ACROPOLIS® INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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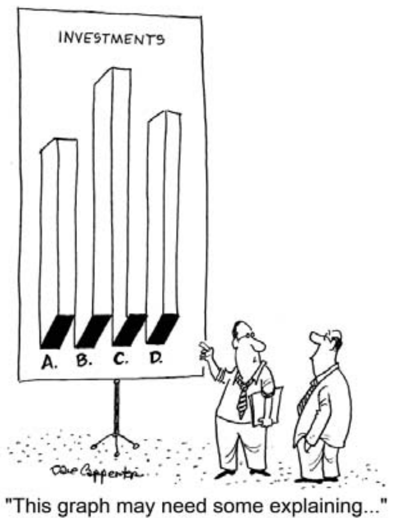
Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

Stocks Finally Tumble

For the better part of 2015, not much happened. At the end of the second quarter the S&P 500 was up 1.23 percent and had stayed within a relatively tight range in the first six months of the year.

All of that changed in late August when a variety of well known issues like slowing Chinese growth, falling oil prices and uncertainty about the exact timing of the Federal Reserve's interest rate hike all coalesced into a sharp market selloff and the first market correction since 2011.



"This graph may need some explaining..."

Stock market corrections, which are typically defined as 10 percent declines from recent peaks, are relatively common as seen on the chart on page two of this issue.

While the situation in Greece dominated market discussions in the first half of the year, China is now the focal point. For years, investors have worried about a 'hard landing' there, which refers to economic growth slowing to less than four percent annually from their current seven or eight percent levels. China surprised markets in the last quarter when they devalued the yuan and the bubble in their stock markets that had been building over the past two years finally burst and has dropped 40-45 percent through the end of the quarter depending on the index. Remarkably, those indexes are still up approximately 30 percent over the last 12 months despite the bear market.

The big news for the quarter, though, was the decision by the Federal Reserve to keep short-term interest rates unchanged at their September meeting. While 'blue chip' economists were split on what the Fed might do, markets bet that the Fed would delay raising rates.

Even though markets had correctly anticipated the Fed's action and keeping rates low would normally be greeted positively, stocks actually fell on the news. The Feds failure to raise rates caused markets to assume that the Fed was not confident about future economic growth and marked down stock prices accordingly.

Volatility is higher now than it has been for some time, but rest assured knowing that Acropolis is closely watching all of these developments and will make appropriate adjustments to portfolios as needed.

The Correction in Perspective

By David Ott

Stocks took it on the chin in the third quarter after a quiet start to the year. For the first time since 2011, the S&P 500 entered correction territory, generally defined as a decline of more than 10 percent from the market peak.

Since it has been a few years since the S&P 500 has declined by more than 10 percent, it's a little anxiety provoking for some people, but it's actually quite common. It's actually more uncommon to go as long as we did without a correction.

The chart below helps illustrate that corrections are relatively common. The blue bars show the total return for the S&P 500 for each calendar year.

The orange bars below show the worst peak-to-trough decline within that calendar year.

During the 24 full year periods depicted below, there were four years with losses - the 'tech wreck' in the early 2000s and the 2008 financial crisis. If we look at the remaining 20 calendar years, nine of them have corrections of 10 percent or more. There are a few more years like 1994 and 2012 where we got pretty close, so I think it's fair to say that about half of the positive years endured a correction.

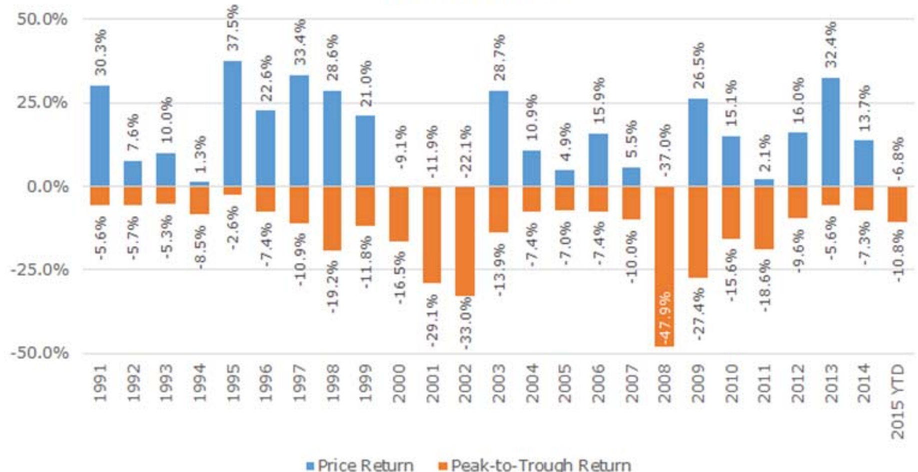
Importantly, most of the corrections don't turn into full blown bear markets either, which is defined as a loss of more than 20 percent from the peak.

While the bear market during the Great Depression was the worst bear market in history, falling more than 90 percent from the top to the bottom, the two in the chart below round out the second and third worst in history - and there have only been eight.

What's amazing to me is that even with all of the corrections and bear markets, a simple buy and hold approach for the whole period yielded a 9.4 percent annual return.

Of course we can't say where markets are going from here in the short term, but we still believe that stocks offer the highest potential returns for disciplined investors over the long term.

Never ask anyone for their opinion, forecast or recommendation. Just ask them what they have or don't have in their portfolio.
- Nissim Taleb, Author



The Importance of Discipline

By Michael Lissner, CEPA

The first rule of investing is diversification. The second rule is to have an appropriate investment strategy and maintain the discipline to adhere to the strategy. Today's market environment makes it challenging for investors to maintain investment discipline, particularly in the fixed-income (bond) part of their portfolio.

At the broadest level, investments are allocated between 'risky' and 'safe' assets. Bonds are normally considered appropriate for an investor's 'safe' money, but if the principal is at risk, then a bond should be classified as a 'risky' investment.

Bonds serve the critical role in a portfolio of protecting principal. When searching for yield, there are three common mistakes investors make that violate this concept: going long, buying junk, or buying dividend-paying stocks.

Going Long

In order to obtain a higher coupon some investors have looked to go further out on the yield curve. As of the end of the quarter, the two-year Treasury had a yield of 0.63 percent, while a ten-year treasury yielded a whopping 2.03 percent.

One problem with extending duration is that the yield is locked in at today's historically low rates. If (when) rates increase, those investors with long-term bonds will suffer compared to those with short or intermediate-term bonds.

However, this strategy will prove to be favorable if rates drop or remain very low for the next ten years.

Buying Junk

Other investors have explored non-investment grade bonds, or junk bonds, in an attempt to increase their yield. In the near-term, one may not notice the negative impact of this decision.

We believe it is a mistake for an investor seeking yield to put their 'safe' money into junk bonds because they are risky and are highly correlated to stock prices.

For your 'risky' assets, generically speaking, equities are a better bet than junk bonds. Both investments allow for the total loss of principal, but equities provide for an unlimited upside, while the upside of any bond is limited.

Buying Dividend-Paying Stocks

A third mistake that investors make is replacing bonds with dividend-paying stocks. Too many people have said, "Well, I can get a five percent dividend on company XYZ, which is better than the coupon I can currently get on bonds."

However, the bigger problem with this strategy is that the investor has taken their 'safe' money and put it into the volatile stock market. Once again, they have put their principal at risk.

Impact

There is no question that the Fed's current extended low rate environment has the biggest negative impact on those that did the right thing. Investors who were responsible, accumulated wealth, and are now trying to live off their investments struggle with bonds yielding almost nothing. This is a challenge for responsible Americans.

In each of the above strategies, the investor is so desperate for yield that they are forgetting the primary role of bonds in their portfolio, the protection of principal. Now is the time to be patient and prudent, and not lack discipline.

I am not rich. I am a poor man with money, which is not the same thing.

- Gabriel Garcia Marquez, Author

Failure isn't a crime. Failure to learn from failure is a crime.
- Walter Wriston, Former Citigroup Chairman & CEO (1967-1984)

Information Security Today

By Michael Lissner, CEPA

The past few years have seen a rapid increase in online fraud. It seems that every month there are high profile data breaches. Even so, many consumers are simply not doing enough to protect their personal information.

Remain Vigilant

A good first step is to monitor your accounts. A few best practices include:

• Credit Card: Review your credit card statement and look for suspicious charges.

• Electronic Alerts: Many credit card companies have started to offer the option of sending a text message to your phone for a suspicious transaction. You can immediately deny the charge if it was not you.

• Online Banking: Check the websites' "last logged in" information to make sure you are the only one logging in.

• Logout: Always log out before leaving an online banking session or a website that stores your personal information.

• Limit Wireless Access: Only go to sensitive sites from your home or work wireless network. Do not use the "free" Wi-Fi at Starbucks or the airport. (You get what you pay for and tech savvy individuals can intercept your ID and password).

• Two-factor Authentication. Enable two-factor authentication on your e-mail and social media accounts. We are moving towards a world of biometric testing (such as fingerprint, eye, or voice.) Some sites now allow a special "one-time-valid" code that can be sent to your cell phone. A little less secure, but still useful are the sites that allow you to select a picture or a key phrase to see before you enter your password.

Passwords

Passwords are clearly important, which is why so many sites require them. However, having to remember fifty or more passwords quickly reaches the point of being a challenge. Password management has become a skill that we all need to develop.

We recommend dividing your passwords into two broad categories of sites:

• Sensitive. These sites contain your confidential information, your trusted sources, or through which you can execute financial transactions. This includes your email accounts, your online banking, and retail shopping sites.

• Mundane. The passwords you use for newspapers, cooking recipes, comics, pictures and other sites of interest.

We are going to focus on the Sensitive sites. (For the mundane sites you can use the same password everywhere and you do not need to change it).

The passwords for your sensitive sites should be complex, unique to each site and changed regularly. While this makes it hard for the bad guys, it also makes it hard for us. A few insights on the first two.

A complex password has all of the following: upper case letters, lower case letters, numbers, and symbols. A few tips include:

• Numbers: About 25 percent of passwords that end with a number end with the number "1". So, do not use the number 1. Also it's best to have the number(s) in the middle of the password. (And do not use a zero in place of the letter "O" or a "3" in place of an "E").

• Symbols: Just like numbers, avoid replacing the letter "S" with "$" and "A" with "@", etc.

• Letters: Over 50% of passwords have no capital letters. An easy way to make a password more complex is to use a relatively

Continued on next page.

New at Acropolis

By David Ott

Acropolis continues to grow in numbers and accolades!

We are pleased to announce that Ryanne Tilley joined our growing Retirement Plan Solutions team that serves the 401k plan sponsors and participants as a consultant.

Ryanne has been in the industry for more than five years and is especially adept at communicating complicated topics in easy-to-understand and actionable terms.

Please join us in welcoming Ryanne to the team!

We were all very proud when the St. Louis Business Journal named Dannelle Ward as one of the 25 Most Influential Women in St. Louis.

Dannelle and I have worked together for more than 20 years going back to our Mark Twain Bank days, so this award is no surprise to me.

Dannelle is a terrific businesswoman, a great friend and a wonderful person and I know that everyone will join me in congratulating her for this well deserved recognition.

Information Security Today (Continued)

large number of capital letters.

A relatively easy way to make a password unique to each site is to add a couple of letters from the site to the password. For example, for Hotmail, you might add the first and second letter (ho) to the password. To be a little more creative, you might use the second and third letters in reverse (to).

A tool like LastPass may be a good alternative to remembering dozens of complex passwords. Of course, if someone gets into your LastPass site then they have the keys to everything.

Personal Information Communication

You should never provide your personal details over e-mail. No legitimate sites will ask you in an email for your user ID, password, social security number, or birthdate. Acropolis will never ask you for any of these and neither will our partners at Charles Schwab and TD Ameritrade.

Remain on guard if you receive a phone call from a financial institution. The other day my credit card company called me and asked for my information. I was not willing to give them the last four digits of my social, or my birthdate. They did verify me by asking for the last four digits of my credit card and street billing address. If I had called them, I would have been fine giving my birthdate and the last four of my social.

Can Acropolis Help?

In order to protect our clients, Acropolis takes data security very seriously. We keep an eye on the cash flow in and out of your portfolio. If something looks suspicious, you will get an email or a call from us.

Also, we will not perform a one-off move money (such as a wire transfer) to a third party without a verbal conversation with you.

If you send us an email for a wire transfer, we will talk with you on the phone before we execute it to make sure someone has not hacked into your email and is requesting a fraudulent transaction.

Unfortunately, information security has become a big issue for everyone and we all have to be vigilant to protect ourselves.

When it is a question of money, everyone is of the same religion.
- Voltaire, Philosopher

Janet Blinked

By Ryan Craft, CFA

The Fed has been preparing the market all year for a September rise in the Fed Funds rate. GDP has grown sufficiently. The unemployment rate has fallen to the Fed's historic definition of neutral. Inflation remains below the Fed's two percent target, but deflation is not a threat. All signs pointed to the Fed beginning the normalization process.

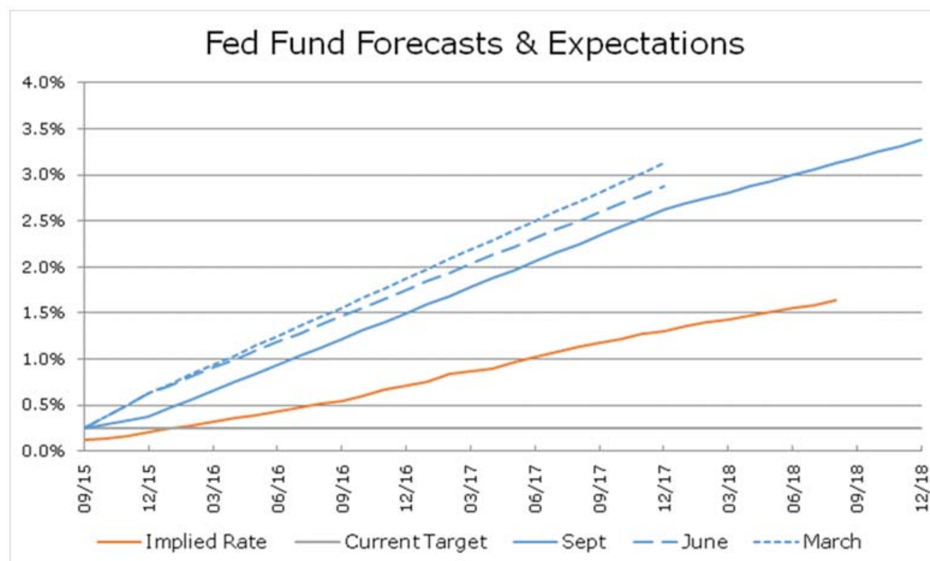
Then China happened. In August, China devalued the Yuan, destabilizing global markets in the process. Global equity markets experienced heightened volatility. US Treasury markets rallied in a flight to quality, despite rumored sales of $100 billion US Treasury bonds by China. With no change in economic data, the market's expectations for a rise in the Fed Funds rate rapidly dissipated. Ultimately, the Fed lost the staring contest with the markets once again.

From a long term investor's point of view, it doesn't really matter whether the Fed hikes in September or December. The most important questions are: what is the terminal value of Fed Funds and what is the pace for getting there? Currently, there remains much debate about these questions along with when this whole process will finally begin. The Fed, economists, and market participants all have different answers to those questions. To see the Fed's view of the magnitude and pace of tightening, one must look at the quarterly released economic projections that were updated at the September meeting.

Over the past year, the Fed has lowered its expectations for the path of Fed Funds in each of its quarterly releases. The chart nearby shows the Fed's average forecast (Blue lines) for Fed Funds from the economic releases in March, June and September. The market's expectation (Red line), as implied through the futures market, is still for a much lower and slower rise. The market has remained fairly consistent in its expectations, while the Fed has slowly been moving its projections lower and closer to the market.

To understand the Fed's actions, it is

The rich are dull and they drink too much.
- Ernest Hemingway, Author



important to understand their worldview.

I recently went to a conference hosted by Macroeconomic Advisors in Washington D.C. that featured many policy makers and economists who run in the same circles and share the same thought process as the FOMC participants. While many there expected the Fed to raise rates in September, most of the time was spent debating how to combat the current low inflation rate and where the natural level of unemployment resides.

The case for raising rates now is based on the Phillips Curve ideology, where declining unemployment leads to higher inflation. They believe there is a level of unemployment that, once crossed, will result in increasing inflation. This Non-Accelerating Inflation Rate of Unemployment, or NAIRU, had traditionally been thought to be around 5%. Using this model, the Fed should look to raise interest rates to combat looming inflation caused by further declines in the unemployment rate. One of the many problems with this model is that the NAIRU is unknown and appears to be different for different periods. The biggest problem is that most of the data historically shows that the Phillips Curve does not hold up, but our Fed and economists look to its merits nonetheless, so we must consider it when trying to guess their next move.

The other raging debate is what the Fed should do about the "zero-bound" problem. In their models, the monetary policy prescription to reach the Fed's 2% core inflation target would require negative interest rates. Negative interest rates will not work in a fractional banking system as depositors will just demand cash rather than lose money holding cash balances at banks, thereby risking a liquidity crisis across the banking sector. The academic economist looks at the math and says that the Fed should target a four percent rate of inflation in order to have a larger buffer in monetary policy and avoid hitting the floor of zero. In academic circles, it is not the rate of inflation, but the volatility of inflation that creates problems. Therefore, in their minds, a four percent target is just as good as a two percent target from a price stability standpoint.

Many economists believe that low unemployment drives inflation. With the unemployment rate falling to their historic NAIRU, their initial reflex is to raise rates. However, inflation remains stubbornly low and has not reacted as the Phillips Curve would suggest to the falling unemployment rate. This leads other economists to argue that the economy needs more inflation, so they should not be concerned with a falling unemployment rate.

This is why the FOMC is divided. The traditional hawks are ready to normalize rates to ward off inflation now that the unemployment rate is at 5.1 percent. However, others want higher inflation and therefore are ready to keep rates at zero for longer. In the September forecast, one Fed bank actually forecasted negative interest rates at the end of 2015 and 2016. This means that one participant in the FOMC sees the next move by the Fed as easing rather than raising rates.

What happens will be determined by the opinions of a very small group of individuals who are experimenting on the broad economy with competing economic theories. What is becoming apparent, though, is that rates will remain very low for a long time even after the Fed begins the process of hiking short term rates.

I wish I could say that there is a bound volume of immutable instructions on my desk on how effectively to implement policy.

- Alan Greenspan, Former Federal Reserve Chair (1987 - 2006)

Data Center	2015 YTD
Dow Jones	-6.95%
S&P 500	-5.29%
S&P Midcap	-4.66%
Russell 2000	-7.33%
MSCI EAFE (Intl)	-5.28%
MSCI Emerging Mkt	-17.15%

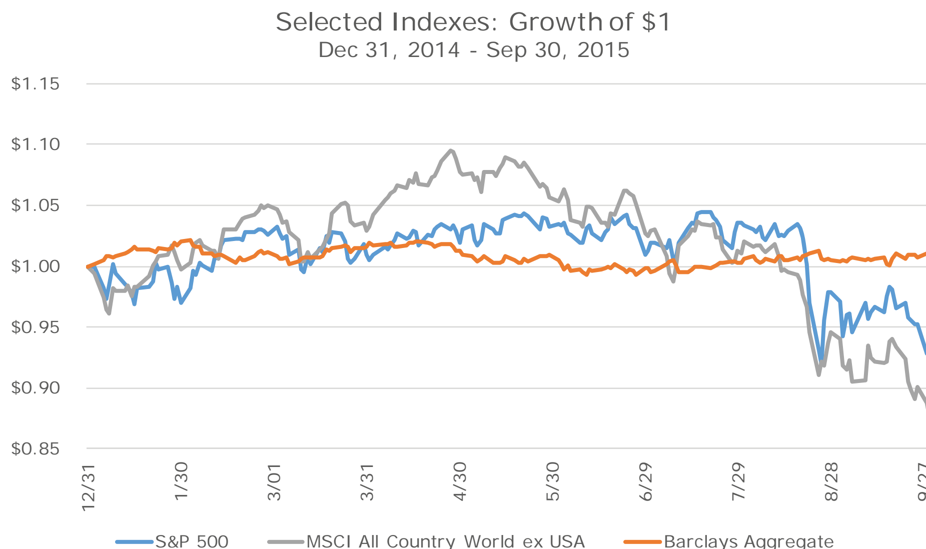
S&P Sectors	2015 YTD
Consumer Discretion.	4.08%
Consumer Staples	-0.97%
Energy	-21.28%
Financials	-7.06%
Healthcare	-2.13%
Industrials	-9.75%
Technology	-2.97%
Basic Materials	-16.48%
Telecom	-3.91%
Utilities	-5.85%

Interest Rates	2015 Q3
Fed Funds	0.25%
Prime Rate	3.25%
3-mo. Treasuries	-0.02%
2-yr. Treasuries	0.63%
5-yr. Treasuries	1.36%
10-yr. Treasuries	2.03%

Currencies	2015 Q3
Euro	1.1177
Japanese Yen	119.88
British Pound	1.5128

All Data as of 09/30/2015

The Big Picture



Fast Facts

1648 - The date that the Dutch Water Authority issued a perpetual bond written on goatskin. Yale University purchased the artifact for 24,000 euros for their rare book library in 2003. A few months ago, Yale realized that since it's a perpetuity bond, they should still receive interest payments and the Dutch Water Authority sent over a payment of 136.2 euros.

7th Century BC - The first coins were minted in the kingdom of Lydia, what we call Turkey today. The Lydians mixed gold and silver to make weighted lumps that were stamped by the person that minted the coin and guaranteed its weight.

1000 AD - 1,700 years after coinage was invented, the Chinese created paper bank notes. At the time, they had heavy lead coins that were too cumbersome to carry around. People started trading receipts for the lead coins that ultimately led to the adoption of paper money.

Notice to Clients

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