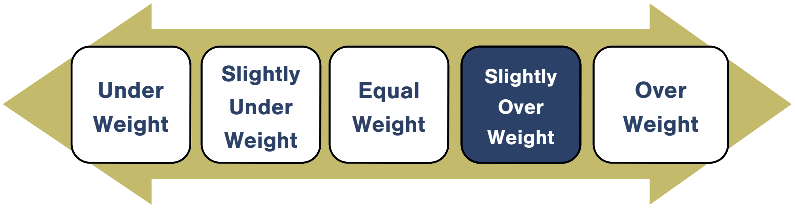
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - DECEMBER 2015

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. Due to reduced volatility and positive macro factors since the recent correction, our equity exposure remains **slightly overweight** to stocks at this time. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

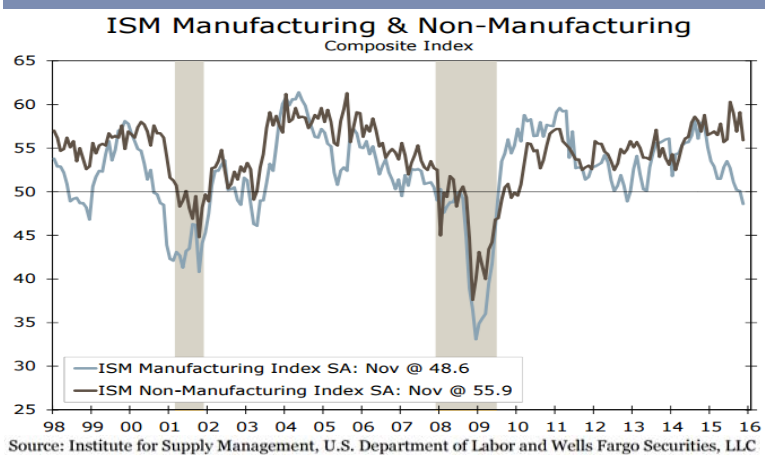
ECONOMIC NEWS

- Congress recently lifted a 40-year ban on U.S. oil exports, which will benefit the U.S. energy industry in the long-term, but the immediate impact will be muted if oil prices remain at current levels.
- U.S. 3rd quarter economic growth was adjusted to 2.0%, supported by higher consumer spending, but hurt by businesses reducing inventories.
- Housing starts rebounded from a 7 month low and single family construction permits rose to a 5 month high, signaling increasing strength in the U.S. housing market.

MARKET NEWS

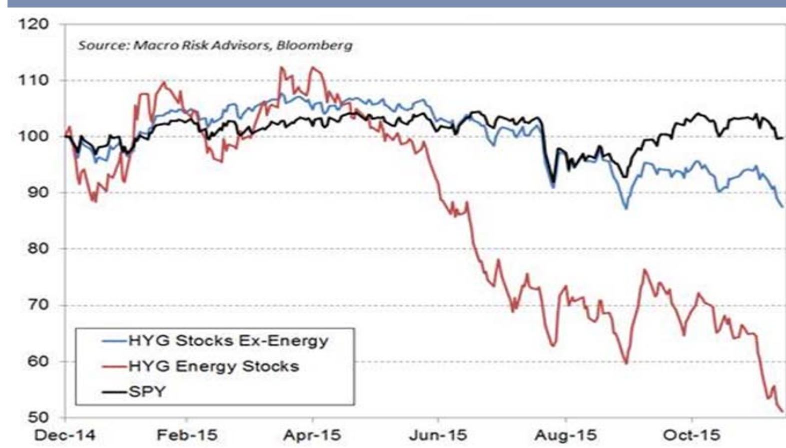
- As expected, the Fed initiated the first rate increase in nine years, raising its key interest rate by 0.25% and signaled more small hikes in 2016.
- Markets initially reacted favorably to the rate hike, but historically, rate increases are not done when there is a contracting manufacturing sector, low inflation and wage growth, leaving many skeptical about the Fed's timing.
- The junk bond market has seen major outflows recently as investors reconsider their willingness to take on the higher risk associated with the higher yielding debt.

NON-MANUFACTURING SHOWING RESILIENCE



Historically the manufacturing and non-manufacturing sectors move in line with each other as indicators of the overall health of the economy. With the manufacturing sector now slightly contracting, the continued strength of the non-manufacturing index is positive.

HIGH YIELD DIVERGENCE, ESPECIALLY IN ENERGY



The high yield bonds that have had the largest price drop are concentrated in the energy sector. As the price of oil has fallen, bondholders are nervous that these energy companies have increased risk of default.

CURRENT THOUGHTS

When considering the Federal Reserve's recent rate hike, keeping perspective is necessary since the increase was only .25% which means that their monetary policy remains extremely accommodative. Our thoughts are that this rate increase is long overdue, since the group that has been impacted the most are the "savers" who rely on interest to supplement their income. If inflation remains near current levels, higher interest will translate into more disposable income which should be a boost to our consumer based economy. With corporate earnings growth expected to decline once again in the 4th quarter, companies will be looking to grow sales in order to reverse this trend. The outlook for the U.S. economy in 2016 is in part tied to the recoupling of the global economy, more specifically China and Europe. China has reduced its expenditures on its infrastructure and is attempting to make the painful shift to a more consumer based economy. If successful it will be a boon to the Eurozone who is a large trading partner with China, and a more healthy Europe is good for our economy. Oil prices have remained low, but the savings to consumers and companies take time to translate into greater economic growth. In retrospect, 2015 appears to have been a transition year, but the jury is still out on what we are transitioning to.

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