HOUSTON
CAPITAL PARTNERS

1710 State Street
Houston, Texas 77007
Phone: 713.428.2050; Fax: 832.201.7465

2015 Mid-Year Outlook

As we have stated previously, we believe that 2015 will be a slightly positive year (up 8 – 10%), but that the first half would be flat and the second half would be stronger. We also stated that we should see some 5-7% corrections. We have seen China down 40%, Greece imploding, oil having another correction, and the threat of rising interest rates. Almost daily we hear talk of "the next big correction – is it here?", but still we haven't seen a U. S. Market collapse. Let me give you our basic viewpoint.

First, what are your alternatives? Bonds? Nope. Foreign? Nope. Cash? Not really. Commodities? Getting there but not yet. Real estate? Not bad. Get my point? Cash is already at record levels. Companies holding cash can do four things: 1) Nothing, 2) Increase their dividends, 3) Buy back their stock and 4) Buy someone else. Three out of the four options are positive for stocks. Second, valuations are coming down to normal levels. At a 16 P/E, the Dow Jones is near its 60 year average (see Chart #1).

Chart #1 – Source: J.P. Morgan Chase Guide to the Markets – U.S. Data as of June 30, 2015

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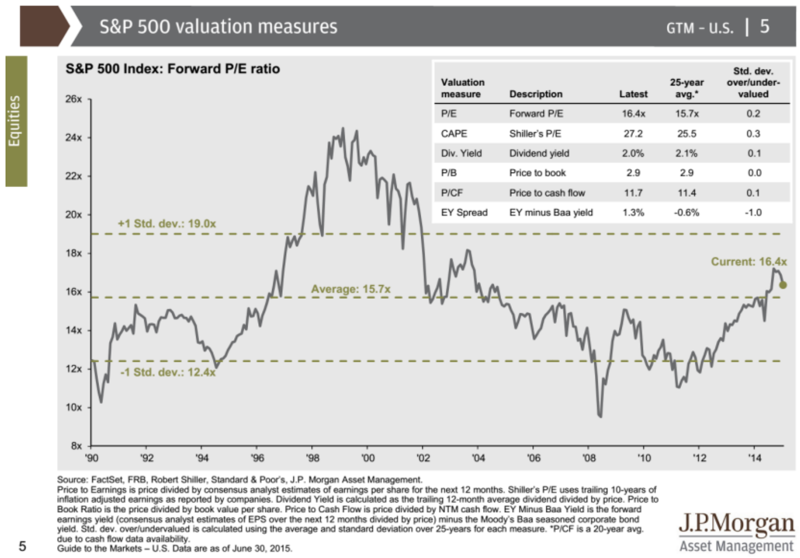

Is the market going to fast? It's like driving 67 mph in a 65 mph speed zone. Not exactly anything to worry about.

With corporate earnings expected to be slightly better in the second half of 2015, the path of least resistance is slightly up (See Chart #2).

<u>Chart #2 – Source: J.P. Morgan Chase Guide to the Markets – U.S. Data as of June 30, 2015</u>

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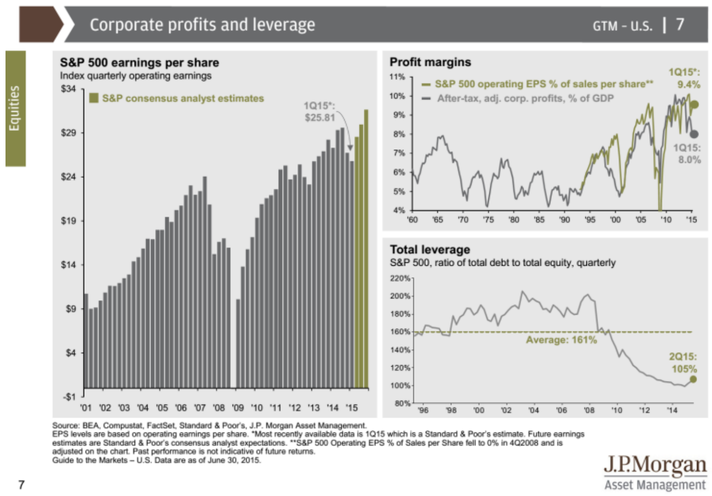

Remember, China was at a 105 P/E before its correction, so at a 16 – 20 P/E, we look like a bargain to the rest of the world. And we are.

For the second half of 2015, we are expecting the next leg up. Won't be much, and it will be gradual. But we should be searching for our new "plateau" over the next 2 – 3 quarters. One should note, that since the beginning of February the market has spent 85% of its time plus or minus 200 points from 18,000 on the Dow Jones. It wasn't ready to keep moving up (earnings weren't there, yet), and tried several times to correct. Watch as earnings come out, they will be better than anticipated. But the U.S. Dollar (or should we say weak Euro) will keep a lid on profits for U.S. exporters.

Finally, we expect a slow rising in interest rates, probably starting in December (but wouldn't be shocked if they did it in September). This is the worst kept secrets in the world, and this is already in the market. Keep the Faith.

John W. Osborn, PhD, *CFP®*, CFS, ChFC, BCS, AIF