<u>Personal Financial Satisfaction Index (*PFSi*) Defined</u>

The Personal Financial Satisfaction Index (*PFSi*) is the result of two component sub-indexes. It is calculated as the difference between the Personal Financial Pleasure Index and the Personal Financial Pain Index. These are in turn composed of four equally weighted factors, each of which measure the growth of assets and opportunities, in the case of the Pleasure Index, and the erosion of assets and opportunities, in the case of the Pain Index.

<u>Methodology</u>

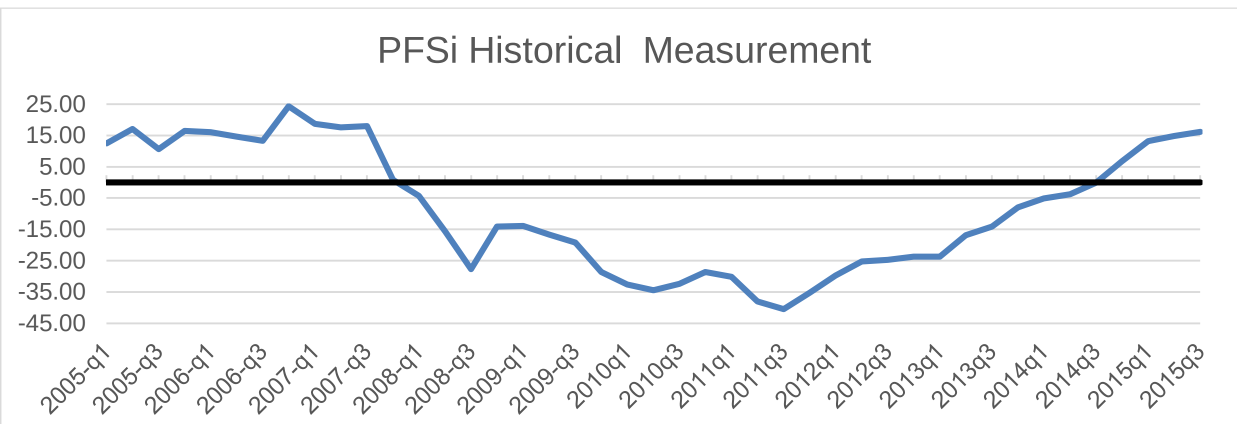
To construct the indices each component was first normalized by its own standard deviation prior to July 2013. The factors were then individually modified to an average value of 50 over the period up to July 2013. The financial pleasure index and the financial pain index each equally weight the individual component factors.

<u>Third Quarter 2015 PFSi Summary</u>

The *PFSi* measured 16.2 in the third quarter of 2015. This reflects a 1.3 point increase from the prior quarter, and a 16.3 point increase from one year ago.

The gain from the prior quarter was based on no change in the **Personal Financial Pleasure** index, and a decline in the **Personal Financial Pain** index.

The gain from the third quarter of 2014 was due to a 3.2 point advance in the Pleasure index and a 13.2 point decline in the Pain index.



<u>Third Quarter 2015Personal Financial Pleasure Index Top-Line Summary</u>

The **Personal Financial Pleasure Index,** at 60.6, is flat with the prior quarter and 3.2 points (5.6%) up from the prior year.

Holding the previous quarter's level was due to a 5 point increase in job openings and a 2 point increase in home equity, which offset a 6 point pull back in the PFS 750 Market Index, and a 1 point reduction in the AICPA economic outlook.

The advance from the prior year was primarily driven by advances in job openings (13 points) with home equity adding a 6 point gain. Offsetting those gains, the PFS 750 Market Index and the AICPA outlook pulled back 3 points each.

Third Quarter 2015Personal Financial Pleasure Index Detailed Summary

PFS 750 Market Index: This reached an all-time high in Q4 2014 and maintained it in Q1 2015. Its current value is 10 points (12.1%) below that high, and 3 points below its year-ago level.

> *The third quarter of 2015 was the worst since Q3 2011. This was the first 10% correction since 2011, and more than half of the S&P 500 lost 20% or more. The worst performing industries in the quarter were broadcasting and media, both down almost 80%. There were, of course, some strong performances, namely Internet stocks (up 120%) and technology stocks (up 68%).*

Real Home Equity per Capita: This factor's current value is 11.1% above the prior year level, and 3.4% above the previous quarter level. The changes in value have been due to increases in the market value of real estate and exceeding those in mortgages outstanding.

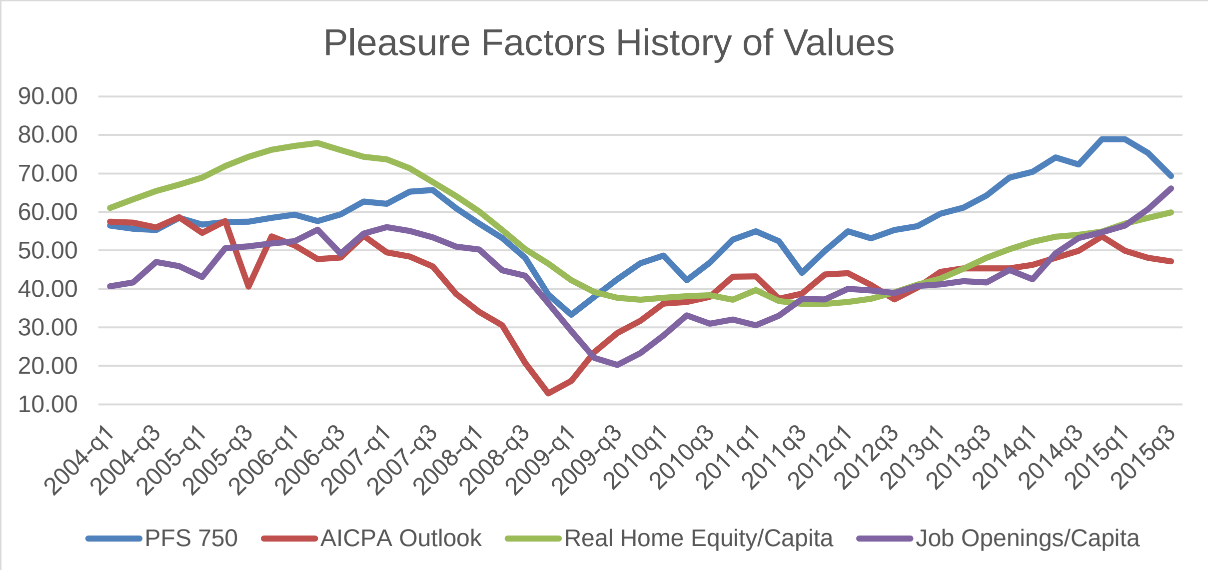
> *The rate of increase in home values has leveled off at about 3.3% appreciation per annum. However, there are considerable regional differences. The average home value in Baltimore has declined slightly in recent months. Other metro areas with more than a third of homes losing value are Philadelphia, Washington D.C, New York and Virginia Beach. Metro areas with the strongest increases in value are Denver, Dallas-Ft. Worth, San Francisco, and San Jose, which show gains ranging from 12.5% to 16% per annum.*
>
> *On the other hand, nationally, about 14% of single family homes are still underwater. This problem is worse at the low end of the market. However, values are increasing faster at the low end. The problem is also worse for condos.*

Job Openings per Capita: The current reading is 24.5% higher than the prior year reading, and 8.2% ahead of the previous quarter.

> *This measure is within 7% of the series' 2001 all-time high. The fastest growing sector from 2010 through 2014 in both percentage and absolute terms was professional and business services. The biggest single contributor to that was temporary help agencies, followed by computer systems design and services, management and technical consulting services and management of companies and enterprises. According to the Bureau of Labor Statistics the strongest job growth through 2018 is expected to be in management, scientific and technical consulting, and physicians' and physical services (particularly for the elderly and disabled).*

AICPA CPA Outlook Index: The current reading is 6% lower than the prior year level and 2.1% below the previous quarter.

1. *US economy optimism index component of this series declined slightly in Q3 after falling considerably in Q2 from a Q1 high. This accounted for the decline of the index value, since the organization optimism and expansion plan indices did not change.*
2. *In the year to year comparison all components of the index weakened, with expected expansion plans and revenue growth weakening the most, followed by optimism about the organization*



<u>Personal Financial Pleasure Index Components Defined</u>

Measuring the positive factors impacting the economy, the *Personal Financial Pleasure* Index combines the following four economic factors.

- <u>PFS 750 Market Index</u> – This AICPA proprietary stock index is comprised of the 750 largest companies trading on the US Market excluding ADRs, mutual funds and ETFs, adjusted for inflation and per capita.

- <u>AICPA Outlook Index</u> – This broad-based composite index captures the expectations of CEOs, CFOs, Controllers, and other CPA executives and their plans for a breadth of indicators of economic activity within their own organizations. The composite measures the following factors equally: US economy optimism, organization optimism, business expansion, revenues, profits, employment, IT spending, other capital spending, training and development and Plans for spending on employee training and development over the next 12 months.

- <u>Real Home Equity per Capita</u> – This factor is a calculation of the Market Value of Real Estate, Households and Nonprofit Organizations, less the Home Mortgage Liability. Both are published by the Board of Governors of the Federal Reserve System, deflated by the PCE Price Index and divided by the Civilian Non-institutional Population.

- <u>Job Openings per Capita</u> – Factor is a calculation of total non-farm job openings, published by the Bureau of Labor Statistics, divided by the Civilian Non-institutional Population.

<u>Third Quarter 2015Personal Financial Pain Index Top-Line Summary</u>

Pain index at 44.4 is 1.4 points (3.1%) lower than the previous quarter and 13.1 points (22.8%) lower than the prior year's level.

Comparing the current index to the previous quarter, the biggest contributor to the reduction in overall value was a 5 point decline in loan delinquencies. Next, underemployment declined by 3 points and taxes by 1 point. Inflation increased 2 points.

The decline from the prior year's level was driven by a 295 point reduction in inflation (the largest change in the period for any factor of either pain or pleasure), plus a 20 point reduction in loan delinquencies. Underemployment decreased by 9 points while taxes increased by 5 points.

Third Quarter 2015Personal Financial Pain Index Detailed Summary

Delinquencies on Loans: This factor's current level is 7.2% lower than in the previous quarter and 23.8% below the prior year's level. Improvements are due to both delinquencies on mortgages and delinquencies on all loans.

> *The current mortgage loan delinquency rate is 5.77%; the overall delinquency rate is 2.33%. Improvements in both the year over year level of the index and in the quarter to quarter comparison are due to improvements in both measures. The improvement in the overall rate is about 1% stronger than the improvements in mortgage delinquencies.*
>
> *In comparison, the peak delinquency rate for mortgages was 11.28 in the spring of 2010, and the overall peak was 7.5% at the end of 2009.*

Underemployment: This factor is currently 5.9% lower than in the previous quarter and 15.8% below the prior year.

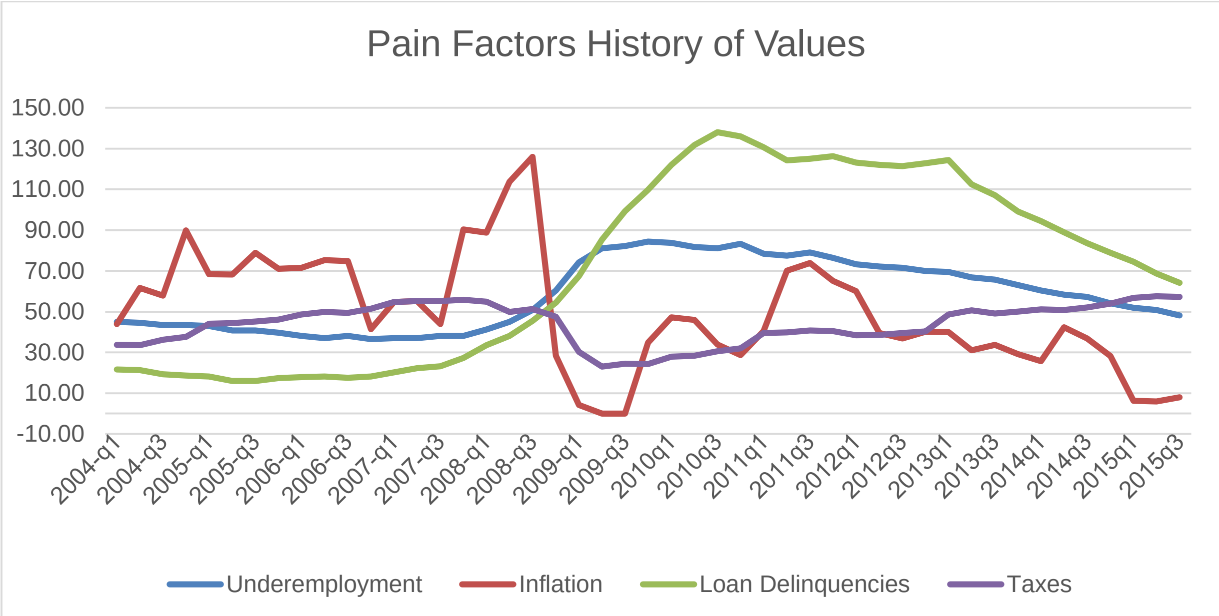
1. *The underemployment rate is at a 9 year low.*
2. *The labor participation rate is at a 38 year low. This effectively reduces the denominator in the unemployment rate calculation. Factors influencing this: discouraged workers with skill gaps, coming out of the great recession; who stop looking for work. Also, the number of people retiring is influenced by the age profile of the workforce and the relative lack of opportunity for some people.*

Inflation: This factor's current value is 33.3% higher than the prior quarter's level, but 78.4% lower than the year-ago level.

> *Inflation is the most volatile factor contributing to the PFSi. For the most recent 3 quarters the inflation index has been just barely above zero (which was essentially its low point in 2009). The very low base of last quarter means that a 33.3% increase is still very low. Crude oil has been under $50/barrel since early August, which explains a lot.*

Personal Taxes: Personal taxes are 1.7% lower than the previous quarter's value. They are 9.6% higher than they measured in the prior year.

> *Personal tax rates plunged more than 200 basis points to under 9.5% in mid 2009, and they have been increasing unevenly since then. The current level is 12.65%. While the decline in the current quarter registers as 1 point on the index, it amounted to a 0.008% decline. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid 2000.*



<u>Personal Financial Pain Index Components Defined</u>

The *Personal Financial Pain* index is a measurement of the following negative economic factors:

- <u>Inflation</u> – This factor is comprised of 95 percent annual change in the PCE Price Index and 5 percent annual change in the Consumer Price Index for Fuel Oil and Other Fuels, as published by the BLS.

- <u>Personal Taxes</u> – This factor uses BLS statistics on income including realized net capital gains, taxes on personal property, payments for motor vehicle licenses, and several miscellaneous taxes, licenses, and fees. Social security and Medicare taxes are excluded, as are taxes on real property, sales taxes, and certain penalty taxes. Personal current taxes are measured on a payments basis (i.e., when paid) except for withheld taxes (largely on wages and salaries) which are measured on an accrual basis.

- <u>Delinquencies on Loans</u> – Taken from data published by the Board of Governors of the Federal Reserve System, this factor is calculated as 75 percent delinquency rate on single family residential mortgages and 25 percent the delinquency rate on all loans and all commercial banks, both

- <u>Underemployment</u> – This BLS-calculated factor is a combination of full title total unemployed numbers, all marginally attached workers, and total number of workers employed part-time for economic reasons.

Chart View of Above Information

Component	3Q14		2Q15		3Q15		Change vs.	
	Data	Index	Data	Index	Data	Index	the prior year,	the prev quarter
Net Index		**(0.1)**		**14.9**		**16.2**	**16.3**	**1.3**
Pleasure		57.4		60.6		60.6	**3.2**	**0.0**
PFS 750 Market Index ($ trillion, index)	21.7	*72*	23.5	75	21.7	69	**(3)**	**(6)**
CPA Outlook (index)	74	50	72	48	71	47	**(3)**	**(1)**
Home Equity ($ trillion, index)	13.6	54	14.7	58	15.2	60	**6**	**2**
Job Openings (millions, index)	4.7	53	5.3	61	5.8	66	**13**	**5**
Pain (subtracted)		*57.5*		45.8		44.4	**(13.1)**	**(1.4)**
Underemployment (%, index)	55.7	57	49.3	51	46.6	48	**(9)**	**(3)**
Inflation (%, index)	1.5	37	0.3	6	0.3	8	**(29)**	**2**
Taxes (%, index)	12.1	52	12.7	58	12.6	57	**5**	**(1)**
Loan Delinquencies (%, index)	6.0	84	4.9	69	4.6	64	**(20)**	**(5)**

Data Revisions

Two of the factors in the Pleasure Index, the PFS 750 market index and the AICPA CPA Outlook Index, are based on original AICPA research. The other factors are based on data created by several federal government economics bureaus. When these data series are revised we incorporate the revisions in order to preserve period to period comparability of the PFSi. This can lead to changes in the historic values of the series. We will comment in footnotes what impact data revisions have had on the comparisons of the current period to historic period.

Over the past 2 years the Net Index has been impacted by data revisions by as much as 0.3 points in a period (both positive and negative adjustments). Both the Pleasure and Pain components have been increased by data revisions.

The Pleasure Index increased 0.5 to 1.6 points. The major factor increasing it is a revision in the Home Equity component which resulted in a 2 to 4 point increase across the series.

The Pain Index increased 0.5 to 1.0 points. Both inflation and taxes have been revised upward. The revised inflation values are 0 to 3 points higher, and taxes 0 to 2 points higher.

Year ago comparisons: The revised Net Index is (0.1), versus 0.1 originally posted. The Pleasure Index increased 0.9 points due to a 2 point increases in home equity and a 1 point increase in job openings, but the Pain Index increased a full point due to a 2 point increase in inflation and a 1 point increase in taxes. (And there are rounding effects.)

Comparisons to the most recent quarter: The revised Net Index is 14.9, versus 15.0 originally posted. The Pleasure Index increased 0.6 points due to a 2 point increases in the home equity value, but the Pain Index increased 0.8 points due to a 1 point increase in inflation and a 2 point increase in taxes.