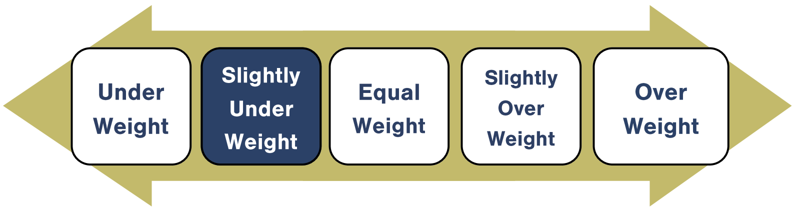
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - MARCH 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

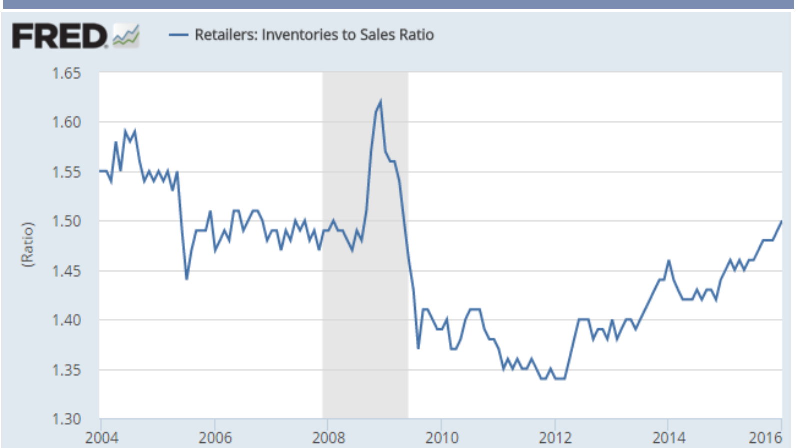
ECONOMIC NEWS

- The Fed has gradually reduced their expected rate hikes this year from four to two. A more cautious pace is in line with the consensus among other institutions that have been revising their global and domestic growth outlook lower.
- Corporate profits declined for the second straight quarter in Q4 as multinational companies continue to face pressure from a strong dollar and waning overseas demand.
- Political risks are abundant at home and abroad providing further headwinds for the markets and economy; the U.S. election, European refugee crisis, the United Kingdom potentially leaving the European Union, just to name a few.

MARKET NEWS

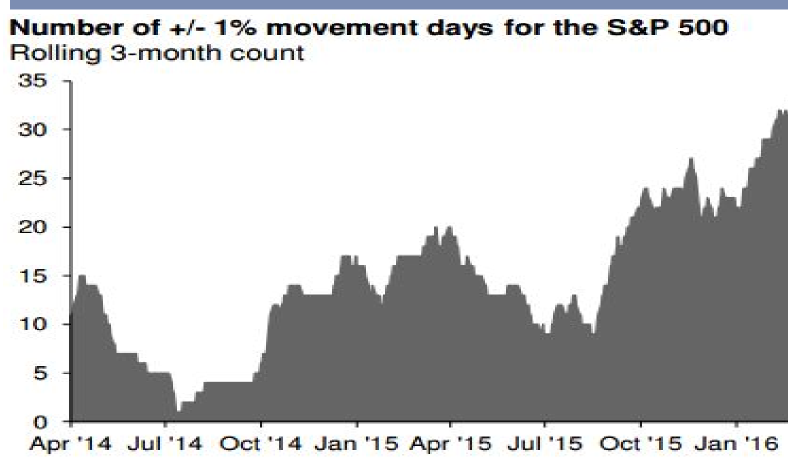
- In the past eight months the S&P has seen four extended moves of 10% or more; two higher and two lower. The most recent rally recouped most of this year's losses, but still has not surpassed the 2015 highs.
- The rally in crude oil prices paused around $40/barrel after the recent supply data was higher than expected. U.S. oil inventories have been expanding for six straight weeks now, despite the notable drop in rig counts.
- High Yield bonds have seen inflows, showing investors' willingness to take on more risk. Bankruptcies remain below average, but energy company defaults are still on the horizon.

INVENTORIES STILL BUILDING UP



The ratio of inventory to sales continues to rise indicating a buildup of inventories among retailers. These unsold goods put a drag on U.S. economic growth in 2015 and will likely continue to do so until there is a meaningful increase in sales to work this ratio down.

PRICES MOVING MORE AGGRESSIVELY



The sharp declines seen at the beginning of this year were matched by a steep bounce back beginning mid-February. The number of days the market moved over 1% has been increasing significantly, characterizing heightened volatility & lower liquidity.

CURRENT THOUGHTS

The latest market rally has been impressive with the last leg finally seeing broader participation across all sectors, but volume still remains weak. There has been an increasing correlation between oil prices and the direction of the stock market. It appears that investors are interpreting rising oil prices as being indicative of an expanding economy. In addition, commodity prices have been boosted by a weaker U.S. Dollar. Janet Yellen, the Fed Chair, reiterated that their monetary policy could be more accommodative if needed. This is consistent with the Fed backing away from a more aggressive tightening policy, while still looking to raise interest rates whenever deemed possible. If the Fed were to be able to raise rates, U.S. Treasuries would become even more attractive compared to global yields and the U.S. Dollar would see more inflows. This creates a conundrum because as higher rates attract investors, interest rates will be kept lower due to increased demand. The U.S. economy continues to slow with 4th quarter gross domestic product growing at only 1.4%. Employment numbers remain strong, but there is overall sluggishness in the broader economic data. The exception is home prices which grew 5.7% in January. Our signals have been shifting and we have increased equity exposure, however caution is still very much warranted in this market. Too much upside too fast could result in a head fake by the markets. This would be similar to the 12% rally that took place last October through November, only to be followed by a sharp correction in January.

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