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Family Office

The Abernathy Group II
Quarterly Market Review

Q2

Second Quarter 2015

Letter to Investors

July, 2015

Dear Investors,

Q2 2015 Summary and Outlook

In the 2nd quarter of 2015, journalists captured the imagination of the U.S. investing public by constantly hammering a message focused on what is wrong with the world. Russia's inevitable war with the Ukraine, the breakup of the European Union, Greece defaulting on their debt, and most recently, China's stock market swoon, have all been headlines creating fear and a "Wall of Worry". Most people fail to remember that there are always more than 20 wars taking place somewhere in the world, and that there are several countries each decade defaulting on their debt.

All panic-driven headlines have an element of truth in them. All are great press. All sell newspapers and beckon the consumer to tune in and listen. However, the tactic of focusing on only "what is wrong" is extraordinarily lopsided. To make intelligent decisions, investors must embrace both negative and positive information and their implications on our global economy. Most importantly, don't forget that most often humanity tends to find ways to persevere and solve problems the journalistic community likes to spin as the end of the world.

Let's take a moment to acknowledge some of the outstanding innovations taking place as we speak. Innovations continue to silently creep forward and may dramatically change our civilization over the next 10. Unfortunately, most investors do not hear much about these developing innovations and few have the ability to understand what they mean to our world's future.

Consider the revolution taking place in computing today. 40 short years ago, computing used incredibly expensive mainframe computers, only available to the largest companies in the world. Today, the average cell phone has more computing power than the average mainframe had 40 years ago. Today, due to literally millions of computers in the cloud, and connectivity of the internet, almost everyone has nearly infinite computing power at our disposal. Think of what essentially infinite computing power offers to young entrepreneurs. It is an entirely new way to approach innovation… and it will likely spawn companies and offerings that will improve productivity in ways we are incapable of understanding today.

Some of those innovations are being spawned by the incredible growth in sensors which collect data on everything from changes in our environment to changes in human activity. Smartphones, laptops, tablet computers, watches, drones, cell towers, sensors in your automobile and in your house, are all sensors collecting data. Today there are slightly more than 7 billion sensors collecting data. Singularity Institute estimates that there will be more than 1 trillion sensors connected and sending data back to powerful computers by 2018. What impact will this have on our world? While we certainly don't know for sure, it's reasonable to assume that intelligent individuals interested in making the world a better place will be able to be better at predicting everything from disastrous weather and earthquakes, to diagnosing and curing disease.

And speaking of disease, what about the silent revolution taking place in synthetic biology and genomics. The DNA in our cells is essentially four-letter coded software telling our cells what to do. Now that many animal and most of the human genome has been mapped, we are learning how to "reprogram" our DNA to eradicate disease, and create a wonderland of opportunities. It is possible that we will be able to assemble new medicines, foods, fuels and construction materials biologically. Of course, this sounds like Star Trek science fiction today. However, science fiction has a way of becoming science fact when human ingenuity is applied to the problem.

The bottom line: It is certainly important to be aware of both negative and positive developments, yet remain aware that human ingenuity and global competition often find ways to solve the vast majority of daily challenges progress offers.

2015 Update

The U.S. economy is improving. Although corporations have not dedicated much toward capital spending and expansion, U.S. corporations have engaged in a record amount of corporate buyouts.

The merger and acquisition market is on fire and setting records. Dividends paid by public corporations and corporate share repurchases are both at record levels. Both dividends and share repurchases put money into shareholder's bank accounts and are generally good for the U.S. economy.

The consumer has deleveraged to some extent, which will allow the consumer to increase spending, over a multi-year period.

The U.S. Federal Reserve will continue to provide money to support our economy. While the majority of the headlines scream that an increase in short-term interest rates will swamp our economy, the reality is that the U.S. Federal Reserve is likely to be more sensitive than the markets believe.

The U.S. economy is likely to continue improving in 2015. While the possibility of negative global economic shocks always exists, these shocks are most likely to be contained and controlled over the near-term.

U.S. Unemployment has improved significantly. While the headline employment numbers remain a bit distorted due to the number of people in the workforce declining, we are starting to see wage increases take place in several industries. As we have said before, history points out that wage inflation is one of the most important precursors of inflation. It is difficult to have economic inflation without wage inflation.

Below, you will find our anticipated outlooks for Inflation, Interest Rates, the Bond Market, the Stock Market, and the Commodities Markets.

Inflation:

We expect inflation will start to become a factor if wage price inflation exceeds 3%. Currently, wage inflation is in a range of 2% - 2.5% and price inflation remained below 2% in the 2nd quarter of 2015.

Interest rates:

We believe long-term rates for US government bonds will be higher in the next few years than today. Over the next 6 months we expect short term rates to increase by 0.25% to 0.50%. We do not believe this will negatively impact our U.S. economy. However, it will strengthen our dollar vs many of the other currencies in the world.

Note: If there is a negative event, we believe U.S. currency and U.S. bonds will rise in value significantly and yields will fall significantly. This is the most difficult part of the outlook to predict as it is almost impossible to determine in advance, if, or when a negative event will take place.

Bond market:

We believe fixed income will underperform equities over the next 5 years as the currently low interest rates will not provide enough yield to make up for the losses in bond price depreciation. However, if a negative event takes place, bonds will outperform stocks to a significant degree. High yield bonds still have a good chance to outperform government bonds over the next 5 years due to an improving economy, and higher interest rates paid currently. We suggest investors keep bond duration short, or own floating rate bonds which can increase when interest rates are raised.

Stock market:

We believe stocks will provide returns of approximately 2%-3% in appreciation and approximately 2% in dividends, before taxes. We suggest investors own stocks which pay dividends and have the ability and history of increasing their dividends, as dividend payments are much more certain and consistent than stock appreciation, which will be lumpy and largely unpredictable.

Commodity Market:

We believe commodities will provide uneven returns based on periods of uneven demand and negative market shocks, which will send prices both higher and lower. However, over the medium to long-term, wealthy investors who understand the real threat to remaining wealthy is battling inflation, will find commodities safe havens.

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Actions warranted based on our base-case assumptions:

Fixed Income:

Decrease allocations to fixed income. For investors focused on safety of principal, decrease the duration by shortening maturities. Try to focus on owning “floating-rate” instruments (which have the characteristics of very short-term bonds). Lower credit quality with higher yields will likely outperform other types of fixed income, as the coupon will likely outpace inflation.

Stock Market:

Increase allocations to dividend paying companies, as dividends will be more certain than appreciation over the next few years. Companies increasing dividends are more prone to appreciate than non-dividend paying companies. Dividend payers are also more stable during negative economic shocks. Companies providing products and services to US consumers and businesses are better than export-related companies, as the US consumer will offer better demand than non-US consumers and the appreciating U.S. dollar will make selling U.S. goods more difficult. Healthcare, US energy, consumables and infrastructure are likely to offer consistent demand. Earnings momentum is unlikely to push stocks higher over the near term. We believe investors willing to hold stocks should focus on companies with defined catalysts for positive change, buying back their shares, and increasing their dividends. We expect companies dependent upon growth to lag as growth becomes hard to find and interest rates edge higher.

Commodities Market:

Commodities may provide some protection from inflation once wages start to increase and possibly before. Most commodities are significantly lower today than at the beginning of the year. This may make it harder to buy, however, buying winter coats in the summer is the way to buy insurance from the coming cold inexpensively.

To all investors: Please remember that we are investing today with a 30+ year horizon. We are not trying to react to each day’s news or rumors as engaging in market timing, and reacting to public news is a fool’s game, and a Wall Street concoction to instigate activity.

With that said, if you have any questions you would like to discuss, please let us know.

Steven Abernathy	Brian Luster
Chairman	Chief Executive Officer
The Abernathy Group II	The Abernathy Group II
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Quarterly Market Review

Second Quarter 2015

This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

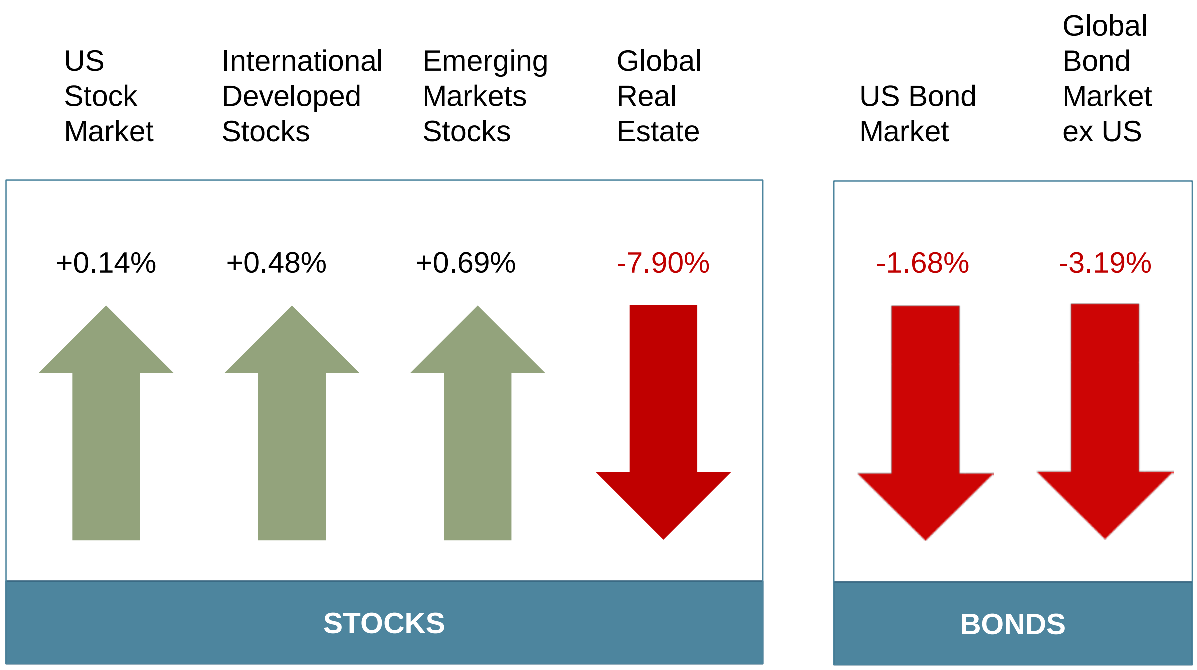
Fixed Income

Global Diversification

Quarterly Topic: The Seven Roles of an Advisor

Market Summary

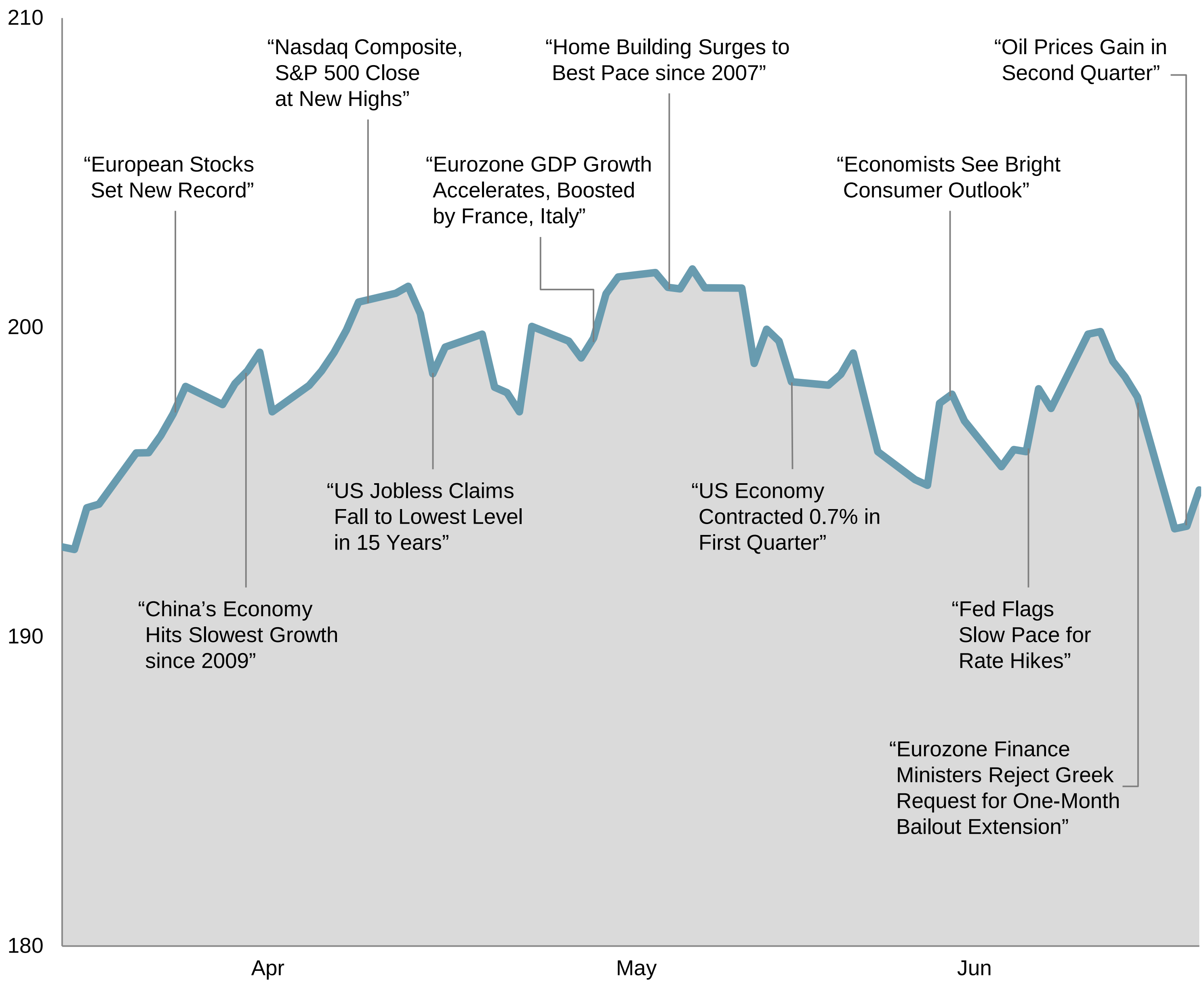
Second Quarter 2015 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Barclays data provided by Barclays Bank PLC.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2015



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

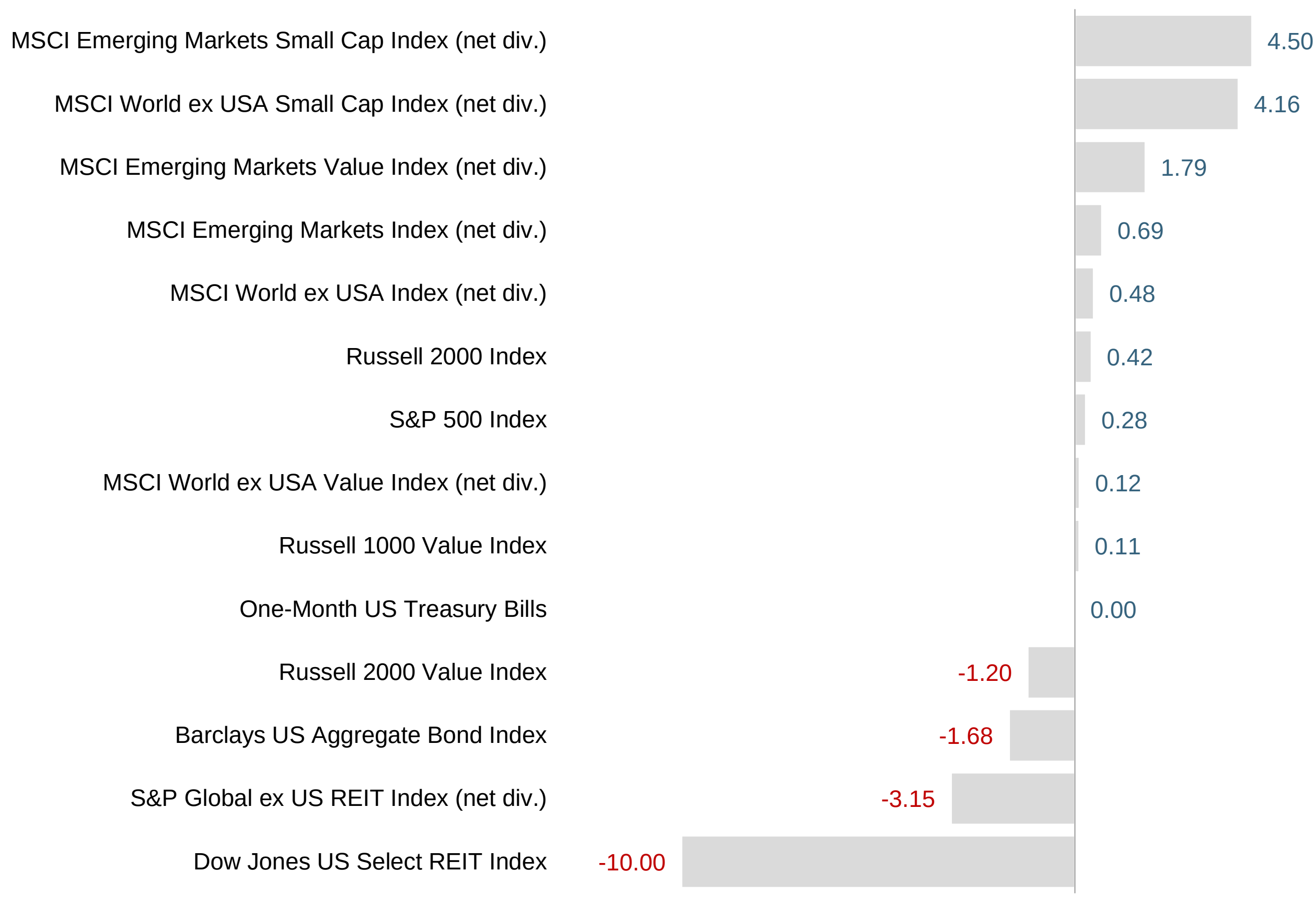
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Second Quarter 2015 Index Returns

Looking at broad market indices, emerging markets outperformed both the US and developed ex US markets in US dollars during the quarter. REITs recorded the lowest performance in developed markets, including the US.

The value effect was positive in emerging markets but negative in developed markets, including the US. Small caps outperformed large caps in the US, non-US developed markets, and emerging markets. The US dollar had mixed performance during the quarter.



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US Stocks

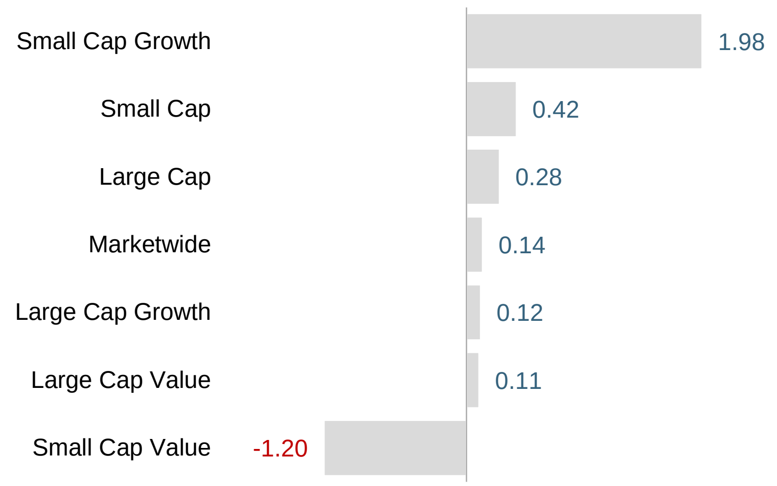
Second Quarter 2015 Index Returns

The US equity market recorded slightly positive performance for the quarter.

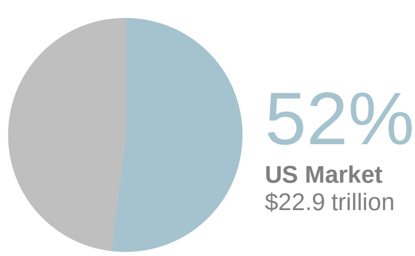
Small caps outperformed large caps, helped by the strong performance of micro cap stocks. Mid caps recorded the lowest return across the size ranges.

Value underperformed growth marketwide. Large value and large growth recorded similar performance, while the mid cap value and small cap value indices underperformed their growth counterparts.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	1.94	7.29	17.73	17.54	8.15
Large Cap	1.23	7.42	17.31	17.34	7.89
Large Cap Value	-0.61	4.13	17.34	16.50	7.05
Large Cap Growth	3.96	10.56	17.99	18.59	9.10
Small Cap	4.75	6.49	17.81	17.08	8.40
Small Cap Value	0.76	0.78	15.50	14.81	6.87
Small Cap Growth	8.74	12.34	20.11	19.33	9.86

** Annualized*

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. The S&P data are provided by Standard & Poor's Index Services Group.

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International Developed Stocks

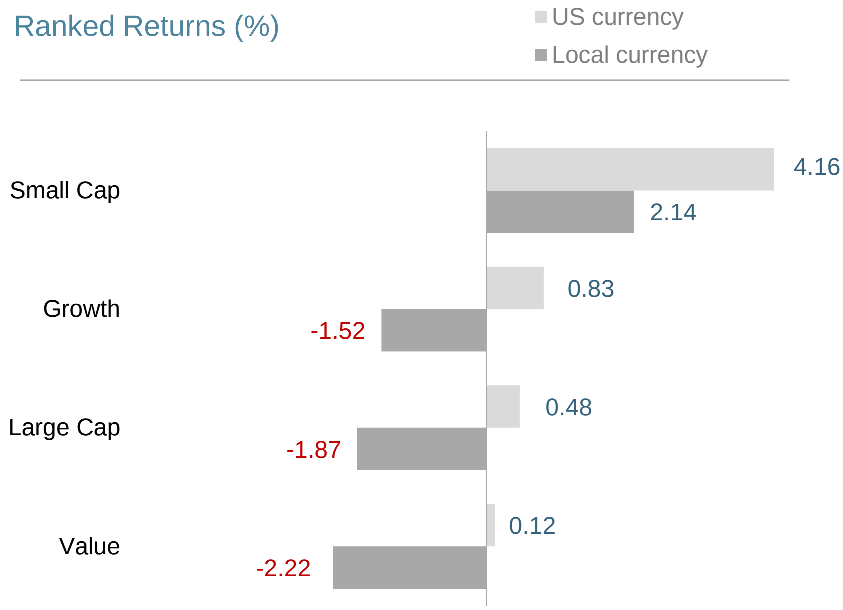
Second Quarter 2015 Index Returns

Developed markets outside the US outperformed the US equity market but underperformed emerging markets indices in US dollar terms.

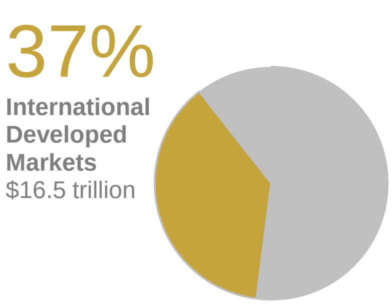
Small caps significantly outperformed large caps.

Value underperformed growth indices across all size ranges, and particularly in small caps.

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	4.34	-5.28	11.15	8.97	5.16
Small Cap	8.36	-3.96	13.60	11.10	6.30
Value	2.74	-8.66	10.82	8.42	4.49
Growth	5.90	-1.87	11.43	9.47	5.76

** Annualized*

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Emerging Markets Stocks

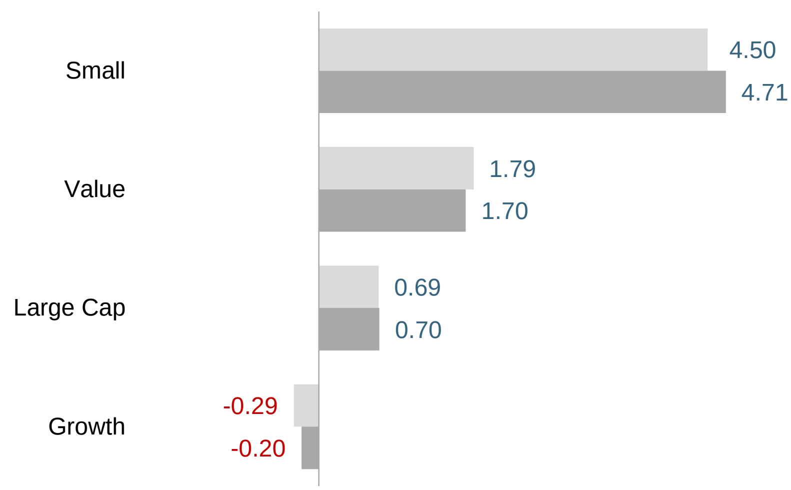
Second Quarter 2015 Index Returns

Emerging markets indices outperformed developed markets indices, including the US, in US dollar terms during the quarter.

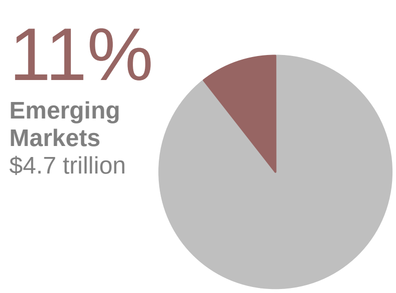
Small cap indices significantly outperformed large cap indices for the quarter.

Value outperformed growth marketwide, influenced by the strong performance of large caps. Value indices underperformed growth indices in both mid caps and small caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	2.95	-5.12	3.71	3.68	8.11
Small Cap	8.25	0.34	7.98	5.04	9.96
Value	2.18	-7.67	1.44	2.14	8.16
Growth	3.66	-2.64	5.92	5.17	8.01

** Annualized*

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

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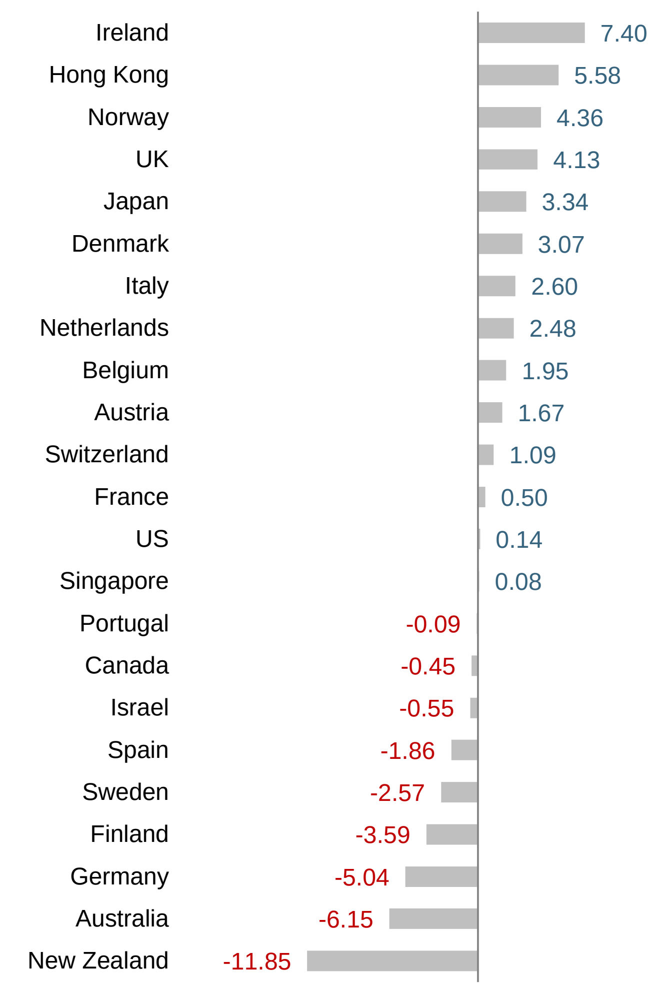
Select Country Performance

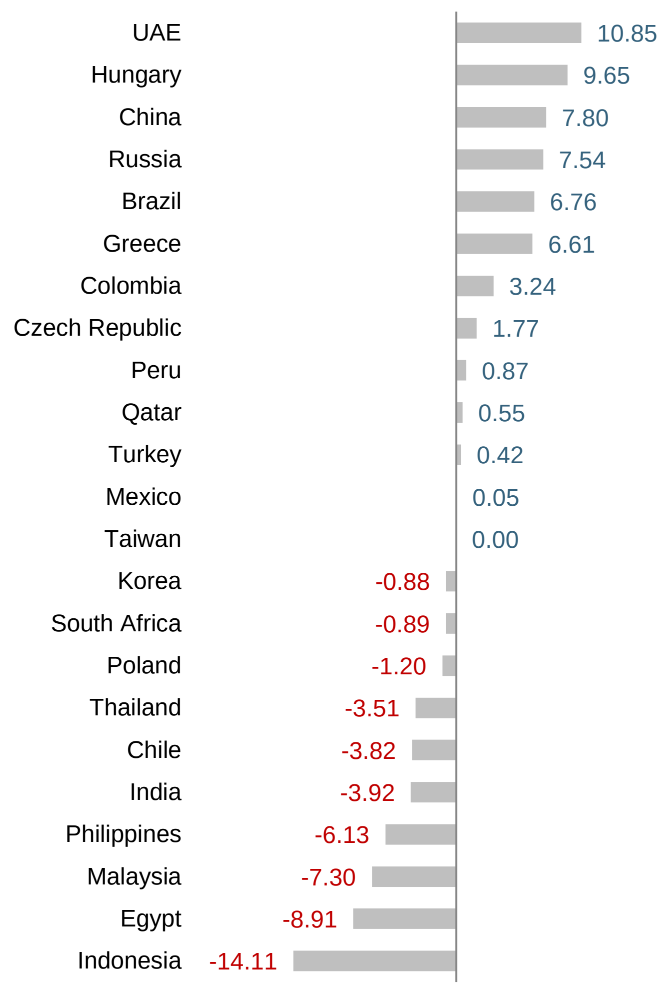
Second Quarter 2015 Index Returns

Smaller countries recorded the highest performance for the quarter, with Ireland and Hong Kong leading the way in developed markets and the UAE and Hungary in emerging markets. Currency played a role for each of the countries that recorded the lowest performance in developed and emerging markets, as the New Zealand dollar and the Indonesian rupiah depreciated vs. the US dollar.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2015, all rights reserved. Russell data © Russell Investment Group 1995–2015, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

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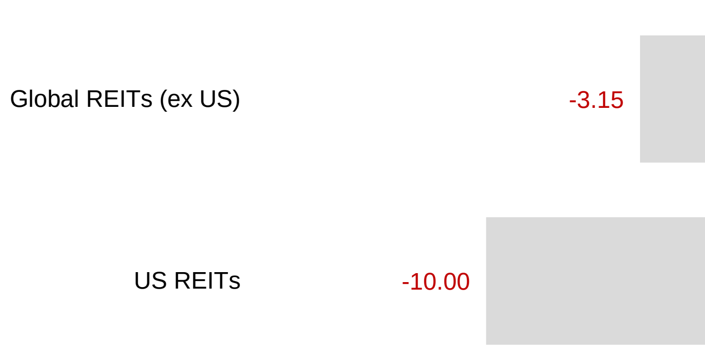
Real Estate Investment Trusts (REITs)

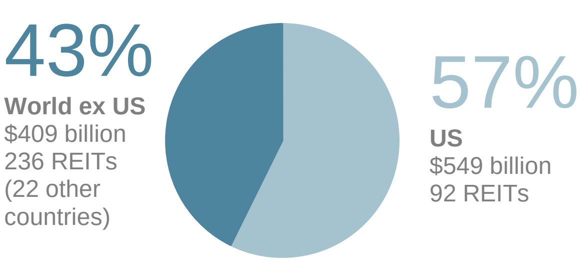
Second Quarter 2015 Index Returns

REITs both in the US and non-US markets significantly underperformed the broad equity markets during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-5.75	5.21	8.67	14.43	6.78
Global REITs (ex US)	-1.05	-3.21	9.24	11.93	4.01

** Annualized*

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2014.

Commodities

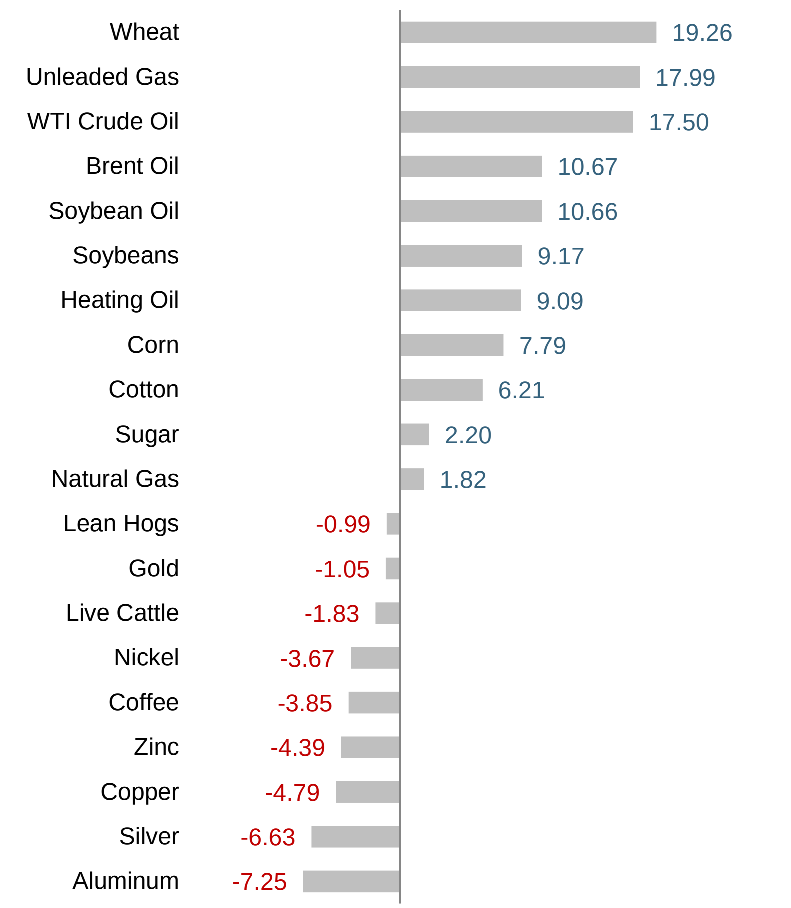
Second Quarter 2015 Index Returns

Commodities were broadly positive during the second quarter. The Bloomberg Commodity Index Total Return gained 4.66%. The energy complex led the period with unleaded gas returning 17.99% and WTI crude oil returning 17.50%.

Grains also posted positive returns; Chicago wheat added 19.26%, while soybean meal added 11.44%.

Metals were negative; aluminum declined 7.25% and silver dropped 6.63%.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

Asset Class	YTD	Q2	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.56	4.66	-23.71	-8.76	-3.91	-2.62

** Annualized*

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

Fixed Income

Second Quarter 2015 Index Returns

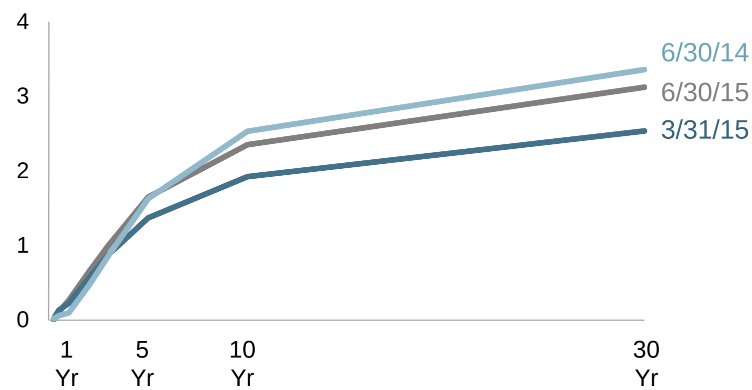
Interest rates across the US fixed income markets generally increased during the second quarter. The 5-year Treasury note added 25 basis points to end the period yielding 1.63%. The 10-year Treasury note increased 42 basis points to end the quarter at 2.35%. The 30-year Treasury bond added 56 basis points to finish with a yield of 3.10%.

On the short end of the curve, the 2-year Treasury note added 8 basis points to finish at 0.64%. Yields on securities within one year to maturity were generally lower by 2 basis points.

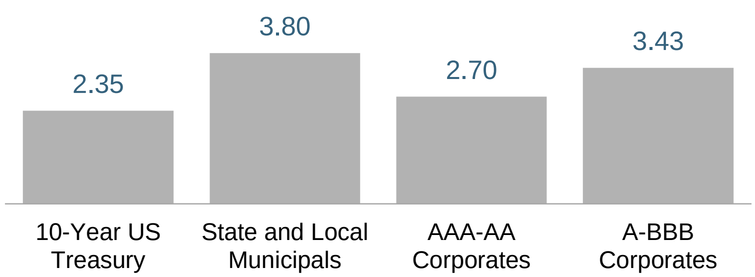
Short-term corporate bonds gained 0.06%, while intermediate corporate bonds lost 1.09%.

Short-term municipal bonds were relatively unchanged, but intermediate municipal bonds declined 0.89%. Municipal general obligation and revenue bonds experienced similar returns.

US Treasury Yield Curve



Bond Yields across Issuers



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.01	0.02	0.06	0.08	1.42
BofA Merrill Lynch 1-Year US Treasury Note Index	0.21	0.24	0.28	0.36	1.92
Citigroup WGBI 1−5 Years (hedged to USD)	0.51	1.27	1.40	1.54	2.93
Barclays Long US Government Bond Index	-4.52	6.20	1.25	6.23	6.12
Barclays US Aggregate Bond Index	-0.10	1.86	1.83	3.35	4.44
Barclays US Corporate High Yield Index	2.53	-0.40	6.81	8.61	7.89
Barclays Municipal Bond Index	0.11	3.00	3.10	4.50	4.45
Barclays US TIPS Index	0.34	-1.73	-0.76	3.29	4.14

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citigroup bond indices © 2014 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2014 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

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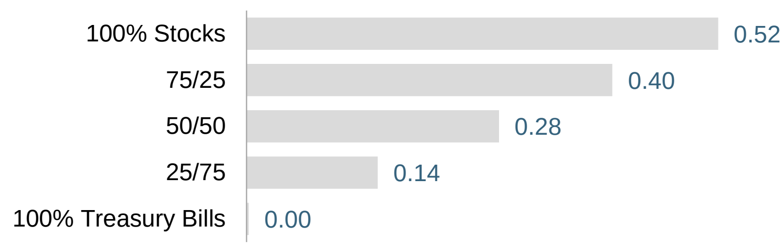
Global Diversification

Second Quarter 2015 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

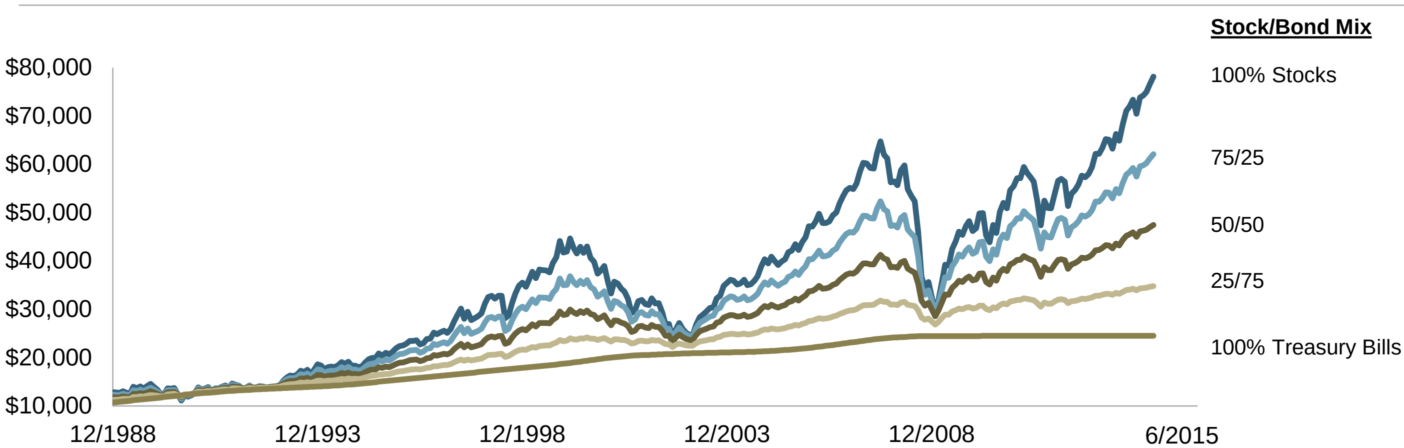


Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	2.97	1.23	13.61	12.52	6.97
75/25	2.27	0.99	10.14	9.46	5.81
50/50	1.54	0.71	6.72	6.35	4.47
25/75	0.78	0.38	3.35	3.21	2.96
100% Treasury Bills	0.01	0.01	0.03	0.04	1.30

Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2015, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

The Seven Roles of an Advisor

Second Quarter 2015

What is a financial advisor for? One view is that advisors have unique insights into market direction that give their clients an advantage. But of the many roles a professional advisor should play, soothsayer is not one of them.

The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an advisor, broker, analyst, or financial journalist.

Some folks may still think an advisor's role is to deliver market-beating returns year after year. Generally, those are the same people who believe good advice equates to making accurate forecasts.

But in reality, the value a professional advisor brings is not dependent on the state of markets. Indeed, their value can be even more evident when volatility and emotions are running high.

The best of this new breed play multiple and nuanced roles with their clients. None of these roles involve making forecasts about markets or economies. Indeed, there are at least seven hats an advisor can wear to help clients without ever once having to look into a crystal ball:

1. The Expert: Investors need advisors who can provide client-centered expertise in assessing the state of their finances and developing risk-aware strategies to help them meet their goals.

2. The Independent Voice: The global financial turmoil of recent years demonstrated the value of an independent and objective voice in a world full of product pushers and salespeople.

3. The Listener: A good advisor will listen to clients' fears, tease out the issues driving those feelings, and provide practical, long-term answers.

4. The Teacher: Getting beyond the fear-and-flight phase often is just a matter of teaching investors about risk and return, diversification, the role of asset allocation, and the virtue of discipline.

5. The Architect: Once these lessons are understood, the advisor becomes an architect, building a long-term wealth management strategy that matches each person's risk appetites and lifetime goals.

6. The Coach: Even when the strategy is in place, doubts and fears inevitably arise. At this point, the advisor becomes a coach, reinforcing first principles and keeping the client on track.

7. The Guardian: Beyond these experiences is a long-term role for the advisor as a kind of lighthouse keeper, scanning the horizon for issues that may affect the client and keeping them informed.

These are just seven valuable roles an advisor can play in understanding and responding to clients' whole-of-life needs, which are a world away from the old notions of selling product off the shelf or making forecasts.

Knowing the advisor is independent—and not plugging product—can lead the client to trust the advisor as a listener or sounding board. From this point, the listener can become the teacher, architect, coach, and, ultimately, the guardian. Just as people's needs and circumstances change over time, the nature of the advice service evolves.

However you characterize these various roles, good financial advice ultimately is defined by the patient building of a long-term relationship founded on the values of trust and independence and knowledge of each individual.

Now, how can you put a price on that?

General Disclaimer