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QUARTERLY SUMMARY SAN FRANCISCO • SILICON VALLEY

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Issue: Second Quarter, 2015

Review of Securities Markets, Second Quarter, 2015

Equity markets finished the quarter with a whimper as the insolvency of Greece boiled over. On June 30, Greece became the first developed country to miss an International Monetary Fund (IMF) payment. The quarter ended with a showdown looming between Greece and its international creditors. Alexis Tsipras, the Greek prime minister, surprised negotiators by calling for a referendum in Greece to be held in early July providing citizens the opportunity to weigh-in on the bailout package. The European Central Bank (ECB) subsequently refused to provide emergency liquidity to Grecian banks and, without access to ECB funding, Greek banks were forced to close and restrict individual ATM withdrawals to 60 euros per day. Leaders across the region gathered to consider Greece's indebtedness and inclusion in the Eurozone.

In response, the S&P declined from all-time highs reached in May, ending the quarter up 0.28% and remaining in positive territory for the year. Small company stocks, measured by the Russell 2000 Index, did better than large company stocks for the quarter and year-to-date period. Small companies are perceived to be less dependent on exports, so weakness overseas is not as important for near-term earnings growth.

Foreign stocks have given back some of the year's earlier gains but are still outperforming U.S. stocks so far this year, despite the problems in Europe. After two years of underperformance relative to U.S. stocks, once-abysmal expectations seem to be improving among investors in developed country foreign markets. German and French equity markets produced double-digit returns for local investors, with returns to U.S. investors muted somewhat by a strengthening dollar. The announcement of monetary easing has caused a relative decline in the value of the euro, boosting exports. An improving labor market and some signs of inflation have encouraged investors to return to the Japanese stock market. The Nikkei Index hit 20,000 in April for the first time in 15 years and is the best performing developed stock market year-to-date in dollar terms. Emerging markets pulled back during the quarter but have posted positive returns for the year. Even with a recent decline in the mainland Chinese Shanghai stock market, foreign investors (including BOS clients) limited to purchases on the Hong Kong exchange have earned nearly 15% in Chinese shares year-to-date.

The Federal Reserve signaled a rate hike later this year based on improved economic conditions in the U.S. Investors reacted by repositioning portfolios in anticipation of higher rates, causing the

value of bonds to decline. The ten-year Treasury yield experienced its biggest increase since the end of 2013, ending the quarter at 2.3%. European yields also increased from their April lows. Germany's ten-year bond yield increased from 0.18% to 0.74% during the quarter, despite more quantitative easing in the Eurozone intended to keep rates low.

Energy prices increased during the quarter in response to curtailed production and improved expectations for global growth. As a result, commodity prices rose.

All Things Considered

The late quarter sell-off notwithstanding, the six-year bull market in U.S. equities is alive and well. After a 200% increase in the S&P 500, valuations are higher than average, with a current cyclically-adjusted price earnings ratio (CAPE) of 27. This compares to the long-term average of 16, but is within reach of the 25-year average of 25.5. While often cited as a reason to buy or sell stocks, price-earnings ratios tell us very little about the timing or conditions that would lead to a change in stock prices. Current economic news gives us more meaningful clues about future corporate earnings, the most important determinant of stock valuations over the long-run.

Investors and the U.S. Federal Reserve seem willing to see the bright side embedded in recent news. First quarter Gross Domestic Product (GDP) was disappointing, mostly blamed on harsh winter weather across the country and a rising U.S. dollar that makes our exports more expensive overseas. A rebound in second quarter GDP is anticipated, because, after all, the U.S. consumer loves to shop and quantitative easing in Europe is intended to stimulate consumption. Earnings for S&P 500 companies declined in the first quarter; however, this decline was attributed to a drop in energy prices that hurt the earnings of oil exploration and production companies. J.P. Morgan calculates that first quarter earnings growth was a respectable 8.5%, excluding the energy complex. Financial stocks, the only sector in the S&P 500 still trading at prices below the pre-financial crisis peak, are expected to post better earnings in a rising interest rate environment. Borrowing rates are likely to rise faster than interest paid to savers if rates increase later this year. Top-line employment is improving, although there is now a smaller percentage of Americans working or looking for work than in the past 40 years.

Foreign economies are sending mixed messages, too, but none seem as critical as the efforts to resuscitate Greece. Greek citizens are enduring many social ills as they compromise with their Eurozone partners, but the recent debt default showed few signs of spreading beyond the country's borders. Interest rates on the sovereign debt of their neighbors - Portugal, Spain, and Italy - remained contained, an early indication that, for now, investors do not expect the workout in Greece to spread beyond their borders.

With all things considered, investors seem willing to consider the bright side for the time being. No one knows what event, or series of events, will change the collective mind of investors, but history tells us that we need to be prepared for the inevitable volatility that comes with owning stocks. After all, investors willing to take on risk have historically been compensated with higher rates of return over time. We need to be realistic about our risk tolerance, even though the length and strength of the six-year bull market may mislead us into thinking that volatility is a thing of the past. Your BOS team is here to help you consider this in light of your long-term financial plan.

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Quarterly Review of Securities Markets: Total Return

Index	Market	Last 3 Months	Year-to-Date as of 06/30/15
Standard & Poor's 500	Large Co. U.S. Stocks	0.28%	1.23%
Russell 1000 Value	Large Co. U.S. Value Stocks	0.11%	-0.61%
Russell 2000	Small Co. U.S. Stocks	0.42%	4.75%
MSCI All-Country World ex US (ACWI)[1]	Foreign Stocks	0.53%	4.03%
Barclays 1-5 Year Gov't/Credit	U.S. Shorter-Term Taxable Bonds	-0.02%	0.94%
Barclays Aggregate Bond	U.S. Taxable Bonds (Broad-based)	-1.68%	-0.10%
Barclays 1-5 Year Muni Bond	U.S. Shorter-Term Tax-Exempt Bonds	-0.02%	0.39%
JP Morgan Global Non-US Gov't Bonds	Foreign Bonds	-1.54%	-5.56%

Key Economic Indicators

- The latest U.S. GDP (Gross Domestic Product) figures showed a decline in GDP growth for the first quarter of 2015. Real GDP decreased at an annual rate of 0.2%. The largest contributor to the negative growth was a decline in net exports as the strengthening dollar reduced foreign demand for U.S. products.

- The U.S. Federal Reserve continued to hold the target range for the federal funds rate at 0% to 0.25%. Recently released minutes from the last meeting in June suggest that most members are still looking for improved employment growth and higher inflation before raising rates. Some members also cited uncertain risks related to situations in Greece and China as additional reasons for remaining accommodative.

- The U.S. unemployment rate dropped to 5.3% in June, its lowest level since April of 2008. Most of the drop was attributed to a decline in the labor force as opposed to an increase in employment. Non-farm payroll growth came in at 223,000 but was below expectations. Non-farm payrolls for April and May were also revised downward by a total of 60,000 jobs.

- U.S. inflation has remained muted. The latest Consumer Price Index (CPI) data (May) showed an annual inflation rate of effectively zero. The low inflation rate is primarily being driven by decreasing energy costs over the last 12 months. Core CPI (CPI less food and energy) posted an annual increase of 1.7% through May.

- Commodity prices rose during the second quarter mostly due to a rebound in the energy sector. The Bloomberg Commodity Index was up 4.7%. The price of crude oil rebounded strongly during the quarter, up +24.4% to $59 per barrel, as demand forecasts improved while production levels in North America have decreased. Gold (-0.9%, $1,172) and silver (-5.8%, $15.67) both moved lower during the quarter.

Key economic indicators compiled by Jeffrey Blanchard, CFA, Investment Analyst; jeffrey.blanchard@bosinvest.com

Data Sources: Morningstar; Econoday; Bloomberg.com

(1) Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties or originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

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