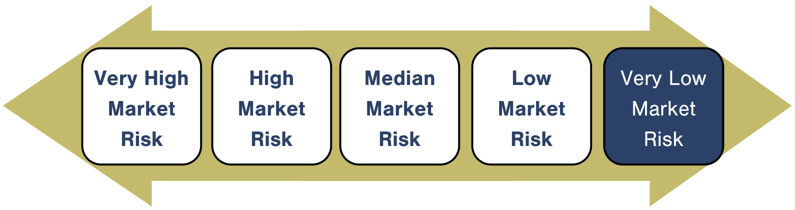
ECONOMIC AND MARKET UPDATE - JUNE 2015

SFMG EQUITY MARKET RISK SIGNAL



CURRENT ASSET CLASS ALLOCATIONS

Our signals indicate a **very low risk** environment for the equity markets at present...Higher risk assets, i.e. stocks, are now at **overweight**. The allocation mix of bonds vs. equities depends on our risk model signals that will shift weightings from equities to bonds and vice versa, based upon the equity market signals.

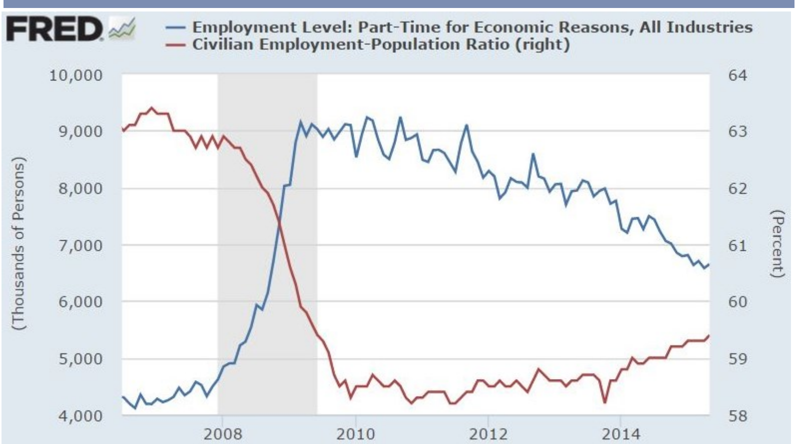
ECONOMIC NEWS

- U.S. Small Business confidence reached a 5-month high, with 25% of businesses surveyed planning to raise wages in the coming months.
- Inflation in the Eurozone turned positive in May, the first time since last November. This is a positive sign for the region as fighting deflation is one of the primary objectives of their monetary stimulus plan.
- Retail sales gained strength in the U.S., rising 1.2% in May, which boosted expectations for stronger consumer spending in the latter half of the year.

MARKET NEWS

- The majority of the members of the Federal Reserve are anticipating at least one rate hike before the end of 2015, provided we continue to see an improving labor market and initial signs of rising inflation.
- The Greek debt crisis is in the headlines again with the European leaders calling an emergency summit. The continued uncertainty has led to increased volatility in European fixed income markets.
- U.S. investors seem more focused on Fed policy instead of the problems in Europe, pushing our markets higher.

FULL TIME EMPLOYMENT CONTINUES TO IMPROVE



An important part of an improving labor market is more full-time vs part-time workers. Part-time employment (blue line) has been declining as overall employment (red line) has been increasing, indicating the growth in employment is from full-time workers.

TREASURY RATES REMAIN RELATIVELY LOW

Headlines have recently referred to a bond "sell-off" with the recent rise in treasury yields. However, the overall move in yields has been relatively small, with the 10-year treasury yield still less than 1% from its all-time low.

CURRENT THOUGHTS

So far this year, both bond and stock prices have continued to essentially move sideways. Some speculate that this is an indication of a topping process for stocks and the beginning of the end for a bubble in bond prices. This could be the case, but nothing has materialized yet, which could be an indication that investors are simply focused on bigger economic issues. The recent decline in U.S. economic output (GDP) has been worrisome, but the signal from our Leading Economic Indicators is that this is a short-term event that is the result of the convergence of several factors. Consequently, the Fed has revised the economic growth projections down to 2% for the year, but still contend that we are not slipping into a recession. Even though they anticipate an increase in interest rates, the Fed has assured investors the rate rise will be gradual. In the past, the markets have digested slow tightening cycles much better than fast ones. When rate increases have been gradual, stocks have on average moved higher in the months following.

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