APPLETON PARTNERS, INC.

Appleton's View on Recent Market Volatility

Recently, U.S. equity markets dropped dramatically amid global growth concerns and skepticism over central banks' abilities to continue to promote growth (economic, asset, or otherwise). While we have noted that the potential for a moderate decline was possible amidst a lack of economic progress and heightened volatility, the pace at which we reached a full 10% correction was surprising. With little in the way of fresh news, many are blaming the decline in the Chinese stock markets as the catalyst for the move in our markets. Chinese markets have been declining since June, so the real fear is what their markets are telling us about the underlying economy. However, fear of a "hard landing" in China has been written about since 2011. We would attribute the decline more to an emotional response than one driven by fundamentals.

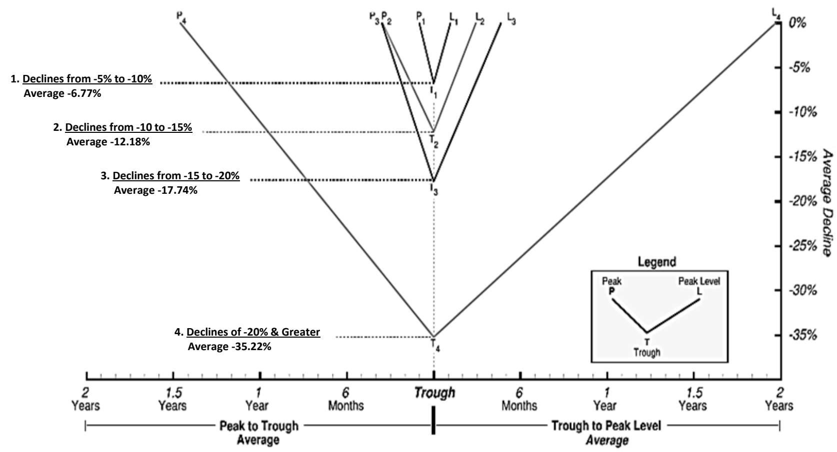
It is difficult to quantify the overall effect of the Chinese stock market collapse on the broader global economy. Consensus that stock markets were artificially overinflated by government manipulation was already building, so the drop in Chinese markets should not have been completely unexpected. The key question the market is trying to assess now is whether the capital lost in the stock markets will translate to a drag on the Chinese economy and consumption outlook- the so called "wealth effect." Economists have indicated that there's little known correlation between the Chinese market and their economy, and just yesterday we heard Apple's CEO Tim Cook indicate that not only had business activity in China remained strong through the summer months, but orders had actually been accelerating in recent weeks. Given the opaqueness of economic data coming out of China, the team at Appleton will be focused on the performance and outlook of U.S. companies that have significant operations in China (*e.g.,* Apple, Yum Brands, Tiffany's, etc.). These companies with boots on the ground in China will be a far better tell than the Chinese government.

We believe this current correction should be fleeting and healthy for longer-term stock market prospects. On average (since 1945) the US market witnesses such corrections every 2 years, and it had been over four years since we last experienced one. These are normal occurrences. We do not see this as an inflection point for the market to fall into a bearish trend. With the dip in valuations and our economy generally trending towards moderate growth, we are constructive on equities long-term. Many of the pillars of the current bull market remain intact (easy monetary policy, increased buyback and M&A activity, recovering domestic economy). Valuations, as measured by price-to-earnings ratios, on the S&P 500 have ranged between 14.5x and 17.5x over the past few years, and we very quickly fell from near the highs to the low end of the range near 15x. In our view, this represents an attractive buying opportunity for strong companies whose stocks are oversold.

The Anatomy of Market Declines & Recoveries

Market Declines (5% and Greater) from 1945 Though June 2015

The Standard & Poor's 500 Stock Index



Source: Crandall and Pierce & Company

Since 1945, the S&P 500 has experienced 174 declines of 5% or more. In the diagram above, you can see that the average decline in the S&P 500 during a correction is 12.2% and takes roughly 3.5 months to develop. The S&P 500 peaked on May 20th, just over 3 months ago, and as of Monday's close, has dropped 11.3%. Both of those metrics compare well with averages seen over the past 70 years. The average time to recover back to peak levels is just under 3 months. Solely based on the chart, if we were to experience an "average" recovery we would expect the S&P to be back to those late May levels by late November. Given our constructive stance on equities and the belief that this most recent sell-off should be contained, we believe that this is indeed a plausible scenario for the U.S. stock market.

In these market conditions, we like to remind ourselves that historically the market has rewarded investors choosing to weather U.S. market corrections rather than sell into weakness. While it is impossible to predict whether the Chinese situation could have a contagion effect across the global economy at this time, we do not see this as a high probability event. We expect volatility to persist and are not ready to call a bottom in the market, but we view the lack of outright "panic selling" on Monday and spring-back Tuesday as positive signs. We plan to continue to buy standout companies with solid earnings growth and reasonable valuations, but will do so selectively.

If you have any questions at all, please reach out to your portfolio manager here at Appleton.

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