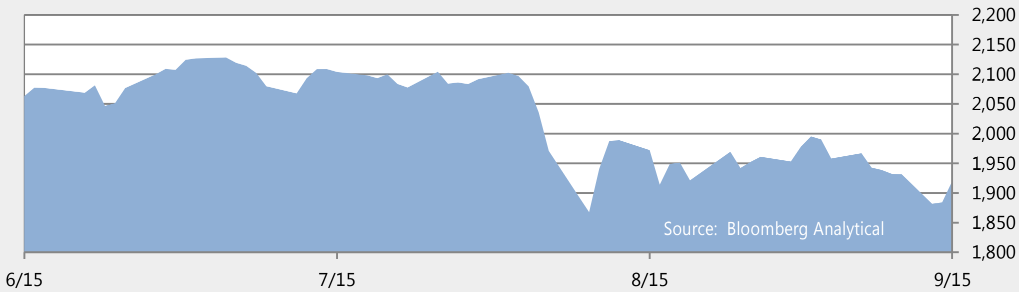
third quarter 2015

INVESTMENT *perspective*

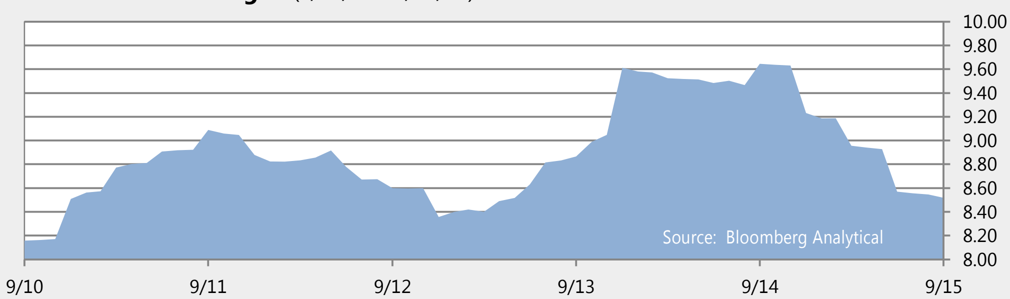
The equity market correction that we anticipated is now underway with the S&P 500 and Russell 2000 Small Cap index declining during the quarter 6.4% and 11.9%, respectively. Equity markets are digesting falling earnings growth estimates, declining profit margins, and rising credit costs. Further, the ongoing shift in U.S. monetary policy creates deflationary pressures as the dollar strengthens while countries such as China and India cut interest rates in an attempt to spur economic growth. Together, these factors are reducing global liquidity, which necessitates a decline in asset prices in order to balance markets.

S&P 500 Index (6/30/15 - 9/30/15)



In typical business cycles, shifts in monetary policy that reduce liquidity occur when the economy is accelerating, profit margins are increasing, and inflation expectations are rising. Unfortunately, none of those conditions are currently present, which is why we believe this market cycle will be materially different from market cycles experienced prior to the 2009 financial crisis.

S&P 500 Profit Margin (9/30/10 - 9/30/15)



We expect market volatility to remain elevated during the short term as levered investors unwind trading positions that were preconditioned on higher levels of liquidity and lower levels of volatility. Although the market decline has been significant we believe the short term market direction remains uncertain with the potential to decline or rise 10%.

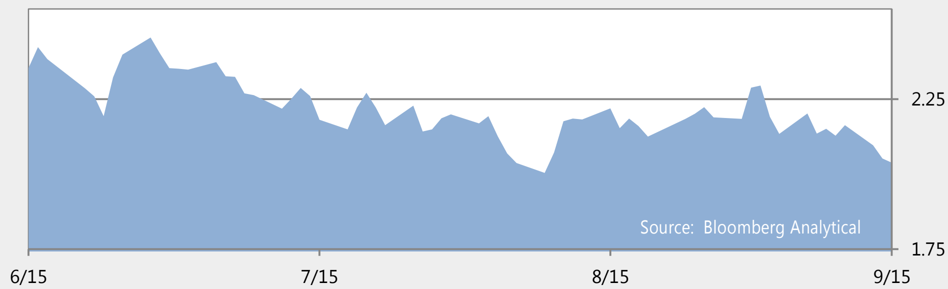
In order for equity markets to resume rising, we will need stability in credit markets, combined with abating deflationary forces from overseas markets, or a material shift in U.S. monetary policy.

While the nature of the market is changing there are still individual stocks that will perform well over the medium term despite the increasing market headwinds. This positive outlook continues to be stock-specific and not reflective of opportunities in specific industries, regions of the world, or broader market indices.

While equity markets struggled in the third quarter, the fixed income market benefitted from a combination of plunging commodity prices and financial market volatility, which may have factored into the Federal Reserve's decision to delay any rate increase until at least the fourth quarter of 2015.

The U.S. 10-year Treasury note ended the quarter at 2.04%, which was 30 basis points lower than the end of last quarter. The Barclays Aggregate Index posted a total return of 1.23% in the quarter and is now up 1.13% year-to-date. Not all sectors of the bond market participated equally in the rally as higher quality and intermediate maturity corporate bonds outperformed weaker credits and longer maturity bonds.

U.S. 10-Year Treasury Yield (6/30/15 - 9/30/15)



Vaughan Nelson portfolios benefitted from our focus on Investment Grade credits with solid credit metrics and an overweight allocation to intermediate (3 to 10 year) areas of the maturity spectrum. Assuming that the lackluster September employment report is not a harbinger of a significant deceleration in economic growth, we expect many of the uncertainties behind the increased market volatility to subside, resulting in a return to gradually rising interest rates. With high quality corporate bonds now yielding +175 basis points above comparable Treasury yields, we remain positive on our current overweight to this sector.

The municipal market has performed well in recent months, as the combination of improving tax revenues, reduced borrowing needs and strong demand from investors fearing equity market volatility has generated strong after tax returns.

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