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.

The Market's Surprising Resilience

Despite being only half way through the year, we've already experienced our fair share of major events, from a contraction of first quarter Gross Domestic Product (GDP) to a default in Greece that shut down their banks and may force the Mediterranean country out of the euro.

"Oh yes, the market may fall, but trust me, we always land on our feet."

Interest rates have been all over the board, falling for most of the year all the way into solidly negative territory, only to spike in the last month. In Germany, for example, the yield on their 10-year government bond was as low as 0.07 percent on April 20, only to end the quarter at 0.76 percent after climbing as high as 0.98 percent earlier in June.

Chinese stocks appear to be in a bubble and entered into bear market territory falling more than 20 percent since their peak in early June. Even after the drop, the Shenzhen market, for example, was still up nearly 75 percent for the year. Because it is mostly closed to outsiders, few investors realize that China has the world's second largest stock market.

And for everything that did happen, the quarter was also marked by what didn't happen, most notably a hike in interest rates by the Federal Reserve. A lot of investors thought that 'lift-off' would begin in the June meeting, but the GDP contraction in the first quarter along with the activity overseas seemed to put the Fed on hold, at least for a few months.

And yet, despite all of that news, markets hit new highs during the quarter and are largely flat or up modestly for the year. The technology heavy NASDAQ index, which fell nearly 80 percent after hitting an all time high during the tech bubble in 2000, finally broke its old record high in April and went higher from there.

If you didn't keep close track of what was going on and just looked at the performance results on paper, you might think that nothing happened. While there was and will continue to be a fair amount of volatility, the relatively small movement in prices is a testament to the resiliency of our economy and capital markets.

There are three things that deserve no mercy: hypocrisy, fraud and tyranny.
- Frederick William Robertson

Protect Yourself From Fraud

By Lauren Kingsten

While fraud has always been an unfortunate risk in every industry, there's more at stake in the financial services sector and there has been a substantial and unwelcome increase in fraud over the last six months. The ever-popular credit card number theft fraud has become child's play compared to what's happening today.

The 'go-to' crimes for 2015 have been fraudulently filed IRS tax returns and email hacks where cyberpunks ultimately attempt to withdrawal funds from accounts by contacting a financial advisor or bank through an email pretending to be from the client.

We had at least a half dozen clients that went to file their tax returns only to find out that one had already been filed fraudulently and a refund paid to the scammer.

Acropolis has always been diligent about protecting our clients' information and you will continue to see us taking additional steps going forward to prevent fraud attempts.

If we suspect a fraudulent attempt on a client's behalf, our first move will be a good old-fashioned phone call.

You might think that an email is more efficient, but since we know our clients so well, we want to hear their voice to make sure that there is no actual fraud.

There are many steps that we take to protect your accounts and we stay up-to-date on crime trends in the financial world.

The custodians we use (Charles Schwab and TD Ameritrade) to safekeep your assets are also increasing their security measures.

At times we understand that some of the extra steps that we need to take may cause frustration or be an inconvenience, but they are designed to protect you, your family and your financial assets.

WHAT IF I HAVE BEEN SCAMMED OR NOTICE FRAUD ON AN ACCOUNT?

First and foremost, contact us immediately.

We will walk you through the actions to help protect your accounts and discuss other proactive steps you should take.

Depending on the nature of the transaction, you may want to place a fraud alert on your credit file by contacting one of the three credit bureaus.

Other important steps to take include:

Review your credit report. According to Federal law, you can get a free copy of your credit report each year from the three reporting bureaus by visiting www.annualcreditreport.com.

Run a virus scan on your computer(s) and change your passwords.

If your Social Security Number has been used fraudulently, contact the Social Security Administration's Fraud Hotline at 1-800-269-0271.

Here are some helpful resources if you're interested in learning more about protecting your identity and your accounts:

Schwab has created a nice collection of security measures designed to keep your personal and financial information safe online. Search 'SchwabSafe' using Google or Bing, although be sure to search as one word - if you search 'Schwab Safe,' you'll get an actual safe manufacturer.

The Federal Trade Commission has a great list of resources and ideas for consumers relating to identity theft prevention. Search the terms 'FTC Privacy and Identity.'

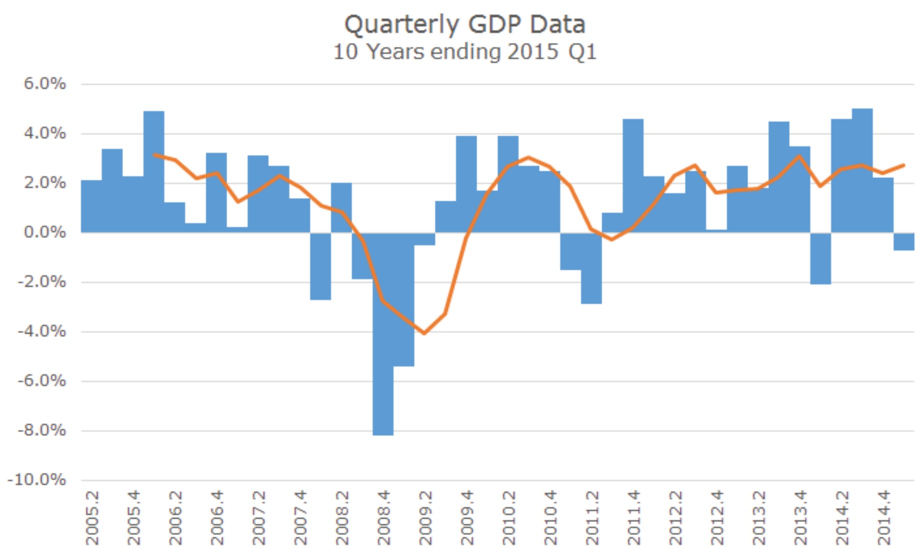
We've helped a number of clients through this process, and while it takes time and energy, it's absolutely worth it.

Inside the Economy

By David Ott

Gross Domestic Product (GDP) in the first quarter was not good, contracting -0.2 percent. That's better than the first two estimates and the first quarter of last year, which saw an annualized contraction of -2.1 percent.

On average, the first quarter GDP reading has been -0.1 percent over the last 10 years, and that didn't even include the worst quarters from the 2008 financial crisis. Over the same period, the average during the other three quarters was 1.8 percent.



Last year, we could blame the drop in output on the polar vortex that made for an extremely cold winter. As you might expect, once the weather warmed up, the economy heated up as well and the next two quarters saw very healthy growth of 4.6 and 5.0 percent.

While the weather this past winter was pretty cold, especially for those in Boston who had record snowfall, it wasn't nearly as cold as the one before. Still, the weather probably had a slowing effect. I've seen an analysis that estimates that the snowfall knocked -0.8 percent off of first quarter GDP.

But that snowfall adjustment only gets us to zero, which is well below what the economy has traditionally delivered – even during this slow and choppy recovery. For the last decade, the first quarter has been much worse than the other readings for the year.

The combination of the West Coast port closure, the strong dollar, and lower oil prices leads some economists to think that the drop in first quarter GDP was somewhat transitory and that GDP will rebound somewhat in the second quarter to something closer to trend growth, which has been around two percent since the end of the crisis.

One interesting data point to watch is the Atlanta Federal Reserve GDP Now model that attempts to forecast economic output in real time. As of June 30th, the model suggested growth in the second quarter would be 2.2 percent.

As always, time will tell. For now, markets seem content with all of the forecasts since stocks have been trading in a relatively tight range for the year.

What do you call an economist with a prediction? Wrong.
- Robert Kuttner

Stock Market Summary

By David Ott

Stocks were a mixed bag in the second quarter thanks to the heightened uncertainty surrounding the situation in Greece.

The most recent earnings season was a disappointment for the S&P 500. Although profits were higher by 0.46 percent, top line sales fell by -3.04 percent, suggesting that the profits came from cost cutting rather than overall growth.

The best performing stock in the S&P 500 last quarter was Netflix, which gained 57.7 percent. The worst performing stock was Michael Kors, the fashion designer, whose stock price fell -36.0 percent.

There was a fairly wide dispersion of returns within the S&P 500 sectors with healthcare stocks gaining 2.84 percent and utilities falling -5.80 percent.

Healthcare stocks have been on a tear over the past few years gaining 191.0 percent in the past five years (23.8 percent annualized) compared to the cumulative gain of 122.2 percent for the S&P 500 (or 17.31 percent annualized).

While the fundamentals within healthcare are good, speculation about a possible surge in mergers and acquisitions has increased valuations.

Historically, utilities have earned mid-single digit returns, but as investors reached for yield in the midst of a low interest rate environment, returns in utilities have earned 12.45 percent annually for the last five years. That's lower than the market, but strong for utilities.

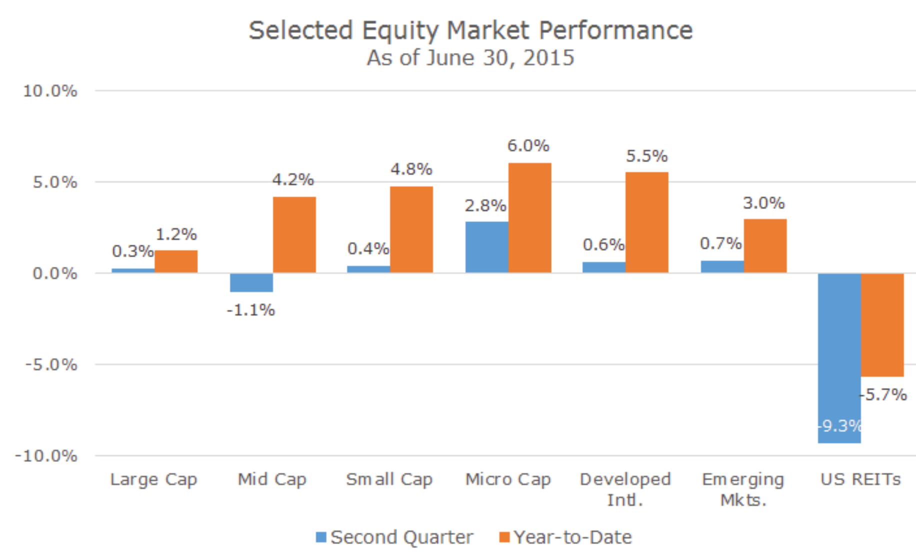
As the Federal Reserve prepares to raise interest rates, utilities stocks have fallen as their yields become less attractive on a relative basis.

That same story impacted REITs, or Real Estate Investment Trusts, which fell in the first quarter by -10.5 percent.

Overall, US stocks continue to look somewhat overvalued, but even though this quarter was only mildly positive, they appear to have been carried by their own positive momentum despite all of the negative headlines.

Non US stocks are more attractively valued, but the risks are elevated given the uncertainty regarding what may happen with Greece and the rest of the Eurozone.

It works in practice, but not in theory.
- Ben Bernanke



Maximizing Social Security

By David Ott

It's a little hard to believe, but I read more and more in the popular press about maximizing Social Security benefits. One of the best-selling books this year is called 'Get What's Yours: The Secrets to Maxing Out Your Social Security' by Laurence Kotlikoff.

I tried to read it earlier this year and admit that even I found it was pretty dry, and I think it's fairly obvious that I've got a high pain threshold when it comes to highly technical investment related books.

It seems to me that it's popular with Boomers who are at decision time, while readers my age know that the program will either look a lot different when our time comes or may be gone entirely.

One of the popular strategies the book outlines for married couples is called 'File and Suspend.' The basic idea is pretty much as it sounds: when you reach full retirement age, file for Social Security payments and then suspend them until you're 70 and enjoy the benefits of higher payments down the road.

If you were born after 1943, your Social Security benefits will increase eight percent per year by waiting. While I'm an optimist about future stock returns, increasing your inflation-adjusted annual cash flow by eight percent per year with no additional risk is hard to beat.

So far, this isn't very different than just delaying your payments, but the key element is actually filing so that your spouse can apply for a spousal benefit immediately. A spouse can't claim spousal benefits until you file yourself and they are eligible for benefits.

Let's imagine a couple named Alexander and Rosa, who are both 66. Rosa had a bigger income than Alexander over the course of her career and is entitled to $2,000 per month in Social Security payments at her full retirement age today. If she holds off until 70, that payment will increase to $2,640, not including cost-of-living (COLA) adjustments.

By Rosa filing and suspending today instead of simply waiting to file at age 70, Rosa activates Alexander's spousal benefit. He can then file a restricted application and can collect benefits based on his own work history or receive half of Rosa's payment – whichever is more.

Keep in mind that Alexander is at his full retirement age, so taking the spousal benefit allows his own retirement benefit to grow. The couple receives $1,000 a month (half of Rosa's benefit) while they let their benefits grow at eight percent per year.

Obviously, this only works if you have investments to live off of while you wait or if you plan to work until you're 70. It also works better for healthier folks who are likely to live longer, although in some cases, you only need one person to live longer for a payoff to occur.

Also, only one member of the couple can file and suspend so that the spouse can collect half of the primary benefit.

Of course, as with any government program, there are a million details, caveats and exceptions that apply, which is compounded by the fact that everyone's situation is different.

Thankfully, we have software that analyzes the Social Security options so everyone can optimize and maximize based on their own personal circumstances.

A slightly different version of this article was originally published in our popular email newsletter, Daily Insights. If you would like to subscribe, simply let anyone at Acropolis know and we will get our commentary about markets, economics and financial planning topics into your inbox each day.

Whenever you find yourself on the side of the majority, it's time to pause and reflect.
- Mark Twain

Is Janet Yellen Bluffing?

By Ryan Craft, CFA

We are on the verge of a historic moment; a moment for which the market has been waiting for years and that has been predicted many times. The Fed is on the brink of raising the Fed Funds rate… maybe… at least we think they might.

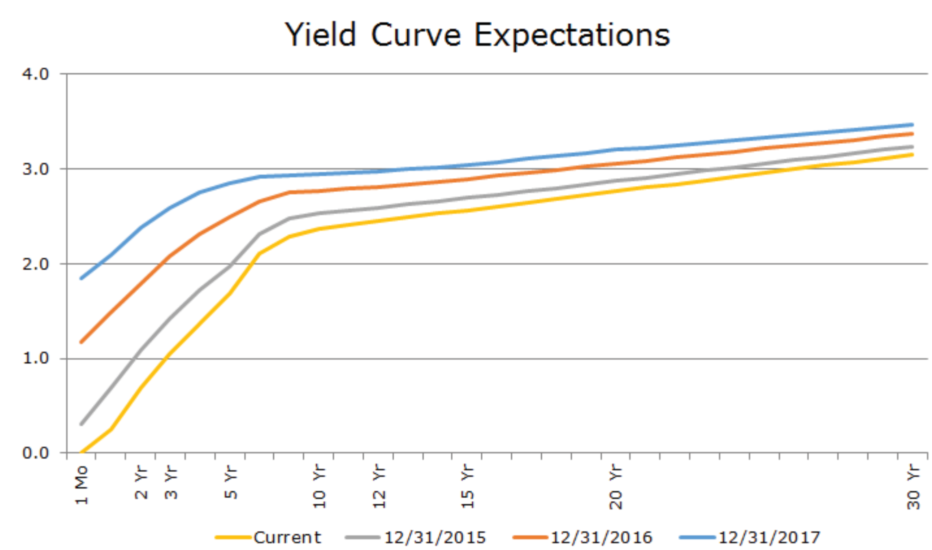
On June 17th, the FOMC concluded its most recent meeting with no change in policy, as expected. While there was not much in terms of policy changes or alterations in the statement, there was a lot to digest from the meeting. This was one of the quarterly meetings where the Federal Reserve Banks each submit their own forecasts for macro factors such as GDP, Inflation, and Employment. Based on their projections for the path of these data points, they also submit their expectation for what would be appropriate monetary policy.

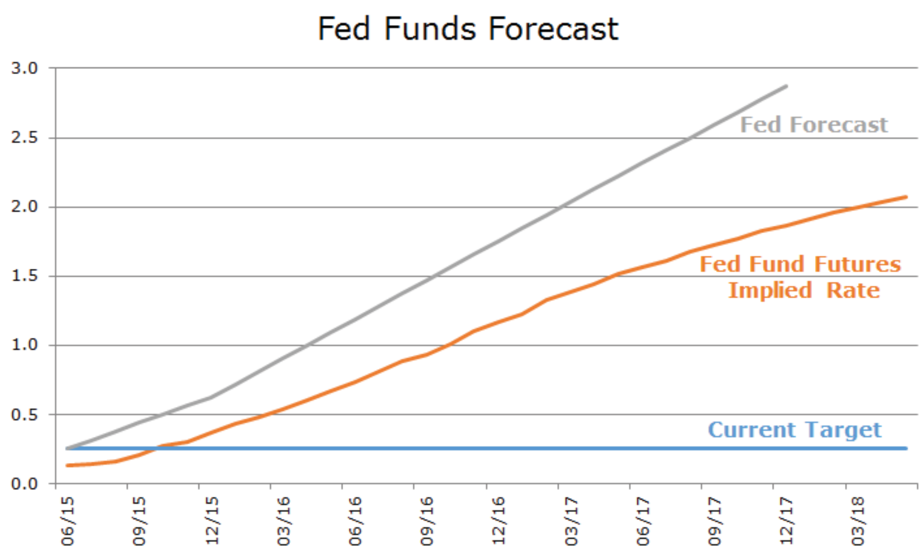
Over the recent past when the Fed has followed this format, the Fed economists have been much too optimistic with their projections for the economy. This meeting followed that trend, with the Fed lowering its own forecast for 2015 GDP (from a range of 2.3-2.7 percent in March to 1.8-2.0 percent in June), essentially admitting that a second quarter rebound will not likely be enough to compensate for the dismal first quarter. Assumptions for inflation remain the same and the forecast for unemployment was moved slightly higher.

Despite their expectation for slower growth this year, the Fed still believes that it is the time to begin normalization of interest rates. 15 out of 17 participants believe the Fed should raise the Fed Funds rate before the end of 2015. The median prediction of the 17 participants was for a funds rate of 0.625 percent by the end of the year. This means that nearly half the participants see multiple raises coming in 2015. This put the market on notice for the first hike to come in September. Of course, some shock could come that would cause them to delay, but the Fed is clearly signaling that a rate hike is coming soon.

The real interesting thing here is the market's reaction. The Fed is doing its best to telegraph a change in policy. It is telling everyone it can that a removal of the emergency levels of accommodation is coming. This is the same

People who don't take risks generally make about two big mistakes a year. People who do take risks generally make about two big mistakes a year.
- Peter Drucker





story being heard from major economists and the talking heads on financial media. Despite the hard sales pitch, the market is still not buying it. The futures markets show an expectation for a much slower rise in rates. At the time of this writing, the Fed Funds Futures market implies that the funds rate will not get to 50 bps until March 2016, versus the September expectation of the Fed.

Ultimately, that is just a few months difference. The interesting point, and what is most important for fixed income investors, is the expected terminal value for Fed Funds along with the shape of the yield curve when the Fed ends tightening. The Fed's prediction for Fed Funds at the end of 2017 is 2.875 percent. The market has priced in a 1.75 percent Funds rate at the end of 2017. Either way, this is not the Greenspan tightening of last decade. At the end of the day, the expectation is that 2 ½ years from now the Fed will still be at accommodative rates by historical measures.

All of this talk has focused on the overnight rate Fed Funds. In reality, it is the shape of the yield curve and longer term rates that matter more to fixed income investors. The Fed can directly control overnight rates, but has very little influence over longer maturities. The longer end of the curve carries more interest rate risk and could harm portfolios much more than the short end when rates rise. Looking again to the futures market, it is clear that investors do not see higher interest rates on the horizon.

The chart above shows the market expectation for the Treasury yield curve at the end of 2015, 2016, and 2017. While the market does anticipate some increases in the overnight rate, there is virtually no expectation for the Fed rate hikes to push longer term rates higher. If the market is correct, 2018 will begin fairly flat with a low yielding yield curve as 10yr rates are expected to remain under 3 percent.

Investors should not be afraid to extend portfolios into intermediate term maturities because the higher yields offer some protection and the cost of remaining too short is very high.

A business that makes nothing but money is a poor business.

- Henry Ford

Data Center	2015 YTD
Dow Jones	0.03%
S&P 500	1.23%
S&P Midcap	4.20%
Russell 2000	4.75%
MSCI EAFE (Intl)	5.52%
MSCI Emerging Mkt	2.95%

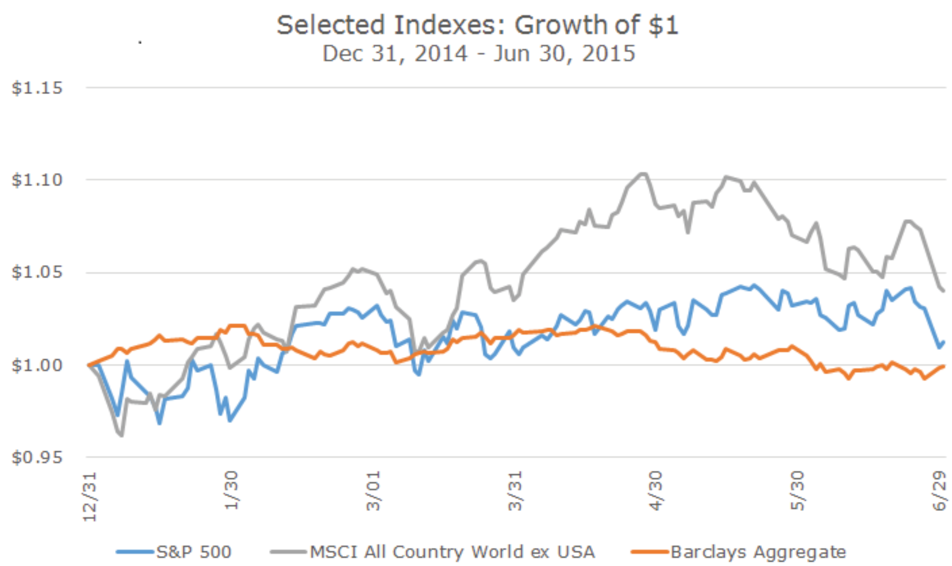
S&P Sectors	2015 YTD
Consumer Discretion.	6.81%
Consumer Staples	-0.77%
Energy	-4.68%
Financials	-0.37%
Healthcare	9.56%
Industrials	-3.06%
Technology	0.76%
Basic Materials	0.50%
Telecom	3.15%
Utilities	-10.67%

Interest Rates	2015 Q2
Fed Funds	0.25%
Prime Rate	3.25%
3-mo. Treasuries	0.01%
2-yr. Treasuries	0.64%
5-yr. Treasuries	1.65%
10-yr. Treasuries	2.35%

Currencies	2015 Q2
Euro	1.1147
Japanese Yen	122.50
British Pound	1.5712

All Data as of 06/30/2015

The Big Picture



Fast Facts

12 - The number of coin denominations printed by the US mint (excluding gold coins). In addition to the half dozen coins in circulation today, older coins included the half cent, a two-cent piece, a silver three-cent piece, a nickle three-cent piece, a half dime (that's different from the nickel) and a twenty-cent piece.

147.3 million - The ounces of gold held at Fort Knox. Based on the June 30 spot price for gold, it's worth $172.7 billion.

3 - The number of women featured on coins: Sacagawea and Susan B. Anthony on the dollar and Hellen Keller on the Alabama quarter.

$100,000 - The face value of the largest bill ever printed in 1934. That's equal to $1.75 million in 2014 dollars.

18 Months - The lifespan of a $10 bill. The $5 bill has the shortest lifespan at 16 months and the $100 bill lasts 89 months.

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