Plimoth Investment Advisors®
INVESTMENT MANAGEMENT & TRUST SERVICES SPECIALISTS

THIRD QUARTER – FALL 2015

INVESTMENT SPOTLIGHT

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets." – Peter Lynch

During the first seven months of the year, equity markets traded with historically low volatility. The trading range of the S&P 500 stayed within an astounding plus or minus 3.45% of the year-opening level. A regularly watched volatility index (the VIX), remained roughly 33% below its long-term average level during the same time period. All of that changed in mid-August when bubbling concerns over economic growth in China, coupled with other economic concerns outside of the U.S. where economic activity continued to chug along, quickly broke the uneasy calm of the markets. Equities and all risk-based assets sold off swiftly, mercilessly reminding investors that stocks don't always go up and that discipline and diversification are indeed the cornerstones of successful long-term investment management.

After falling 12.35% from the market peak reached on May 21, the S&P 500 stabilized and recovered a modest 2.80% through the end of September. Also by the close of the quarter, the VIX index held at levels more consistent with average historical volatility. In our estimation, whether or not the mid-quarter panic represented the beginning of the end of the bull market, or conversely a correction in an ongoing bull market, is a function of fundamentals. We asked ourselves the following questions: "Do the recent concerns fundamentally change the global economic outlook?" and "Have there been other changes in financial markets that may alter our expectations of ongoing global growth?" ■

Economic Review & Outlook

Here in the U.S., we continue to experience a growth environment that while uninspiring, continues to foster enough aggregate activity to keep moving forward. Thus far in 2015, the resurgent housing market tops the list of positive economic developments. After years of being growth neutral, the housing market began to turn last year, and the momentum continued into 2015. We continue to expect housing to be a positive contributor to growth as housing inventories remain relatively low, and firmer employment and low interest rates provide a base to support ongoing housing activity.

Employment growth remains reasonable, though hiring did slow during the last quarter. The low 5.1% unemployment rate clearly does not tell the entire story as the labor force participation rate remains historically low and wage growth remains elusive in this sixth year of economic expansion. The underemployment rate remains higher than normal, but has been moving in the right direction in recent months.

Manufacturing activity remains challenged in this environment as the stronger U.S. dollar has adversely impacted exports. Given global central bank policy stances, we do not anticipate a reversal of this trend in the near term. Consumer spending finally began to show signs of long awaited strength after energy price declines added to household disposable income in a meaningful way. Finally, the service sector of the U.S. economy, which represents 70% of activity, continues to grow at a healthy pace.

All things considered the U.S. remains on track to produce annual

Keep up with market activity by visiting www.plimothinvestmentadvisors.com. Our weekly market commentary can be found at the "Market Commentary" button in the lower right hand corner.

GDP in a range of 2.25 to 3%. While this is below long-term growth cycle trends, it is consistent with the nature of this specific recovery, and one that will not likely be dramatically impacted by the concerns that emerged overseas.

Among those concerns, China will continue to weigh on investor sentiment. Over roughly the past two decades, the Asian nation has become the second-largest global economy, trailing only the U.S. The growth was driven by production and export activity. Recognizing the need for a more balanced economy, government officials have been attempting to create more organic demand from Chinese consumers. This transition will continue to take time, and will likely lead to periods of economic underperformance as has been witnessed this year. On a more positive note, the cheap Euro currency has aided European exporters and lifted the region as a whole. As such, we believe some of the Chinese weakness will be offset by continued improvement in the Euro zone.

Given our outlook for U.S. growth and improving European economies, we continue to believe global growth, while likely adversely impacted by Asian and Emerging economies, will continue to be positive, with only a modest downward adjustment to expectations.

We have also been more closely monitoring global liquidity measures to determine whether or not we should be more cautious concerning our outlook. Liquidity in the financial system allows for free flow of capital at preferably lower costs. Lower cost and greater availability lubricates the global financial engine. Since the great recession, Central Banks have been pumping liquidity into the system, which was on the brink of collapse subsequent to the sub-prime credit crisis. Liquidity reached its peak in mid-2014, when it was extremely high based on historic levels. Since that time, liquidity has tightened; however, the aggregate level of global activity remains at reasonable levels. Thus we are not concerned about the adverse impacts of tight liquidity at this time. Should these circumstances change, we may take a more conservative stance on global economic output going forward. ■

S & P 500 Sector Performance

	Q3-2015	YTD-2015
Consumer Disc.	-2.56%	4.08%
Consumer Staples	-0.20%	-0.97%
Energy	-17.41%	-21.28%
Financial	-6.72%	-7.06%
Healthcare	-10.67%	-2.13%
Industrial	-6.90%	-9.75%
Info. Technology	-3.70%	-2.97%
Materials	-16.90%	-16.48%
Telecommunications	-6.85%	-3.91%
Utilities	5.40%	-5.85%

Bond Market Review & Outlook

What will the Federal Reserve do and when? This question has been at the top of investors' minds ever since the middle of last year when the Federal Reserve first indicated a move in interest rate policy was forthcoming. Each Federal Reserve meeting since that time has resulted in no change. Many believed the Fed would begin raising short-term interest rates in September. The August market turmoil, however, ultimately convinced Fed governors to maintain zero percent interest rates until the next meeting. At this point, most analysts believe the Fed will begin a slow process of increasing interest rates at their December meeting. While the Federal Reserve is weighing options to remove liquidity, the European Central Bank is just at the beginning of their quantitative easing program, and is already indicating it stands ready to do more to promote growth and avoid a globally deflationary environment.

In this environment where global central banks are enacting policies to keep interest rates low, the U.S. central bank's decision to increase the Federal Funds rate by 0.25% may be of little consequence as it is difficult for us to consider significantly higher long-term interest rates with global pressures pushing rates lower. Ten-year U.S. Treasury yields began the quarter at

2.34%, and ended at 2.06%. While we believe there will be a modestly upward bias on the long-bond through the end of the year, we do not believe the yield will move above 2.25% for the remainder of the year.

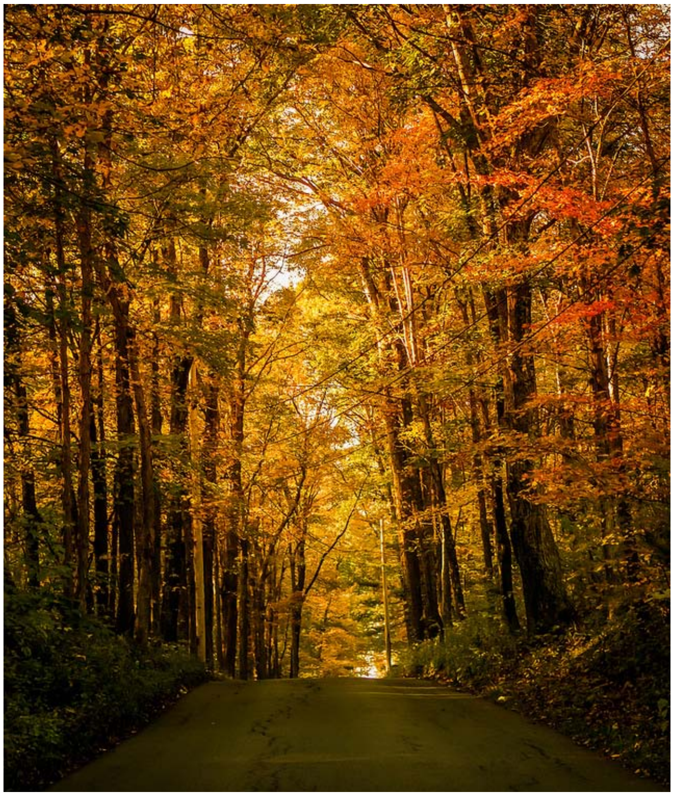
In the most recent flight to safety, bond investors began to demand higher interest rates from non-government guaranteed bonds. The difference in yield between government and non-government bonds is called the credit spread. It reflects the additional risk premium bond investors take when purchasing non-government guaranteed bonds. Concerns over economic conditions and equity market volatility pushed credit spreads higher, above their previously low levels. Accordingly, government bonds outperformed the corporate sector during the third quarter and year-to-date. ■

	Q3-2015	YTD-2015
Cash:		
T-Bill Index	0.01%	0.02%
Taxable Fixed Income:		
Barclay's US Agg. Bond	1.23%	1.13%
Barclay's Govt./Credit Int.	0.95%	1.77%
Barclay's Govt./Credit Long	2.18%	-2.39%
BofAML High Yield Index	-4.90%	-2.53%
Tax Exempt Fixed Income:		
Barclay's Muni. 5 Yr.	1.16%	1.76%
Barclay's Muni. 7 Yr.	1.65%	1.97%
Barclay's Muni. TR	1.65%	1.77%

Stock Market Review & Outlook

Along with the previously mentioned concerns over Chinese economic growth prospects and emerging markets, equity investors were also concerned about the unanticipated impacts of the massive slide in oil prices. While a boon to consumers, countries that rely on high oil prices to fund their respective economies have been devastated by the size and duration of the oil price decline. Economies across the oil patch nations including OPEC and non-OPEC producers have indeed encountered challenges funding their respective budgets, increasing concerns over specific Sovereign debt issues. Additionally, many countries have needed to liquidate other assets to fund their governments. A specific example is Saudi Arabia, which during the height of the equity turmoil liquidated $70 billion in assets to fund government spending. This dynamic is unlikely to change until oil prices reach and sustain a more attractive price for the nations impacted. Many of these nations are now looking for a reassertion of supply restrictions in order to boost prices.

	Q3-2015	YTD-2015
DJIA Index	-6.98%	-6.95%
S&P 500 Index	-6.44%	-5.29%
Russell 2000 Index	-11.92%	-7.73%
EAFE Index	-10.19%	-4.91%



Amid the turmoil, not all stocks and sectors reacted similarly. Higher risk / cyclical sectors bore the brunt of the sell-off. Sectors such as Information Technology, Industrials, and Materials suffered the largest declines. In the early stages, Healthcare stock prices were holding strong. Then after Presidential Candidate Hilary Clinton's politicization of Valeant Pharmaceutical's astronomical price increases, the entire sector got hit hard by sellers. Stocks that fared the best resided in defensive sectors, including Consumer Staples and Utilities. Consumer Discretionary stocks also outperformed as they were viewed as less sensitive to global economic turmoil. International diversification did little to reduce portfolio volatility as global equities have moved in lock-step during the market turmoil. ■

Meet the Plimoth Investment Advisors Executive Leadership Team

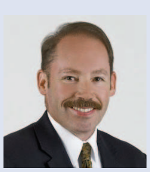
George Oliveira, CFP®, CTFA
President & CEO
508-675-4310
goliveira@pliadv.com

Steven A. Russo, CFA
Executive Vice President & Sr Investment Officer
Department Head - Investment Management
508-591-6202
srusso@pliadv.com

Susan Sartini, CTFA
Senior Vice President & Senior Trust Officer
Department Head - Trust Administration
508-591-6203
ssartini@pliadv.com

Edward J. Misiolek
First Vice President & Operations / Compliance Officer
Department Head - Operations
508-675-4316
emisiolek@pliadv.com

Meet Our Business Development Team



Thom Miller
Vice President / Relationship Officer
Individual & Institutional Accounts
781-320-4865
tmiller@pliadv.com

Sandra L. Sevigney, AIF®, CRSP
First Vice President / Retirement Plan Specialist
508-742-4713
ssevigney@pliadv.com

Closing Thoughts

At the beginning of this newsletter we began with a quote from legendary investor Peter Lynch concerning the relationship between the economy and stock prices. Ultimately, we believe that over time, stock values will move with the direction of the economy. Therefore, we spend a significant amount of time and energy attempting to define, understand and anticipate shifts in aggregate economic activity over time. Our portfolio positioning must be in alignment with these expectations. In that context we also know that periods of stock weakness and panic will emerge. The reasons for these periodic corrections can be so very varied. Using recent examples, they can range from concerns over epidemics (Ebola) to government machinations/dysfunctions (U.S. Government Shutdowns). Unlike other pullbacks in this six year market recovery, in our view, the most recent pullback has more economic fundamental underpinnings. While we continue to believe the U.S. and Global economies will continue to expand at a reasonable pace, and the stock market will continue a choppy trend toward recovery, we are more mindful of the potential downside in stocks, despite their relatively reasonable valuations.

As always, we will continue to monitor economic and market conditions to ensure timely and appropriate investment action. If we can be of assistance, please do not hesitate to call us at the numbers provided. ■

If you are interested in receiving this quarterly newsletter electronically, please contact Thom Miller at tmiller@pliadv.com. We will be happy to take you off the mailing list and add you to the e-mail list.

508-747-6596 • www.PlimothInvestmentAdvisors.com