



MERIDIAN  
ADVISORS

3<sup>RD</sup> QUARTER END 2015

## FINANCIAL & ECONOMIC REVIEW

The third quarter brought about the first true market correction since 2011, with major indices declining 12-17% from highs established in May. While this decrease may have been unsettling for some investors, it provided an entry point for several quality companies on our watch list. Global concerns were again front and center during the quarter. Many economic indicators in China continued to slow. A major driver was the persistent decline in commodity prices with simply too much supply and not enough world demand to maintain prices. The Shanghai Index plunged over 25% for the quarter. The Chinese government subsequently devalued the Yuan (their dollar) in an attempt to stimulate exports, adding another shock to global markets. The US and European economies continued steady performance for the quarter. US GDP growth remained stable in the 2.2-2.6% range, while the European Central Bank's stimulus program showed signs of having a positive impact. The flurry of M&A activity continued, highlighted by Anthem's (ANTM) purchase of Cigna (CI), Aetna's (AET) buying Humana (HUM) and Berkshire Hathaway (BRK.A, BRK.B) acquiring Precision Castparts (PCP).

The Federal Reserve created additional uncertainty as they kept the benchmark interest rate unchanged at 0.00-0.25% for yet another period citing the fragile world economy as a major contributing factor. In addition, they cited persistently low US inflation for the past three years and mentioned they'd like to see a number greater than 2% before commencing a rate hike. Many economists still feel a rate increase before year-end would be justified given the strength of the US economy. The US unemployment rate dropped to a 7-year low of 5.1% in August. The significance of this indicator has been diminished in recent years however, as the major driver of low unemployment has been the severe drop in the labor force participation rate; defined as the number of people who are employed or actively seeking work. The current rate of 62.4% is the lowest number of Americans working or looking for work in almost 40 years. This result is even more startling when you consider the US population has grown from approximately 210 to 320 million people over the past 40 years, leaving approximately 120 million people currently unemployed or not actively searching for work.

The broader market struggles were evident, as the S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index lost -6.9%, -7.6% and -7.4% for the quarter. Utilities were the best performing sector rising 2.2%, followed by Real Estate and Consumer Defensive, each losing -3% respectively. The worst performing sectors in Q3 were Energy and Basic Materials losing -22% and -21%. We're encouraging investors to remain cautious, as market valuations still do not represent an historic buying opportunity based upon many valuation levels. Our recommendations to clients are based upon stock and industry specific considerations. We would be honored to share additional thoughts on the market and top stock picks with interested investors<sup>1</sup>.

We truly appreciate your business and sharing our firm's name with your family and friends and look forward to helping you navigate the uncertain and volatile markets ahead. We look forward to growing your investments and continually earning your business and trust.

Very Respectfully Submitted,

Jack A. Kennedy  
Chief Investment Officer



<sup>1</sup> Results referenced from Morningstar.com

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