The second quarter had relatively little price movement but some interesting undercurrents. It seems the markets know it is time to move on but are debating on which way to go. Here are our thoughts in a few key areas:

### The Federal Reserve

It has been a slow economic recovery for the U.S. from the deep 2008 Great Recession. With unemployment at 5.3%, we expect the Federal Reserve to finally depart from the ‘emergency’ 0% Federal Funds rate put in place over six years ago. Fed Chairwoman Janet Yellen has been preparing the markets by explicitly stating she expects to raise rates some time in 2015. Being longer term investors, we aren’t as concerned about the timing (September or December) but rather in the pace of future increases. We believe the Fed is likely to have a “lower for longer” mentality, meaning a very measured pace of interest rate increases.

History has shown that stocks can continue to perform well when the economy is sound and the Federal Reserve does not have an overly restrictive monetary policy which is why we maintain a favorable view of U.S. equities. We are monitoring wage growth as a leading indicator – if wages pick up faster than expected then we will likely adjust our interest rate expectations and our strategies accordingly.

### Greece

For years, there has been discussion of a “Grexit” (a Greek departure from the Euro) as Greece has more debts than its island economy can sustain. It needs continued help from the other EU members but is reluctant to have foreign powers dictate its internal affairs.

Among investors it’s seen as a litmus test of whether the ‘Union’ part of the EU means anything. It appears that Greece, led by a former Communist youth activist, has bowed to the demands of its capitalistic creditors led by Germany. For now, the crisis has seemingly passed. We are wary, however, that this is the last challenge to the monetary union in Europe.

Other European countries have similar debt problems. Events in Greece have proven that the only option allowed for continued EU membership is radical economic reform. If this difficult path can be accepted and taken, it can be for the longer term good. We have our doubts, though, that electorates will change things like pension benefits when dictated by a foreign power.

### China

Winston Churchill once described Russia as a riddle wrapped up in an enigma. That phrase comes to mind when thinking of the Chinese stock market. While its economy has stalled in the past year, its local stock market has soared more than 100%. Churchill went on to say that the key to understanding Russian actions was to understand their national interest. And here too, the Chinese stock market advance makes sense as well – the Chinese government has encouraged its citizens to invest in the local stock market.

In recent weeks, the Chinese local market has sold off and the government has put controls on IPOs and executive stock sales in an effort to stabilize the market. While recent volatility is concerning, these developments can be seen as ‘normal’ as China works to integrate itself into the world’s investment markets. Like Europe, China and other emerging markets as a whole sport lower stock valuations than those in the United States. That advantage, however, is offset in our view by the economic fits and starts that mirror the Chinese local stock market, and our views on emerging market stocks are therefore neutral as well.

Overall, we believe our current positioning has been appropriate and therefore our investment strategies were unchanged during this quarter. We are reminded of the timeworn advice not to confuse action with progress. As always, we are monitoring the markets with your specific investment horizon and goals in mind. We are available to answer your good questions and discuss how your portfolio is positioned.

Regards,

Richard Sipley, CFA
Wellesley Investment Partners
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8. Notable indices shown for illustrative purposes include the S&P 500 Total Return Index, the S&P Midcap 400 Total Return Index (U.S. Midcap Equities), the Russell 2000 Total Return Index (U.S. Smallcap Equities), the MSCI EAFE Total Return Index (International Developed Market Equities), the MSCI Emerging Markets Total Return Index (Emerging Market Equities), the Barclays U.S. Aggregate Total Return Bond Index (U.S. Core Bonds), Gold spot price/troy ounce in U.S. dollars, and the JP Morgan Global Aggregate Total Return Bond Index (International Core Bonds). Data source: Bloomberg.

9. This report is for the quarter ending June 30, 2015.