2016 3rd Quarter

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PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

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ADVISORS' THOUGHTS

A look back at the **third quarter** shows **positive gains in the stock market** and **mixed results in the bond market**. These positive returns may have been over shadowed during a period of heightened political rancor, but they have been the reality within the financial markets. Within this backdrop we are pleased to report your latest investment results.

The stock market, as measured by the **S&P 500, advanced 3.31%** showing broad based gains in US company stocks. Meanwhile other measures of US equity prices did even better. The small company stock benchmark, Russell 2000, jumped 8.66%.

There also were **positive returns in overseas markets**. The MSCI EAFE gained a solid 5.79% over the past three months showing an improvement in financial conditions for developed countries around the world. In addition, the MSCI Emerging Market index had even stronger returns with a gain of 8.32%.

Bond prices meanwhile experienced **both positive and negative** results depending on the specific segment of the market. **The Barclays Long Bond index decreased 0.70%** during the quarter. This reflects the 10 year Treasury yield increasing from 1.49% on June 30th to 1.61% at the end of September.

Since the end of the quarter interest rates have continued to move higher. There is a growing belief that the Federal Reserve will finally raise the Federal Funds rate in December. Changes in interest rate policy is one of the major factors weighing on the investment outlook today, but probably what is on most people's mind is the November 8th election. We will discuss on page two our thoughts for the impact of the Presidential race.

BENCHMARK RETURNS THROUGH 09/30/2016

	3 Mo.	6 Mo.	12 Mo.
DJIA	2.11%	3.52%	12.43%
S&P 500	3.31%	5.27%	12.93%
Russell 2000	8.66%	12.72%	13.72%
MSCI EAFE	5.79%	3.00%	3.48%
MSCI Emerging Markets	8.32%	7.97%	14.07%
Barclays Inter-term Bond	-0.22%	0.92%	2.19%
Barclays Long-term Bond	-0.70%	5.53%	11.67%
ML High Yield Bond	5.50%	11.60%	12.80%

Source: Wall Street Journal and Morningstar Principia
Does not include reinvestment of dividends

DJIA: A price weighted average of 30 stocks.

S & P 500: A market value weighted index of 500 stocks.

Russell 2000: A market value weighted index of 2000 stocks.

MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

MSCI Emerging Markets: A stock market which captures large and mid cap representation across 21 Emerging Market countries..

Barclays Capital Treasury Intermediate-Term Bond Index: An index comprised of US Treasury securities with maturities between 2 and 10 years.

Barclays Capital Treasury Long-Term Bond Index: An index comprised of US Treasury securities with maturities of 10 years or longer.

ML High Yield Bond: An index of non-investment grade corporate bonds.

Every four years our country goes through the process of electing a president. Although at times it feels like we are in a continuous election cycle. Each time the decision appears to be the most important in history and for many, they believe there will be dire consequences if their person does not win. Most often people draw their conclusion of the candidate they support based on party affiliation. Or probably more specifically this time, their disdain for the other major party's candidate and their reluctant acceptance of their party's nominee. Simply put, in 2016 many people do not "like" who they will vote for, but they "dislike or distrust" the other major nominee even more. In any event, if it was that simple there would be a clear trend that if one party's candidate was in the White House the markets would immediately go up, and if the other party held office it would drop.

Looking at the **last 10 presidential elections**, there is **no simple answer that one party is good for the stock market and the other is bad**. There have been three down years in the first year of the presidential term, as noted in the table and chart - one each for Jimmy Carter (D), Ronald Reagan (R) and George W. Bush (R). There were seven positive first years of the presidency - one each for Ronald Reagan (R), George H.W. Bush (R), George W. Bush (R), and two each for Bill Clinton (D) and Barack Obama (D). Based on this simplistic look one may conclude a democrat over a republican in the White House is best for America, although the results are fairly mixed.

In terms of **average returns**, the "Campaign Year", the year of the election, has seen a modest gain over the last 10 elections of 5.68% for the S&P 500, while the **first year of a presidential term has been** much stronger average at **11.30%**. However, any look at these numbers needs to take into consideration the outsized loss of 38.50% in 2008 that skews the average returns. Moving that one return from the "Campaign Year" to the "President's 1st Year" would completely reverse the numbers.

This circles back to the crux of the issue. **How much control does the president have over the economy and the stock market**? While the president does wield a great deal of power in certain areas, their **direct influence on the economy and stock market is still rather limited**. For starters, most **major changes** (for example changes to the tax code) **that impact the economy would need to be voted on by Congress** before the President has a say. Very **often there is a divided government** with each party having a majority in at least one of the voting bodies (House, Senate and President). This **creates a natural level of friction to making changes**.

Government collectively can have an impact on specific industries from a policy standpoint. There is no question that **decisions around energy** including coal, oil, and solar have been **impacted greatly** in recent years **by the President, Congress, and Regulatory agencies**. This has translated to economic, including job gains or losses, and stock market impacts for the companies in these industries. However, even here the answer is not as clear cut. Because even though policy may be adverse to an industry, every business is continually trying to succeed.

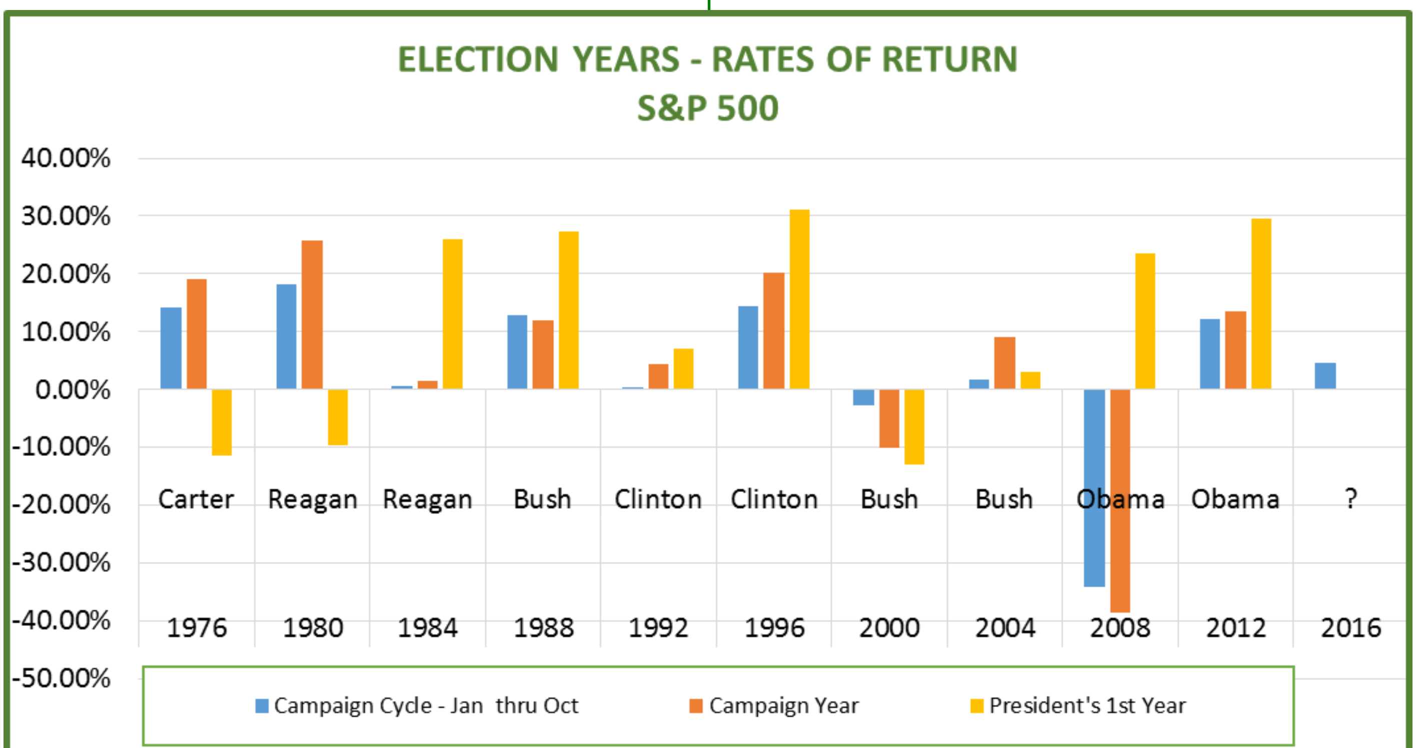
In the case of the **oil industry**, the **current administration** has generally **favored policies to discourage a reliance on oil and encouraged greater use of solar**. One politically charged debate in recent years was over the Keystone Pipeline that if built would have contributed to help lower the cost of oil. This legislation never became law as it was vetoed by President Obama. However, in **large part due to businesses making technological advancements in oil exploration, the cost of oil has fallen** dramatically. This occurred in spite of government policies and not because of them. This is but one **example of business adapting to their environment**.

When one steps back to look at the question of how much control does the President have over the economy and stock market, maybe the better **question** we should be asking is **how much control does the economy and stock market have over who becomes President**?

When **President Ronald Reagan was elected in 1980** over President Jimmy Carter, **interest rates and inflation where sky high and the economy was in the midst of a recession**. By 1984 the economy had shown strong improvement and President Reagan was elected to a second term. Riding the prosperous 1980s the incumbent Republican Party and George H. W. Bush was elected President in 1988. In **1990 and 1991 the country entered a recession** and **George H. W. Bush was widely blamed** for the downturn (remember **Bill Clinton's campaign slogan "it's the economy, stupid"**). **Bill Clinton** was **elected President in 1992**. The next 8 years the country enjoyed prosperity (no recession) as the economy rode the internet and technology boom. President Bill Clinton was elected to a second term in 1996. In 2000 the tech stock bubble burst and the stock market began a multi-year downturn. Once again the incumbent party switched and George W. Bush was elected President. He was elected to a second term in 2004 despite the recession he endured that ended in 2001. It was an extremely close election that probably had more to do with foreign policy than the economy. In **2008 President Barack Obama was elected in the midst of the worst economic downturn since the Depression**. If ever there was an election to blame the other party for the economy this was it. In 2012, President Obama was elected to a second term as the economy was in a slow expansion from the great recession that ended in 2009.

As we walk through these past elections it appears to us that **the economy and stock market are far more likely to determine our next president than the next president will determine the path of our economy and stock market**.

Election Year	President	Campaign Cycle - Jan thru Oct	Campaign Year	President's 1st Year
1976	Carter	14.09%	19.15%	-11.50%
1980	Reagan	18.09%	25.77%	-9.73%
1984	Reagan	0.70%	1.40%	25.88%
1988	Bush	12.91%	11.95%	27.25%
1992	Clinton	0.38%	4.46%	7.06%
1996	Clinton	14.50%	20.26%	31.01%
2000	Bush	-2.71%	-10.14%	-13.04%
2004	Bush	1.64%	8.99%	3.00%
2008	Obama	-34.04%	-38.50%	23.45%
2012	Obama	12.29%	13.41%	29.60%
2016	?	4.54%		
Average Returns		3.86%	5.68%	11.30%



REAL ESTATE IS NOW A SECTOR

The **importance of real estate as an investment choice continues to grow**. In September, the **two organizations that classify traded securities elevated real estate to "Sector" status**. S&P Dow Jones Indices and MSCI Inc. manage the Global Industry Classification Standard (GICS®). Prior to this change real estate had been positioned as an Industry Group within the Financials Sector. The move increased the number of Sectors from 10 to 11.

This significant change was the **first time a new sector has been created** under the GICS structure **since its inception in 1999**. According to David Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices, in a March 8, 2016 Press Release, "When GICS was introduced in 1999, we committed to keeping the structure up to date as the global economy evolves.

The **creation of an eleventh sector recognizes the growing importance of real estate in the world's equity markets**." Remy Briand, Managing Director and Global Head of Research at MSCI Inc., expressed a similar view. He said, "This is the first significant structural change to GICS sectors since its inception and reflects the position of real estate as a distinct asset class and a foundational building block of a modern portfolio, rather than an alternative."

The **removal of real estate from the financial sector better reflects the unique characteristics of real estate** over other financial firms, such as banks and insurance companies. Equity REITs and Real Estate Management and Development companies will be in the new real estate sector, while Mortgage REITs will remain in the financial sector. Mortgage REITs are highly impacted by changes with interest rates like other financial firms, while the performance of firms within the new real estate sector are more closely tied to the real estate cycle and metrics such as rental rates, occupancy, and inventory. Going forward, the price behavior of traded real estate securities may begin to move more closely to the private real estate market than it has in the past.

The elevation of traded real estate to sector status is one more indication that **real estate should be considered within a well-diversified investment program**. That is why **we continue to follow both traded and non-traded real estate securities** for possible inclusion in your investment accounts.

GLOBAL INDUSTRY CLASSIFICATION STANDARD
(GICS®) Effective September 1, 2016

FINANCIALS Banks, Diversified Financials, Insurance, Real Estate	**FINANCIALS** Banks, Diversified Financials & Insurance
	REAL ESTATE REITs & Real Estate Management & Development
ENERGY Gas, Oil, Coal and Consumable Fuels	**ENERGY**
MATERIALS Manufacturing and Construction Materials	**MATERIALS**
INDUSTRIALS Construction and Engineering Services	**INDUSTRIALS**
CONSUMER DISCRETIONARY Auto, Household and Leisure Equipment & Services	**CONSUMER DISCRETIONARY**
CONSUMER STAPLES Food, Beverage & Non-durable Goods & Services	**CONSUMER STAPLES**
HEALTH CARE Care Providers, Services & Equpment	**HEALTH CARE**
INFORMATION TECHNOLOGY Technology Services, Manufacturers & Distributors	**INFORMATION TECHNOLOGY**
TELECOMMUNICATION SERVICES Communications services	**TELECOMMUNICATION SERVICES**
UTILITIES Gas, Electric, Water & Energy Producers	**UTILITIES**