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Dr. Michaud earned a Ph.D. in Mathematics from Boston University and has taught investment management at Columbia University. He is the co-holder of four U.S. patents and is the author of *Efficient Asset Management* and many professional and academic articles.

China and the Fed

Markets

The third quarter of 2015 was marked by significant losses in capital values and an increase in volatility. The S&P 500 lost 7.55% in the quarter and 6.71% year-to-date; NASDAQ dropped 7.77% quarterly and 2.26% for the year; Dow Jones Industrial average declined 8.15% in the quarter and 8.68% year-to-date. The VIX fear measure closed the quarter at 24.50, an increase of 42.6% since the beginning of the quarter and 37.7% since the beginning of the year. The Russell 2000 small cap index lost 11.82% for the quarter and 8.18% for the year. Short term treasury yields remain at near-zero levels while 10 year treasury yields declined 15.4% to its current value of 2.03%. NYMEX-traded oil declined by 21.31% while the U.S. dollar lost 1.92% to the euro and 2.81% to the Japanese yen.

Global markets, particularly Chinese, experienced serious declines in the third quarter. SSE Composite Index declined by 21.98% for the quarter, and is down 8.89% for the year. China also devalued the yuan with its base rate being cut by 1.9%. MSCI Emerging Markets Investable Market Index lost 17.88% in this quarter and is down 15.48% for the year. Japanese Nikkei 225 declined by 15.27% in the quarter but is flat for the year. EURO STOXX 50 lost 10.47% in the quarter but is up 2.56% for the year. Some bright spots for New Frontier investors included long treasuries (up 3.20%) and domestic REITs (up 3.03%). In spite of a very challenging quarter, our portfolios remain ahead of global benchmarks year-to-date.

Perspectives

The global economy was very close to collapse in late 2008. Nearly universal fear of default resulted in a near shutdown of commerce. Banks simply did not trust that borrowed funds would be paid back, and business activity stops when short-term lending stops. The Bush-Obama stimulus of 2008-2009 and the full support of the Federal Reserve resurrected lending confidence, and American banks began to return to profitability in March 2009. The Fed was in the forefront of applying modern monetary macroeconomic principles developed largely by a small number of Nobel Prize winning American economists with lessons learned from the Great Depression.

Since then the American economy has been the main driver of global economic growth. U.S. equity markets have outperformed all others with the S&P gaining nearly 200% since March 2009 and well exceeding prior 2007 highs. In contrast, EAFE has grown less than 100% and remains well below its prior highs. Markets reflected a recovering economy with 3.9% GDP growth in the last quarter and annual growth

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About New Frontier

New Frontier is a Boston-based institutional research and investment advisory firm specializing in the development and application of state-of-the-art investment technology. Founded in 1998 by the inventors of the world's first broad spectrum, patented, provably effective portfolio optimization process, the firm continues to pioneer new developments in asset allocation and portfolio selection. Based on practical investment theory, New Frontier's services help institutional investors across the globe to select and maintain more effective portfolios.

More information is available at www.newfrontieradvisors.com.

twice that of Europe and four times that of Japan. Consumer spending is up, household net worth is up, household debt ratio is down, and unemployment is at essentially a full employment rate of 5.1%. While the deficit is the lowest since 2007, China's debt has ballooned dramatically. The dollar has strengthened relative to major currencies with enhanced purchasing power for U.S. consumers. Low interest rates are a positive driver of growth while the dollar remains the reserve currency safe haven of choice for global investors.

Serious uncertainties remain for U.S. investors. Economic policies and capital markets are often out of synch. The Fed's decision this month not to raise interest rates was accompanied with the explanation: "Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." In other words, global economic and political risks raised concerns about whether American economic growth was sustainable without continuing Fed support. The Fed's comments spooked the market.

The U.S. can't be the only source of growth if growth is to be sustainable. While the Fed's monetary policy has borne the burden of managing U.S. growth during the recovery, their methods are primarily useful for managing cycles and not for long-term economic growth. Unfortunately, fiscal policy, the more powerful long-term tool of modern macroeconomics, remains hostage to political dysfunction in Congress. Another reason for concern is that global central banks are largely out of synch. In contrast to the Fed, the European Central Bank is geared to a significant program of monetary stimulus for the eurozone. Japan also has its own program of monetary and fiscal stimulus. The dramatic decline in oil prices is a positive for economic growth and consumer spending power for many developed economies, but it also creates destabilizing risks for many other economies largely dependent on commodity prices. Recent volatility in Chinese capital markets puts it in a class of its own.

China's effort to transition from a managed to market economy has been particularly worrisome. China is the second largest economy in the world. While China's economy continues to grow, its rate of growth has diminished rapidly. A global recession resulting from Chinese economic, market, and political risks is no fantasy. Economic statistics and market manipulation used for propaganda and internal political consumption represent serious economic risks for the global economy. Some believe that the real rate of growth is far lower than the reported 7% and could be as low as 4%. The Chinese economy requires a high growth rate in order to deal with income inequality, corruption, poor economic planning, unfettered leveraging, immature markets and investors, and rising political unrest.

On a global basis, a significant decline in Chinese economic growth would affect

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New Frontier Portfolios

New Frontier develops and manages a broad range of ETF asset allocation portfolios for advisors and their clients, and currently oversees nearly \$2 billion in global ETF asset allocation portfolios.

imports of capital goods and resulting commodity prices, which could directly weaken many economies already adversely affected by the decline in oil prices. Shocks to trade may deeply affect interest rates, currencies, and even reconsideration of the effectiveness of central bank policies. At present, the PBoC is intervening heavily in the foreign exchange market while imposing many constraints in the normal functioning of capital markets. Worries of serious unresolved bubbles in real estate and leveraged investors remain. China is trying to encourage consumption and services to compensate. It is important to remember that the Chinese government is very rich. While the slowdown in Chinese manufacturing may be brutal and volatility substantial and wrenching for investors, concerns with statistical measures for the “hard” economy may simply reflect a rocky managed transition to a more software-oriented modern economy.

Look Ahead

The imminent rise in short-term rates in the U.S. will require a work out for interest rate sensitive securities, equities, and corporate balance sheets. Assuming no outstanding domestic or global cataclysms near term, the rise in rates may be very modest and infrequent and may even be largely priced in global markets with minimal impact. But the absence of coordinated fiscal and monetary policies as well as global risk factors remain significant concerns for domestic markets and the economy.

In the eurozone, Mario Draghi remains resolute for implementing an aggressive monetary stimulus policy for some time to come. A curious political détente among eurozone politicians seems to have settled in. However, monetary macroeconomics is largely a tool for the management of economic cycles and generally requires coordinated fiscal stimulus policies for longer-term effectiveness. Fiscal policy is largely uncoordinated among eurozone countries; there are no eurozone-wide bonds for implementing monetary policy; all in the context of widely varying country states of economic health. In addition, the eurozone must deal with an unresolved conflict in the Ukraine and an epic refugee crisis. However, the good news from Greece is that there is now a negotiation process for a transition to a sustainable economy with debt relief from the eurozone.

In a period of significant investment losses, how best to advise investors? Capital preservation is an important risk factor for all investors. Putting money in the bank would avoid loss of capital, though not when adjusted for inflation. While the siren call of investments that claim never to lose money may seem attractive, there are investment principles that have stood the test of time.

The three essential principles of reliable long-term investing are: patience, effective diversification, and appropriate risk. Real estate is a prime example of a more general tenet that financial assets typically require considerable patience for benefitting from

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investment. In many time periods, unanticipatable risks require highly effective diversification for capital preservation. Diversification also includes a proper balance of global interest rate and equity risks for asset growth over time. Choosing an appropriate level of systematic equity risk is vital for meeting an investor's or an institution's long-term goals. Note that New Frontier's global strategic ETF strategies optimally conform to the principles of reliable long-term investment strategy design.

New Frontier Research

We are pleased to note that a significant revision of our working research paper "The Fundamental Law of Mismanagement," by Richard Michaud, Robert Michaud, and David Esch, is now available on our website. The abstract states: "Active managers often claim superior risk-adjusted performance because they invest in many securities, use many factors to forecast return, trade frequently and optimize without constraints. We show with simple examples why the four principles fail followed by a rigorous simulation proof to confirm that all four fund fundamental law characteristics are essentially invalid and self-defeating." Richard spoke on our recent research on September 9th at NYC QWAFEFW.

New Frontier Performance

Morningstar recently reported that New Frontier's GSAA 60/40 portfolio was ranked number one best performing strategy in the "Global All Asset" strategic sub-category on a five year annualized basis. New Frontier's balanced GSAA also outperformed median returns (strategic, tactical, and hybrid) of ETF managed strategies by a wide margin. Further details are provided in the table below.

Name	Return %*			
	2015**	3-Yr**	5-Yr**	10-Yr**
New Frontier Moderate 60/40	2.76	9.55	9.72	7.04
Global Balanced Median	2.04	6.98	7.43	6.17
Hybrid Median	2.11	6.84	7.25	5.88
Strategic Median	1.98	7.25	7.72	6.65
Tactical Median	1.73	6.21	5.03	5.51
Global Balanced Blended Benchmark	1.00	7.03	7.20	6.42

* From Morningstar's "ETF Managed Portfolios Landscape Q1 2015"

**As of Q1 2015

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