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QUARTERLY MARKET REVIEW: APRIL-JUNE 2016

Dear Client,

We hope this finds you well. In a quarter that was anything but dull, the Federal Reserve ultimately did nothing to raise interest rates. We had plenty of excitement (and more than a little anxiety) from our cousins across the pond and their decision to withdraw from the European Union. This served to fell the British Pound and temporarily throw equities the world over into a tailspin. However, markets here and abroad proved as resilient as ever. The trend was quickly reversed to end in positive territory for the quarter, and year-to-date.

With regards to our portfolios (and your accounts), we are happy both with the effects of the rebalancing we made in the first quarter and the resiliency of our current holdings. Both bonds and value equities are holding up well, while the diversity of the portfolio has helped to dampen volatility and provide consistent growth. We remain cautiously optimistic on the remainder of this year; however, the US Presidential election will surely provide its share of uncertainty and headline risk. We see this as “white noise” to a degree and will instead focus on the potential and opportunities for economic expansion both here and abroad.

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The Markets (as of market close June 30, 2016)

In the world of equities, the second quarter of the year was anything but dull. April saw the large-cap S&P 500 and Dow make marginal gains, with the small-cap Russell 2000 and the Global Dow leading the way for the month. The Fed left interest rates at their 0.25%-0.50% range, noting that economic growth had slowed since the beginning of the year. May ended up being another good month for equities as each of the indexes listed here posted positive monthly returns headed by the tech-heavy Nasdaq (3.62%) and small-cap Russell 2000 (2.12%). June started out with relatively lackluster returns for stocks as labor added only 38,000 new jobs and the Fed, once again, reiterated its reluctance to raise interest rates based on lagging inflationary trends, weakening in the jobs sector, and sluggish exports.

But the month and quarter ended with quite a bang, primarily precipitated by the UK's referendum vote to withdraw from the European Union, which sent stocks around the world into a dramatic tailspin, felled the British pound by over 10%, and drastically cut some long-term bond yields (see Japan). Nevertheless, by the last day of the quarter, stocks seem to have weathered the storm and regained much of what they had lost. Of the indexes listed here, only the Nasdaq lost value quarter-to-quarter. On the plus side, the Dow and S&P 500 posted quarterly gains of 1.38% and 1.90%, respectively.

Gold continued to increase in value, closing the month and quarter at $1,324.90. Long-term bond yields hit the skids as investors poured money into bonds, raising bond prices and narrowing yields.

Market/Index	2015 Close	As of June 30	Month Change	Quarter Change	YTD Change
DJIA	17425.03	17929.99	0.80%	1.38%	2.90%
NASDAQ	5007.41	4842.67	-2.13%	-0.56%	-3.29%
S&P 500	2043.94	2098.86	0.09%	1.90%	2.69%
Russell 2000	1135.89	1151.92	-0.25%	3.40%	1.41%
Global Dow	2336.45	2312.12	-1.18%	0.20%	-1.04%
Fed. Funds	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps	0 bps
10-year Treasuries	2.26%	1.46%	38 bps	-33 bps	-80 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Quarter in Review

Employment: The employment sector slowed toward the end of the second quarter with only 38,000 new jobs added in May, compared to 215,000 new jobs added at the end of the first quarter. The unemployment rate fell to 4.7% in May, and there were 7.4 million unemployed persons. Both the unemployment rate and the number of unemployed persons has shown little movement from August. The labor force participation rate decreased slightly to 62.6% in May from 63.0% at the end of March. According to the latest figures from the Bureau of Labor Statistics, the average workweek was 34.4 hours, while average hourly earnings rose to $25.59 compared to $25.45 at the end of March.

FOMC/interest rates: The FOMC met in April and June. Following both meetings, the Committee noted that the economy appears to have slowed. The federal funds target rate has remained at the 0.25%-0.50% range since it was last increased in December 2015. In support of its decision to maintain interest rates at their present level, the FOMC noted that the pace of improvement in the labor market has slowed, job gains have diminished, and inflation continues to run below the Committee's 2.0% target.

Oil: The price of crude oil (WTI) was very volatile during the quarter, falling to as low as $37 per barrel then reaching over $51 per barrel, finally settling at $48.57 per barrel by the end of the quarter. The national average retail regular gasoline price increased during the second quarter of 2016, selling at $2.329 per gallon on June 27, 2016, $0.262 above the March 28 price of $2.066.

GDP/budget: Based on the third estimate of the first quarter 2016 GDP, the economy is improving, at least compared to the second estimate. However, compared to the fourth quarter 2015 GDP, economic growth is slowing in 2016. According to the Bureau of Economic Analysis, the third estimate of the first quarter 2016 gross domestic product grew at an annualized rate of 1.1%, compared to the second estimate, which had the annual rate of growth at 0.8%. An increase in exports is primarily responsible for the difference in the last two estimates of the first quarter GDP.

Nevertheless, first quarter growth is still lagging behind the fourth quarter's 1.4% annual growth rate. As to the government's budget, the federal deficit for May was $53.5 billion, as total receipts came in at about $224.6 billion and total outlays were $277.1 billion. The deficit at the end of March was just over $108 billion. Through the first seven months of the fiscal year, the deficit sits at $407.1 billion, compared to $366.8 billion over the same period last year.

Inflation/consumer spending: Inflation continues to run below the Fed's target rate of 2.0%. In April, personal income (pretax earnings) and disposable personal income (income less taxes) each rose 0.5%, while personal spending, as measured by personal consumption expenditures, increased 1.1%. However, May saw a slowdown in growth in each of these important indicators.

Personal income and disposable personal income increased only 0.2%, respectively. Personal consumption expenditures grew by a scaled-back 0.4%. Core personal consumption expenditures (personal spending excluding volatile food and energy costs) rose 0.2% in May, the same as April, but 1.6% over May 2015.

The Producer Price Index, which measures the prices companies receive for goods and services, increased 0.4% in May following a 0.2% gain in April and a 0.1% decline in March. For the 12 months ended May 2016, final demand prices for all categories of goods and services inched down 0.1%. However, over the same period, prices (less food, energy, and trade services) rose 0.8%. The Consumer Price Index increased 0.2% for May. Over the last 12 months, the CPI has risen 1.0%. Retail and food services sales gained 0.5% in May over April and 2.5% above May 2015. Total sales from the March through May period were up 2.4%.

Housing: While the housing market may have shown signs of slowing in the first quarter, it has picked up through May of the second quarter. Sales of existing homes grew from an annual rate of 5.33 million in March to 5.53 million in May, according to the National Association of Realtors®. May's sales of existing homes grew 1.8% over April and are now up 4.5% from May 2015 (5.29 million). The median sales price for existing homes was $239,700--up from $222,700 in March--an increase of 7.6%.

The latest figures from the Census Bureau show that the 551,000 annual rate of sales of new single-family homes in May was 6.0% below the revised April rate of 586,000, but still 8.7% above the May 2015 estimate of 507,000. Compared to the end of the first quarter, new home sales are up 5.5%. The median sales price of new houses sold in May was $290,400, while the average sales price was $358,900.

Manufacturing: Manufacturing and industrial production have been relatively weak economic sectors. The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) fell 0.4% in May following a 0.6% increase in April. A steep drop in motor vehicle production and parts was a major factor in the May decline. Capacity utilization for manufacturing decreased 0.4 percentage point in May to 74.8%, a rate that is 3.7 percentage points below its long-run average.

Factory production has been hindered by weak exports and low demand for energy equipment. The latest report from the Census Bureau shows new orders for all durable goods (expected to last at least three years) fell 2.2% in May from the prior month. Excluding the volatile transportation segment, new orders fell a disappointing 0.3%. Orders for capital goods dropped 0.7%, while shipments fell 0.5%. Despite the relatively poor numbers, new orders in May are 0.1% ahead of March's total, and year-to-date, new orders are up 1.7%.

Imports and exports: The advance report on international trade in goods revealed a trade gap of $60.6 billion for May--up from April's $57.5 billion trade balance. Exports fell 0.2% while imports jumped 1.6%, accounting for the increased trade deficit. The prices for U.S. imports (goods purchased here but produced abroad) increased 1.4% in May following a 0.3% gain in April. The prices for exports rose 1.1%. Year-on-year, import prices are down 5.0% and export prices have fallen 4.5%.

International markets: The United Kingdom's referendum vote at the end of June to exit the European Union sent equities markets around the globe reeling as the second quarter came to an end. If, in fact, the UK Parliament follows the apparent voter mandate to "Brexit" from the EU, the process of negotiating a withdrawal will likely play out over an extended period of time. No one is certain of the consequences of this major economic event. Elsewhere, the International Monetary Fund urged China to address its rising corporate debt, which the IMF estimates to be 145% of that country's GDP. In Japan, the Nikkei was hit hard by the Brexit vote, falling almost 8.0% the day after the referendum results were announced.

Consumer sentiment: Consumer confidence seems to have picked up during the second quarter. The Conference Board Consumer Confidence Index® for June rose to 98.0 following May's index reading of 92.4. The Surveys of Consumers of the University of Michigan also showed increasing consumer confidence in current economic conditions, while the Index of Consumer Sentiment fell slightly in June to 93.5 from 94.7 in May.

Eye on the Month Ahead

Whether the impact of the Brexit vote continues to negatively affect equities remains to be seen. The FOMC, which meets at the end of July, will be armed with reports on several important economic indicators including consumer prices, producer prices, and the employment situation--all of which come out before the Committee's July meeting.

Summary-Closing

Going forward, we still favor stocks over bonds for growth, but appreciate the welcome returns we have found on the bond side of the equation. We also favor the US markets to those abroad, but insist on remaining diversified and keeping the international markets represented in our portfolio. As a result, we are looking at the circumstances in the United Kingdom to perhaps present “the long good-buy” and will monitor valuations there as well as in the rest of the developed world for opportunities.

In addition, we still believe we have the right mix of return enhancers versus volatility dampeners within the portfolio. We remain resolute that while diversification may not work all of the time, it has certainly proven to work over time. As the stewards and guardians of your family’s wealth, this is a fundamental belief that we will hold fast to, both now and in the future.

With this, we wish you an enjoyable summer and hope that you have the opportunity to spend some much deserved time with those that you hold dear.

Sincerely,

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.