on the rise. Core inflation (measured by CPI) remains below the closely watched 2% level at just 1.7% in May of 2015. These positive fundamentals combined with a strong corporate America will likely keep driving global investor demand for U.S. equity assets for the balance of the year.

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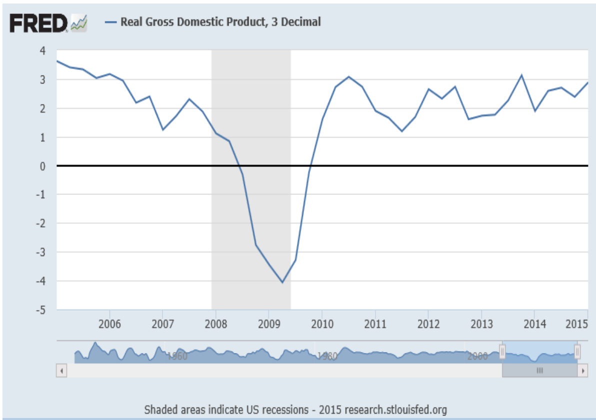
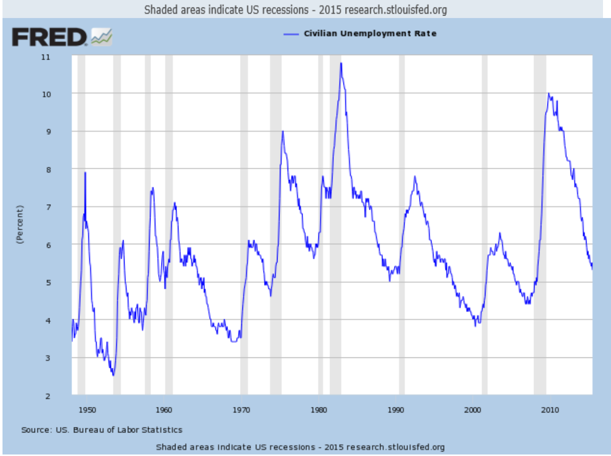
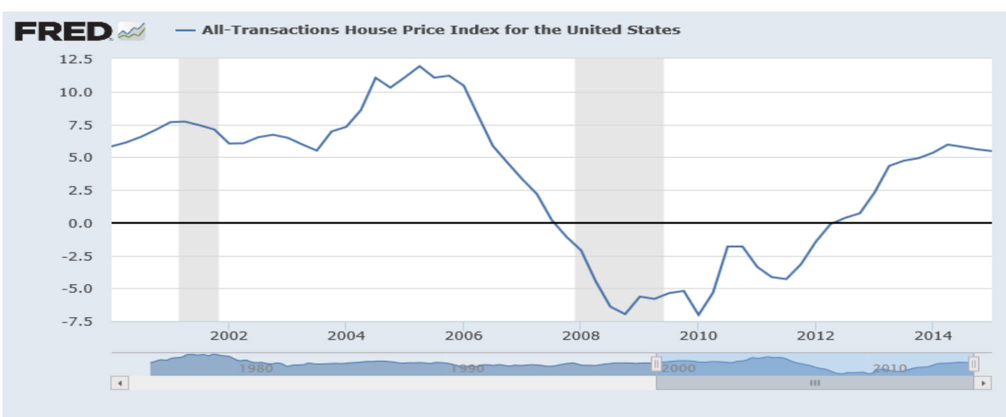
U.S. GDP Growth is Solid and Global Liquidity Measures May Enhance U.S. GDP. Unemployment is Down Dramatically from the 2008/2009 Recession.

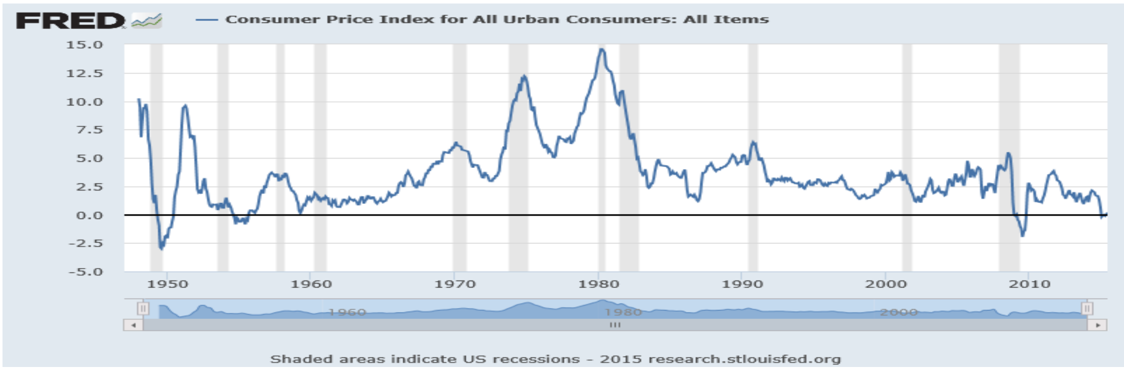




Housing Prices Continue to Recover, Providing a 'Wealth Effect'



Inflation Remains Tame, Allowing The Federal Reserve Bank to Continue to Support The U.S. Economy.



The U.S. Bond Market Finally Showing Anticipated Weakness

We continue to be concerned for bond investors as the economy improves. Despite a strengthening domestic economy, U.S. bond yields have remained at historically low and unsustainable levels. Inflation has remained tame so this has given the Federal Reserve the luxury of holding interest rates low to support the economy. U.S. consumers and businesses have taken advantage of these near zero interest rates to refinance their balance sheets and become more financially sound. However, as unemployment continues to decline and wage pressure begins to mount, the Federal Reserve is growing more worried that inflation could pick up steam and Fed governors are indicating their intentions to 'normalize' interest rates starting later this year.

The bond markets tend to anticipate the Federal Reserve's actions and so in the second quarter of 2015 we have begun to witness the weakness. Long term government bonds were down 7.6% in the quarter while U.S. corporate bonds declined by 2.9%. We continue to be bearish on fixed income assets and are under-weight traditional fixed income across our portfolios. We continue to encourage investors to be careful, particularly if they hold bond mutual funds rather than individual issues. Investors holding individual bonds directly have the ability to hold their bond to maturity whereas a mutual fund investor does not have this luxury and this may result in real losses within the mutual fund.

Despite the International Concerns We Remain Upbeat for the Balance of this Year

The global financial markets have high liquidity as Europe, Japan and China continue to stimulate their economies. These efforts should be sufficient to offset the effect of Greece uncertainty. China's situation continues to require a close watch. Although the U.S. Federal Reserve will likely begin to withdraw liquidity in the form of higher interest rates, this should be very gradual and tempered by the slow global economic recovery. The fundamentals of strong liquidity, reasonable valuations and modestly improving global economic growth conditions leave us constructive on the U.S. and international markets, despite less enthusiasm for China. Importantly, U.S. corporate earnings remain strong, supported by healthy balance sheets and strong cash flow. Merger and acquisition activity is robust on the heels of the stronger balance sheets and this also bodes well for the financial markets.

Braver Wealth Management News

We are pleased to announce that we added a new employee during Q2. Lynn Bailey joined our team in June as our second Relationship Manager Associate. Lynn has a Masters in Tax and Finance and is a Certified Financial Planner ®. Most recently she worked at Brown Brothers Harriman in Boston. Her strong work ethic, attention to detail and maturity make her a valuable team member.

On Saturday June 20th we held our second annual Client Shredding event. This year we added technology shredding to our offering (hard-drives, CDs, etc.) and client feedback was very positive again. We had a hot day so everyone enjoyed the J. P. Licks ice cream.

Enjoy the remaining weeks of summer.

Sincerely,

David J. D'Amico, CFA
President & Chief Market Strategist

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