

As Market Fears Grow, Stay Focused on the Long Term

One bad day doesn't make a bear market. Two bad days, however, and the prospect of more to come, may well signal one.

Bear market is a scary term, and the past several days have certainly given investors cause for concern. Rather than spend time worrying, though, let's try to understand what has happened and what it means for our long-term financial goals.

Markets decline worldwide, but U.S. fundamentals remain strong

At times like this, it's worth reviewing where stock prices come from. The two components are earnings (how much companies are making per share) and valuations (how much investors are willing to pay for those earnings). Earnings evolve with the economy as a whole, whereas valuations are much more variable.

Asian markets, particularly China's, are suffering from a double hit. Earnings growth has slowed substantially for many companies, making them worth less even if valuations remain constant. Valuations, however, have been dropping sharply as investors lose confidence in the economy and in future growth. This double whammy has slammed markets in China and around the world, and it may well continue.

In Europe, the turbulence in China has sapped confidence, but the damage has been mitigated by relatively strong fundamental economic and corporate performance. This shows that investors are still making rational distinctions between markets—a positive sign—and also allows for confidence to recover as fundamentals continue to improve.

Right now, with the exception of energy, the U.S. economy continues to grow at a reasonably healthy rate—better than

European economies. Corporate earnings, which are based on the economy as a whole, are relatively strong outside of the energy sector. Even there, lackluster earnings are due to low oil prices, which actually help the rest of the economy. In any event, earnings are expected to increase over the next year.

Just as in Europe, any declines in U.S. markets will be based on what investors are willing to pay for a given stream of earnings, and valuations may well recover as confidence improves again.

A closer look at U.S. market valuations

The following chart from Yardeni Research shows how U.S. stocks have been valued with respect to expected earnings over the next 12 months, from before the financial crisis to now.



We can see that stocks were priced at around 15x earnings before the financial crisis, dropped to about 10x at the bottom of the crisis, subsequently recovered to around 12x–14x, and then moved to a higher range, over 14x, in 2014.

With forward earnings now at \$127.72, the close on Friday, August 21, left us at a valuation of 15.4x earnings, in line with where stocks were in 2007, suggesting the market may have further to go on the downside. In the short term, this is upsetting, but we need to remember that, while valuations cycle between good and bad, earnings continue to grow. Note that valuations have cycled between 10x and almost 18x, and that they

have recovered from extremely low levels.

Putting it all in perspective

When we consider where we are now, compared with where we have been, it's important to make the following distinctions:

- In the financial crisis, the banking system was in jeopardy. Now it is far more solid, with much higher levels of capital and much lower exposure to risky areas.
- In the financial crisis, U.S. consumers and businesses had large stocks of debt and the housing sector was collapsing. Now, the housing market has normalized and household debt has come down substantially to a healthy level.
- Supportive economic factors are in place—namely, Federal Reserve policy and low oil prices, both of which continue to stimulate the economy.
- Combined, these facts suggest we're unlikely to see the low market valuations that we saw in the financial crisis of 2008. Although we may experience further declines, they will be constrained by the much healthier economic and financial position the U.S. now finds itself in. A better comparison is probably to the Asian financial crisis. As that situation deepened in 1998, U.S. markets dropped substantially, only to recover shortly thereafter. The damage was real but short lived, as strong U.S. economic fundamentals supported markets and investors from other parts of the world moved capital into what they perceived as a safe haven. Given that the problem here in the U.S. is largely related to confidence, it's logical to think that the market will recover as fundamentals continue to improve. We've gone several years without a significant decline, and the first was bound to be unsettling. In reality, though, the market's foundations remain solid.

Taking the long-range view

Over the longer term, this type of adjustment is normal and healthy. Periodic downturns clear out market excesses and set the stage for further advances. To put the recent decline in context, the market is still up substantially over the past five years. And, although down over the past 12 months, it remains above the levels of October 2014, when it dropped and then fairly quickly recovered.

As always, the key is to remain focused on your long-term objectives rather than short-term fluctuations. As unsettling as recent market movements have been, the real economy continues to improve. That, not short-term price fluctuations, is what will determine the ultimate success of your investment process.

Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged, and investors cannot invest directly in an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance is no guarantee of future results.

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ACA Requires Most Employers to Send Annual Reports to Employees and the IRS

Beginning in 2016, the Affordable Care Act requires most employers and plan sponsors to send annual reports to employees and the Internal Revenue Service about their health coverage (or lack of it) under Sections 6055 and 6056 of the Internal Revenue Code.

Reports submitted in 2016 will reflect what took place in 2015 (from January to December). The reports will identify all individuals, including dependents, receiving health coverage and all full-time employees of applicable large employers (as defined by the ACA). The reports need to include social security numbers for individuals (employees and dependents) receiving health coverage.

[For more information, visit the IRS website.](#)

Important News for Customers of the Health Insurance Marketplace

Consumers receiving a tax credit or cost-sharing reduction for their health insurance purchased through the federal Marketplace need to be aware of important information tax reporting requirements under the Affordable Care Act.

In order to keep a Advanced Premium Tax Credit (APTC) or income-based cost sharing reduction (CSR), consumers must file Form 8962 as part of their federal tax returns.

- If you have filed a 2014 income tax return with Form 8962, no action is needed.
- If you have not filed with Form 8962, you need to file your 2014 federal tax return and Form 8962 or you will lose your APTC or CSR beginning Jan. 1 (for the 2016 plan year)
- You will also need the Form 1095-A, which the Marketplace should have mailed to you earlier this year.

If you have questions, please refer to the Internal Revenue Service website – irs.gov/aca – or call the IRS at 800-829-0922 or speak with your tax advisor.

Golf Carts – Is Your Insurance Policy in Sync With Your Activities?

Golf carts are being used for transportation beyond the golf course. In addition, Segways, bicycles, scooters, 4-wheelers, Gators and other vehicles are growing in popularity. How well are you protected?

A traditional homeowner's insurance policy may provide automatic liability protection for your watercraft, depending on its size

and horsepower. Liability protection for ATVs, golf carts and other small, motorized vehicles may be limited to when the vehicle is being used on your property. At Allen Insurance and Financial, our licensed insurance professionals will consider all of the elements and advise you how to best protect your family and your assets.

You take care of the fun and safety – and we'll help manage the risk.

Make sure your policy is in sync with your activities. Call today about separate small vehicle liability insurance – it's quick and easy to get and you'll be surprised how easily it can fit into your budget.

A Best Place to Work in Maine 2015

Allen Insurance and Financial was recently named as one of the 2015 Best Places to Work in Maine. The awards program was created in 2006 and is a project of the Society for Human Resource Management (SHRM) – Maine State Council and Best Companies Group.

This statewide survey and awards program was designed to identify, recognize and honor the best places of employment in Maine, benefiting the state's economy, its workforce and businesses. The 2015 Best Places to Work in Maine list is made up of 75 companies in three size categories: small (15-49 U.S. employees), medium (50-249 U.S. employees) and large (250+ U.S. employees).

Allen, with 68 employees, is in the medium category. This is the

largest of the three categories, with 40+ of Maine's best-known businesses.

To be considered for participation, companies had to fulfill the following eligibility requirements:

- Have at least 15 employees working in Maine;
- Be a for-profit or not-for-profit business or government entity;
- Be a publicly or privately held business;
- Have a facility in the state of Maine; and
- Must be in business a minimum of 1 year.

Companies from across the state entered the two-part process to determine the Best Places to Work in Maine. The first part consisted of evaluating each nominated company's workplace policies, practices, and demographics. This part of the process was worth approximately 25% of the total evaluation. The second part consisted of an employee survey to measure the employee experience. This part of the process was worth approximately 75% of the total evaluation. The combined scores determined the top companies and the final rankings. Best Companies Group managed the overall registration and survey process in Maine and also analyzed the data and used their expertise to determine the final rankings.

Allen Insurance and Financial will be recognized and honored at the Best Places to Work in Maine awards ceremony on October 7 and will be profiled in a special publication by MaineBiz. The final rankings will be announced at the event.

Welcoming Financial Advisor Abraham Dugal

Abraham Dugal has joined Allen Insurance and Financial as a financial advisor.

✖ A native of Lincolnville, Dugal is a graduate of Camden Hills Regional High School and Babson College in Wellesley, Mass., where he majored in business management with a concentration in finance.

Dugal worked in the financial services industry in the Boston area for almost 10 years before returning home to Midcoast Maine. Before joining Allen Insurance and Financial, he worked for Cambridge Associates, a global investment management firm holding positions focused in custom client portfolio analysis and operations, portfolio risk. Most recently he was director of U.S. investment operations for Cambridge Associates.

Dugal says he is excited to return to the area where he grew up and to have the opportunity to engage with members of the community and to work with them to find solutions to their financial planning and investment needs.

Dugal and his wife Anna live with their young son in Camden.

Meesha Luce Recognized With Safeco Award of Excellence



Meesha Luce, a personal insurance specialist at Allen Insurance

and Financial has been honored with the Award of Excellence for her superior underwriting skills and long-term commitment to Safeco® Insurance, member of Liberty Mutual Group.

This prestigious award recognizes those individuals with superior underwriting skills who have developed a solid underwriting partnership with Safeco. Agents who earn this designation will have the ability to make selected underwriting decisions, attend an awards ceremony and receive a recognition gift.

Luce, a resident of Owls Head, joined Allen Insurance and Financial in 2006. In 2013 she earned her Accredited Customer Service Representative (ACSR) designation. She has been a member of the Maine Insurance Agents Association Young Agents Committee since 2013.

In addition Allen Insurance and Financial is a multi-year President's Award and Premier Partner agency, recognition given only to the best independent insurance agencies that sell Safeco.

Why An Independent Agent?

Not all insurance agents are the same. Choosing the right one can make a big difference – in price, service, and value.

With other agencies, you get one company that sells one brand of insurance. With an independent insurance agency like Allen Insurance and Financial you get choices.

Why? Because independent insurance agencies like Allen Insurance and Financial represent a number of different insurance companies, and can compare coverage and prices to find the best possible value for your individual circumstances.

Here are a few reasons why Allen Insurance and Financial should be your first and last stop when looking for insurance.

- We work for you when you have a claim.
- We are not beholden to any one company. This means you don't have to change agencies as your insurance and service needs change.
- We are your consultants, working with you as you determine your needs.
- We are value-hunters who look after your pocketbook in finding the best combination of price, coverage, and service.
- We offer one-stop shopping for a full range of products, including home, renters, auto, business, life, health, and retirement plans.
- We can periodically review your coverage to keep up with your changing insurance needs.
- We are committed to customer satisfaction – it's the key to our livelihood.
- We treat you like a person, not a number.
- We are licensed professionals with strong customer and community ties.

There is a difference. To find out how our independent insurance agency can help you find the right insurance coverage, call today.

Stephanie Griffin Wins Next Step Maine Scholarship

Stephanie Griffin, Special Business Account Assistant in our business insurance division in Camden has been awarded a 2015

Next Step Maine Scholarship in the amount of \$1,500.

Stephanie, who graduated high school in 1996, is a now senior at the University of Maine in Augusta, majoring in public administration, with a minor in human resources.

The Next Step Maine scholarship program is part of the Maine Development foundation. The agency wrote a letter in support of Stephanie's application.



Stephanie, second from left, with Jean Dutch, Allen Insurance operations manager, second from right.

Aetna Offering Free In-Home Health Assessments for Individual and Small Group

Members

We'd like to let our individual and small group customers know that Aetna is offering a free (optional) in-home health assessment via MedXM and Your Home Advantage (YHA).

These assessments are free, voluntary, confidential and won't change or affect coverage in any way. These contractors will be calling Aetna customers to make appointments.

If you have questions about this please feel free to contact our insured benefits department.

[Click here to review an Aetna flyer about this program.](#)