INVESTMENT
UPDATE

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December 2015

THE YEAR IN REVIEW...

After the global market meltdown of 2008 and 2009, stocks have enjoyed a six year bull run. This has not only allowed investors to generally recoup their losses, but to also enjoy handsome returns. For example, 2013 was a year where broad market gains across most sectors led to the S&P 500 index climbing nearly 30%.

Since that time, the market has behaved a bit differently in terms of the market returns and breadth. 2014 was more muted but still a good year with returns of 11.74%. However, it was also notable for the onset of the steep decline in energy stocks during that summer. This continued into 2015, which has been an interesting year to say the least. The market never got very far to the upside before a tumultuous summer culminating in steep declines in August and September, as the Dow fell nearly 1,100 points intraday in the first 15 minutes of trading on Monday, August 24th.

October saw strong gains, but as of November 18th the S&P 500 is still in negative territory down 0.41% year to date. Make no mistake; there have been clear winners and losers. While the S&P is essentially flat, the Dow Jones Industrial average is down nearly 2% while the Nasdaq 100 is up 7.78%.

But the indices tell only part of the story and a deeper look reveals that carnage seems much easier to find than to dodge. For example, without best performers Amazon and Google, the Nasdaq 100 would actually be in negative territory, and without the top four performers, it would be down over 5%. Hardest hit is the commodities sector, stoked by fears of slowdown in China. Of 25 individual commodities tracked, only 3 are up year to date, with the overwhelming majority down approximately 20%-30%. This has had a dramatic spill over into other areas. The decline in commodities has led to steep declines for transportation stocks (think rail, freight), with the Dow Jones Transportation Index down nearly 12% so far this year. Low oil prices have led to not only less drilling and less demand for rigs and oil services, but have led to deep declines among industrial suppliers to the oil sector and beyond -- leading some to coin this an "Industrial Recession." Retail is now in the crosshairs, with many retail stocks getting trounced on sluggish sales and earnings as well as concerns over the holiday sector.

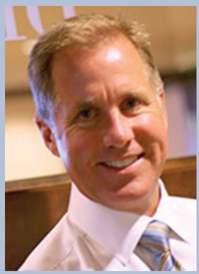
All of this is coupled with concerns over a looming interest rate hike by the Federal Reserve, possibly as soon as they next meet on December 16th. In response, the short end of the treasury curve has risen having a flattening effect on the yield curve. This has had an effect on income producing favorites like utilities, with the Dow Utilities Index down 9.55% this year, and Real Estate Investment Trusts, as the MSCI REIT index, fell 5.21%.

As a RWM client and reader of this column, you know that we have been expecting this type of sell-off and that frankly, after years of bull market returns, we've been surprised that it took this long. As mentioned in prior letters, there have been few places to hide defensively, as the absence of yield in bonds given the zero percent rate environment and the prospect of inevitably rising rates, leaves us cold. We instead continue to favor dividend paying stocks as touted in this column for some time, realizing that higher price volatility was the tradeoff for higher cash flow offered by stocks compared to lower volatility bonds. So, fasten your seatbelt, collect your cash flow, and view volatility as an opportunity to buy value and boost long term returns. Easier said than done we know, but absolutely true in our 53 year experience.

Another close to a year and yet another opportunity to thank you for investing alongside us, and for your trust and confidence as we together navigate an increasingly complex world. We wish the best to you and your families this holiday season and in the year to come.

Warm Regards,

THE FACTORS THAT INFLUENCE INTEREST RATES AND HOW BOND YIELDS ARE DETERMINED



An interest rate is the cost for borrowing or compensation for lending money. Many factors go into determining what that rate should be. Some of the main forces are economic conditions, inflationary outlook and central bank policies.

Strong economic growth typically leads to higher inflationary pressures and higher interest rates due to a greater demand to borrow money. Conversely, when the demand for funds is low and economy is weak, rates move lower.

Our government, through the U.S. Federal Reserve, has the ability to affect and influence interest rates through monetary policy and the Federal Funds rate. The Federal Funds rate is an interest rate at which depository institutions lend balances to each other overnight and is set by the Federal Open Market Committee (FOMC). This rate has an enormous impact on the amount of interest you earn on deposits as well as the rates you borrow at. Between 1990 and 2008 the Fed Funds rate ranged between 1% and 8%. Because economic activity slowed dramatically after the 2008 financial crisis, the FOMC lowered the funds rate from 3.50% to an unprecedented 0% target rate where it remains today. While the cost to borrow money has been very attractive since 2008, savers have been penalized. All bond markets in the U.S. (municipal, corporate and agencies) are priced off of U.S. Treasury yields. So, historically low Treasury rates have led to historically low yields amongst all fixed income assets.

Corporate and other taxable bond issues trade on a "spread" over Treasury yields. So even in a low rate environment, certain segments of the bond market can be more or less attractive based on the historical spread. For example, currently, 10-year "A rated" corporate bonds are trading around 125 basis points (+1.25%) over the 10-year Treasury. So if the 10-year Treasury yield is 2% the "A rated" corporate would yield 3.25%. The higher a bond's quality and the shorter the maturity, typically the narrower the spread will be.

Due to the low rates on Treasury bond issues, investors have been bidding up the prices and narrowing the spread, especially on "High-Yield" (non-investment grade) bonds over the past few years. Just like we have seen the P/E ratios on stocks move higher making them more expensive, the same has occurred in the "High-Yield" bond market. The historical average spread on "High-Yield" is around 500 basis points over Treasuries. This spread narrowed to just above 200 basis points in 2014. To earn only 2% more yield than principal risk-free Treasuries did not seem worth the credit risk. However, recently the spreads have increased closer to their historical norms making certain pockets of the corporate bond market attractive relative to other fixed income instruments.

High Yield Bond Spreads Have Widened From Their 2014 Lows

Data as of 16-OCT-15

Source: FactSet; Spread between Barclays Corporate Credit High Yield Index and 10-Year Treasury expressed in basis points. High Yield represented by the 10 year Barclays Corporate Credit High Yield Index. Barclays U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB= or below. Included issues must have at least one year until final maturity. Past performance is no guarantee of future results. Yields will fluctuate as market conditions change

It's important to remember when you hear news stories about the Fed raising interest rates, they are referring to the Federal Funds rate which is currently at 0%. This rate essentially dictates the return on money market accounts and shorter maturities going out two years. While it is very likely the Funds rate will be increased, it will occur in small increments, probably .25% at a time. It is not probable you will see this rate moving back to the 3.50% as it was in 2008, but more likely stalling out near the 1.00% handle. In a nutshell, we feel the general level for interest rates will be low for a while.

Doug Geisser
VP FIXED INCOME PRINCIPAL

FINANCIAL ADVISORS FORUM

In September of this year, portfolio managers **Holly Nanos, Brett Larson, Scott Miller,** and **Peter Hemwall** attended a Financial Advisors' Forum hosted by Wells Fargo in St. Louis. The three day event covered a multitude of topics such as 'Working with Elderly Clients', 'Social Security and Retirement Strategies', and 'Medicare: Planning considerations for 2016'. The forum provided ideas to help advisors like ours meet the changing needs of investors, build deeper connections with clients, and identify paths to organic growth. Seminars were led by subject matter experts, industry leaders, analysts, and consultants who addressed practice management techniques and critical issues underlying the changing nature of financial advice.

ROMANO ADDITIONS

We are pleased to have Omar Haq join us in Client Services. He will be helping Scott Miller, and Dick and Joe Romano with all their client administrative issues. Omar joins us after eleven years at JP Morgan Chase holding various positions in their investment management group. He received his BS in Finance from DePaul University and an MBA from Marylhurst University. He holds the FINRA Series 7 and 63 securities licenses.

We now have three generations of Romano's working at Romano Wealth Management! Valerie Romano joined her grandfather and uncle this past August and is excited to learn the investment management business. She comes to us from New York City where she worked for Evanston-based Hagerty Consulting, facilitating Hurricane Sandy related Federal disaster relief grants on behalf of the NYC Department of Transportation. She received her bachelor's degree from Wake Forest University and holds her Series 7 license. She is currently preparing for the Series 66 exam.

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WEALTH MANAGEMENT
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1560 SHERMAN AVENUE
SUITE 1300
EVANSTON, IL 60201

OFFICE 847 866 7700
FAX 847 866 7054

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2015 WAS A BIG YEAR FOR ROMANO WEALTH MANAGEMENT!

✸ **Joe Romano was elected to the Board of the Financial Industry Regulatory Authority (FINRA).** Our president joins the ranks of top regulators and several prominent Wall Street CEOs on this 25 person board. In his three-year term, Joe will help make decisions that affect 4,000 investment firms nationwide, as well as continue FINRA's mission

✸ In June, **Romano Wealth was recognized as a 2015 Financial Times Top 300 Financial Advisor.** FT uses a rigorous evaluation method based on six primary performance areas to determine the top 300 leaders of the industry nationwide. Over 2,000 firms were invited to apply for consideration. We are very proud to be included in this distinguished list.

✸ We are proud to announce that Romano Wealth employs **three recipients of the 2015 Five Star Wealth Manager Award. Joe Romano, Doug Geisser, and Deb Cross** were selected for this award after over 8,000 Chicago wealth managers were considered and evaluated, based on 10 objective criteria such as regulatory record, client retention rates, and professional designations. Way to go, team!

✸ Our Spring **New Trier Extension class, "Investment Fundamentals" will be starting March 29,** so save the date! This 4-session class is taught by portfolio manager Peter Hemwall and will take a look at the various investment vehicles available today to aid investors like you in determining the value of an investment. It's a class you won't want to miss!

✸ **We have revamped our Facebook and LinkedIn pages!** Search 'Romano Wealth Management' and be sure to like/follow us for news updates, interesting articles, and investment advice!